TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL RESULTS

FOR THE YEAR ENDED DECEMBER 31, 2016

March 8, 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 March 8, 2017, for the years ended December 31, 2016 and 2015 should be read in conjunction with the REIT's annual audited consolidated financial statements for the years ended December 31, 2016 and 2015 and accompanying notes thereto. These documents are available on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

NON-IFRS FINANCIAL MEASURES

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

FFO is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for other capital needs. The REIT calculates FFO in accordance with the guidelines set out by the Real Property Association of Canada. 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, amortization of tenant inducements, straight-line rent, instalment note receipts and 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.

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 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 annual audited consolidated financial statements for the years ended December 31, 2016 and 2015 have been prepared in accordance with IFRS. The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of dollars, except for Unit and per Unit information.

Certain time periods used in this MD&A are used interchangeably such as three months ended December 31, 2016 ("Q4-2016"), year ended December 31, 2016 ("YTD–2016"), three months ended December 31, 2015 ("Q4-2015"), and year ended December 31, 2015 ("YTD–2015").

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 December 31, 2016, the REIT owned and operated a portfolio of thirty properties consisting of approximately 1.94 million square feet across Canada.

The objectives of the REIT are to:

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

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

PORTFOLIO SUMMARY

At December 31, 2016 the REIT's portfolio was comprised of thirty commercial properties totalling approximately 1.94 million square feet of gross rentable area.

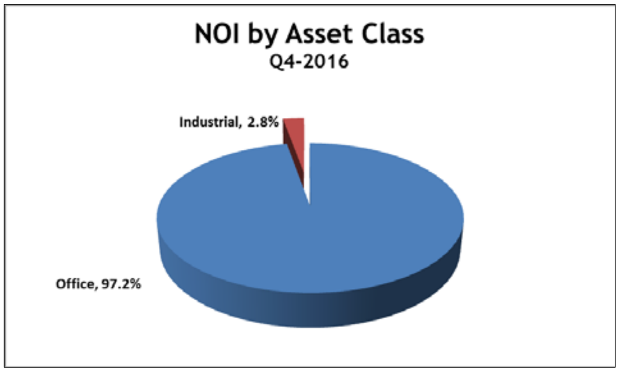
The following table highlights certain information about the REIT's properties as at December 31, 2016:

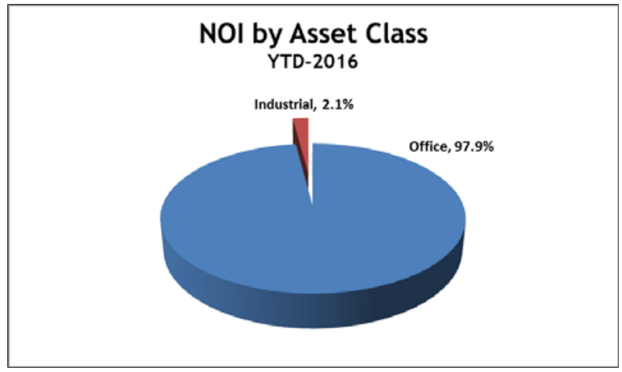
Property Name	City/ Town	Type	Occupancy	Remaining Lease Term [1]	Square Feet
Alberta					
855 8th Avenue SW	Calgary	Office	97.4%	2.4 years	75,700
4500 & 4520 - 16th Avenue NW	Calgary	Office	100%	7.3 years	77,600
13140 St. Albert Trail	Edmonton	Office	100%	2.9 years	96,800
Ontario					
251 Arvin Avenue	Hamilton	Office	100%	2.5 years	6,900
777 Brock Road	Pickering	Office	100%	6.2 years	98,900
400 Carlingview Drive	Toronto	Office	100%	1.2 years	26,800
6865 Century Avenue	Mississauga	Office	100%	4.5 years	63,800
1161 Crawford Drive	Peterborough	Office	100%	5.2 years	32,500
197-199 Dundas Street	London	Office	100%	2.8 years	20,200
417 Exeter Road	London	Office	76.8%	3.3 years	35,200
520 Exmouth Street	Sarnia	Office	100%	4.9 years	34,700
529-533 Exmouth Street	Sarnia	Office	100%	2.3 years	15,400
5900 Explorer Drive	Mississauga	Office	100%	3.7 years	40,000
135 Hunter Street East	Hamilton	Office	100%	1.6 years	24,400
1035 Industrial Road	Waterloo	Industrial	100%	9.7 years	156,300
63 Innovation Drive	Hamilton	Industrial	100%	6.9 years	45,900
340 Laurier Avenue West	Ottawa	Office	100%	3.7 years	279,100
400 Maple Grove Road	Ottawa	Office	100%	0.7 years	107,200
78-90 Meg Drive	London	Office	100%	3.4 years	11,300
8 Oakes Avenue	Kirkland Lake	Office	100%	5.2 years	41,000
534 Queens Avenue	London	Office	100%	4.5 years	19,000
3650 Victoria Park Avenue	Toronto	Office	88.2%	6.5 years	154,300
New Brunswick					
500 Beaverbrook Court	Fredericton	Office	100%	5.1 years	55,600
295 Belliveau Avenue	Shediac	Office	100%	5.1 years	42,100
410 King George Highway	Miramichi	Office	100%	4.5 years	73,200
551 King Street	Fredericton	Office	98.9%	5.6 years	85,100
495 Prospect Street	Fredericton	Office	89.6%	5.1 years	85,000
845 Prospect Street	Fredericton	Office	100.0%	5.2 years	39,000
414-422 York Street	Fredericton	Office	78.9%	1.0 years	33,000
440-470 York Street	Fredericton	Office	94.3%	5.3 years	60,100
Average/Total			97.5%	4.4 years	1,936,100

Notes:

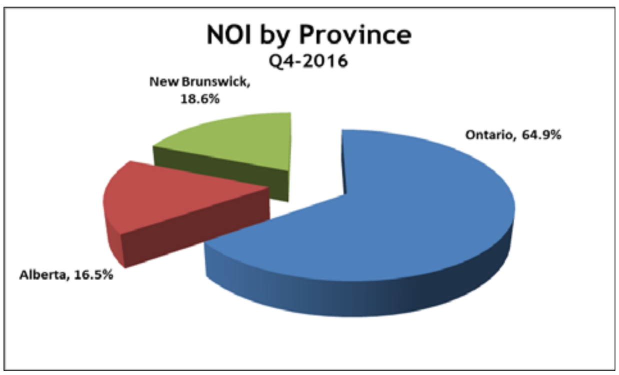
[1] Weighted by expected annualized 2017 gross revenue.

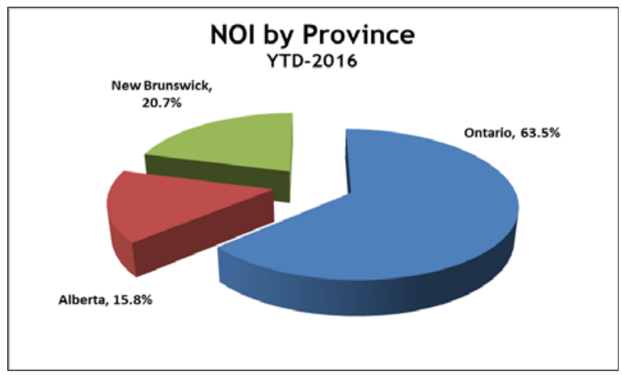
COMPOSITION BY ASSET CLASS





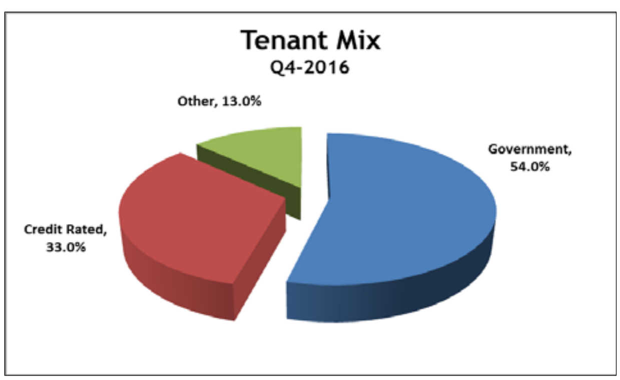
COMPOSITION BY GEOGRAPHIC REGION





TENANT MIX

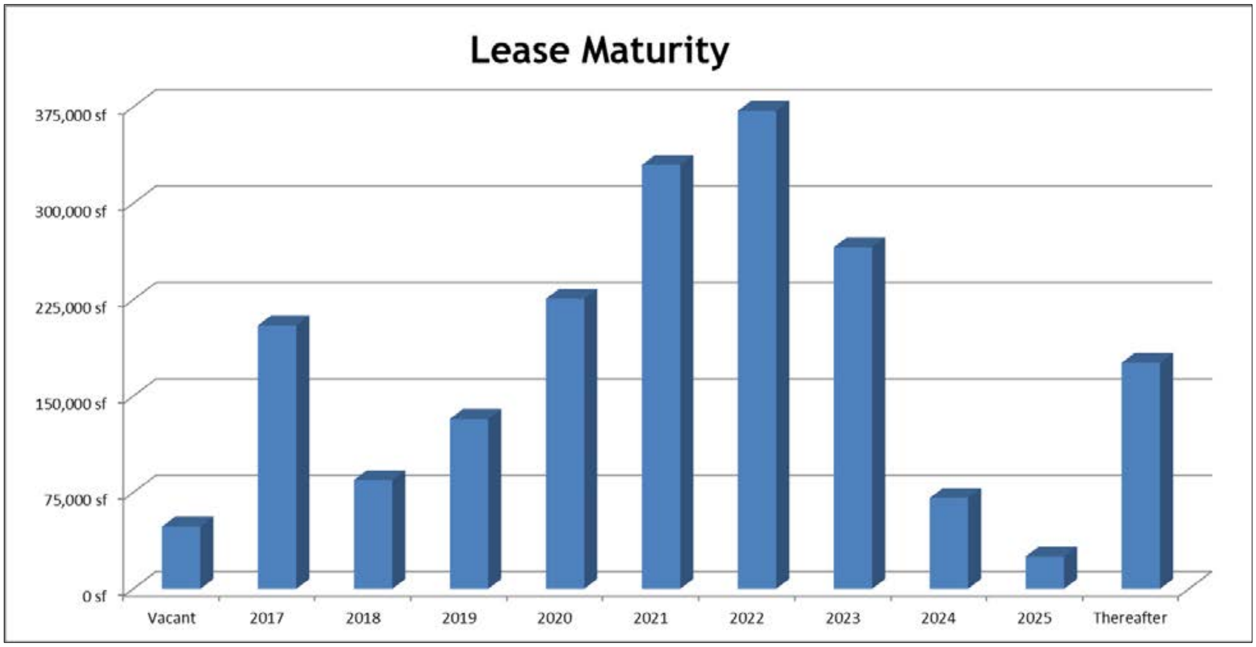
The percentage of revenue generated from tenants that are government institutions, credit-rated or other was as follows:



The tenant mix is based on annualized 2017 gross revenue.

LEASE ROLLOVER PROFILE

As at December 31, 2016 the lease rollover profile of the REIT was as follows:



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

Q4 AND 2016 HIGHLIGHTS

Q4 HIGHLIGHTS

- Increased revenue $1,935 or 20% from Q4-2015 to $11,762
- Increased NOI $853 or 14% from Q4-2015 to $6,927
- Same property NOI decreased $13 or 0.2% to $6,057 from Q4-2015; excluding 495 Prospect Street, same property NOI increased 1.0%
- FFO & AFFO basic and diluted per Unit of $0.14 compared to $0.17 in Q4-2015
- FFO and AFFO per Unit were impacted $0.031 per Unit by the timing differential between the public Unit offerings in Q3-2016 and Q4-2016 and the deployment of funds into target acquisitions
- AFFO basic and diluted payout ratio of 105% and 106% compared to 88% in Q4-2015
- Executed a lease renewal totalling 272,700 square feet with the Federal Government of Canada, the REIT's largest tenant, at 340 Laurier Avenue West, Ottawa, Ontario
- Portfolio occupancy decreased slightly to 97.5% at December 31, 2016 compared to 98.0% at September 30, 2016
- Government and credit-rated tenants represented 87.0% of revenue
- Indebtedness to GBV ratio increased to 55.41% at December 31, 2016 compared to 54.01% at September 30, 2016
- Weighted average fixed interest rate of 3.17% at December 31, 2016 compared to 3.29% at September 30, 2016
- Paid distributions of $4,006

2016 HIGHLIGHTS

- Increased revenue $4,233 or 11% from YTD-2015 to $41,351
- Increased NOI $1,973 or 9% from YTD-2015 to $24,917
- Same property NOI increased $201 or 1% to $21,231 from YTD-2015
- FFO basic and diluted per Unit of $0.62 compared to $0.67 for YTD-2015
- AFFO basic and diluted per Unit of $0.61 and $0.60 compared to $0.65 in YTD-2015
- FFO and AFFO per Unit were impacted $0.032 per Unit by the timing differential between the public Unit offerings in Q3-2016 and Q4-2016 and the deployment of funds into target acquisitions
- AFFO basic and diluted payout ratio of 98% and 99% compared to 91% and 92% in YTD-2015
- Paid distributions of $12,539
- Ended the year with a strong balance sheet position with cash on hand of $24,785 and undrawn credit facilities of $20,000 available to fund future acquisitions

Revenue and NOI increased mainly as a result of property acquisitions with two in Q3-2016 and three in Q4-2016. Both FFO and AFFO per Unit were impacted by the timing differential between the public Unit offerings during Q3-2016 and Q4-2016 (See "Trust Unit Offerings'") and deployment of funds into target acquisitions which accounted for $0.031 for Q4-2016 and $0.032 for YTD-2016. 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.

TRUST UNIT OFFERINGS

On July 20, 2016, the REIT completed a private placement (the "Private Placement") issuance of 1,580,855 Units at $5.85 per Unit for gross proceeds of $9,248 (42,735 Units were issued to an entity under the same common ownership as Starlight for gross proceeds of $250). Proceeds were used to fund the acquisition of 6865 Century Avenue and 5900 Explorer Drive (See "Acquisitions").

On August 25, 2016, the REIT issued 5,324,000 Units at a price of $6.20 per Unit for gross proceeds of $33,009. Proceeds were used to fund the acquisition of 1035 Industrial Road, 3650 Victoria Park Avenue and 4500 & 4520 16th Avenue NW. (See "Acquisitions"). Until deployed for these purposes, the REIT used the proceeds to reduce the amounts owing under its credit facilities (See "Credit Facilities").

On November 9, 2016, the REIT issued 4,531,000 Units at a price of $6.35 per Unit for aggregate gross proceeds of $28,772. The REIT intends to use the net proceeds of this offering to fund potential future acquisitions and general trust purposes.

ACQUISITIONS

The REIT acquired the following five properties during 2016, of which three were acquired in Q4-2016 and two in Q3-2016:

Property Name	Location	Acquisition Date	Property Type	Square Feet
6865 Century Avenue	Mississauga, ON	July 22, 2016	Office	63,800
5900 Explorer Drive	Mississauga, ON	August 23, 2016	Office	40,000
1035 Industrial Road	Waterloo, ON	November 15, 2016	Industrial	156,300
3650 Victoria Park Avenue	Toronto, ON	November 24, 2016	Office	154,300
4500 & 4520 - 16th Avenue NW	Calgary, AB	December 6, 2016	Office	77,600

On July 22, 2016, the REIT acquired 6865 Century Avenue in Mississauga, Ontario for an aggregate purchase price of $13,400 plus closing costs. The purchase price was satisfied by a five year mortgage of $9,380 at a fixed interest rate of 2.70% and the proceeds of the Private Placement.

6865 Century Avenue is a two-storey office building situated on 2.66 acres with 63,800 rentable square feet and 226 surface parking stalls with direct exposure from Highway 401 and is well situated with excellent access to Highways 401 and 403. The property is 100% occupied with two credit-rated tenants accounting for 75% of the property's revenue and has an average remaining lease term of 4.5 years.

On August 23, 2016, the REIT acquired 5900 Explorer Drive in Mississauga, Ontario for $10,500 plus closing costs. The purchase price was satisfied by a five year mortgage of $7,350 at a fixed interest rate of 2.65% and the proceeds of the Private Placement.

5900 Explorer Drive is a two-storey office building situated on 2.05 acres in Mississauga's prestigious Airport Corporate Centre with 40,000 rentable square feet and 140 surface parking stalls and is well situated with excellent access to Highways 401, 427, 409 and 403 as well as being in close proximity to Pearson International Airport. The property is 100% occupied by a single tenant with a strong corporate covenant and has an average remaining lease term of 3.7 years.

On November 15, 2016, the REIT acquired 1035 Industrial Road in Waterloo, Ontario for $8,400 plus closing costs. The purchase price was satisfied by a five year mortgage of $5,460 at a fixed interest rate of 2.81% and from the REIT's August 2016 public Unit offering.

1035 Industrial Road is an industrial building situated on 8.01 acres of land with approximately 156,300 rentable square feet, featuring direct exposure to Highway 401. The property is 100% occupied by a single tenant with a strong private covenant and an average lease term of 9.7 years remaining.

On November 24, 2016, the REIT acquired 3650 Victoria Park Avenue in Toronto, Ontario for $34,000 plus closing costs. The purchase price was satisfied with a five year mortgage of $23,800, at a fixed interest rate of 2.76% and from the proceeds from the REIT's August 2016 public Unit offering.

3650 Victoria Park Avenue is a nine-storey office building situated on 4.36 acres with 154,300 rentable square feet and 551 parking stalls and is located close to Highways 401, 407 and 404, with convenient access to downtown Toronto. The property is 88.2% occupied of which 84% is occupied by TD Insurance and has an average remaining lease term of 6.5 years.

On December 6, 2016, the REIT acquired 4500 & 4520 16th Avenue NW in Calgary, Alberta for $24,500 plus closing costs. The purchase price was satisfied with two mortgages totalling $14,609 with an average maturity of four years and a blended fixed interest rate of 3.19% and from the proceeds from the REIT's August 2016 public Unit offering.

4500 & 4520 16th Avenue is an office complex comprised of one four-storey and one three-storey building with 77,600 rentable square feet located with convenient access to the Trans-Canada Highway. It is 100% occupied with 91.1% by a provincial government agency and an average lease term of 7.3 years remaining.

OTHER INITIATIVES

During the quarter, the REIT early renewed its 272,700 square foot lease with the Federal Government of Canada, its anchor tenant at 340 Laurier Avenue West in Ottawa, Ontario that was due to expire in February 2018 extending the average remaining lease term at this property from 1.2 years to 3.7 years.

On November 1, 2016 and in conjunction with the lease renewal, the REIT extended the mortgage financing on 340 Laurier Avenue West to February 2020 at a rate of 3.065% which represents a reduction of 0.315% from the previous rate of 3.38%.

On December 5, 2016, the REIT announced the Toronto Stock Exchange ("TSX") had approved the REIT's renewal of its normal course issuer bid ("NCIB") for a further twelve months.

SUBSEQUENT EVENTS

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

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

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Revenue	$11,762	$9,827	$41,351	$37,118
NOI	$6,927	$6,074	$24,917	$22,944
Income (loss) and comprehensive income (loss)	$1,730	$5,742	($101)	$16,471
FFO	$4,559	$3,751	$15,523	$13,924
FFO per Unit - basic (1)	$0.14	$0.17	$0.62	$0.67
FFO per Unit - diluted (1)	$0.14	$0.17	$0.62	$0.67
AFFO	$4,444	$3,620	$15,143	$13,593
AFFO per Unit - basic (1)	$0.14	$0.17	$0.61	$0.65
AFFO per Unit - diluted (1)	$0.14	$0.17	$0.60	$0.65
AFFO payout ratio - basic	105%	88%	98%	91%
AFFO payout ratio - diluted	106%	88%	99%	92%
Units outstanding for FFO and AFFO per Unit:				
Weighted average (000s) – basic (1)	31,467	21,476	25,007	20,821
Add: Unexercised unit options	228	79	131	113
Weighted average (000s) – diluted (1)	31,695	21,555	25,138	20,934

Notes:

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

The REIT increased its portfolio by five properties and 492,000 square feet in 2016 (three in late Q4-2016 and two in Q3-2016). This fuelled revenue and NOI growth in Q4-2016 that was offset by a vacancy in one of the REIT's Fredericton properties that was partially leased in the latter half of Q4-2016. As a result, Q4-2016 compared to Q4-2015, revenue increased $1,935 or 20%, NOI increased $853 or 14% and FFO increased $809 or 22%. AFFO basic and diluted payout ratio increased to 105% and 106%, respectively as a result of the timing differential of deploying funds from the Unit issuances on August 25, 2016 and November 9, 2016 (See "Trust Unit Offerings").

As noted above, revenue and NOI increased mainly as a result of the acquisitions in 2016. For YTD-2016 revenue increased $4,233 or 11% compared to YTD-2015. NOI increased $1,973 or 9% compared to YTD-2015. FFO increased $1,599 or 11%. AFFO increased $1,550 or 11% compared to YTD-2015. AFFO basic and diluted payout ratio increased to 98% and 99%, respectively, for the reasons explained above.

QUARTERLY INFORMATION

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

	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15
Revenue	$ 11,762	$ 10,060	$ 9,653	$ 9,876	$ 9,827	$ 9,519	$ 8,882	$ 8,890
Property operating costs	4,835	3,876	3,713	4,010	3,753	3,638	3,325	3,458
NOI	6,927	6,184	5,940	5,866	6,074	5,881	5,557	5,432
General and administration expenses	(423)	(551)	(446)	(687)	(418)	(444)	(439)	(505)
Finance costs	(1,987)	(1,931)	(1,883)	(1,880)	(1,897)	(1,837)	(1,820)	(1,817)
Distributions on Class B LP Units	(640)	(639)	(640)	(639)	(640)	(644)	(508)	(508)
Unrealized gain (loss) on change in fair value of derivative instruments	630	193	163	(39)	126	(652)	158	(839)
Fair value adjustment of Class B LP Units	1,292	(2,326)	(775)	(2,584)	1,944	1,036	479	171
Fair value adjustment of investment properties	(4,069)	(3,256)	(1,264)	(637)	553	4,179	(2,870)	1,069
Loss on sale of investment property	-	-	-	-	-	-	(350)	-
Income (loss) and comprehensive income (loss) for the period	$ 1,730	$ (2,326)	$ 1,095	$ (600)	$ 5,742	$ 7,519	$ 207	$ 3,003
FFO per Unit - basic	$ 0.14	$ 0.15	$ 0.17	$ 0.16	$ 0.17	$ 0.17	$ 0.17	$ 0.16
AFFO per Unit - basic	$ 0.14	$ 0.15	$ 0.17	$ 0.15	$ 0.17	$ 0.17	$ 0.16	$ 0.15
AFFO per Unit - diluted	$ 0.14	$ 0.15	$ 0.16	$ 0.15	$ 0.17	$ 0.17	$ 0.16	$ 0.15
AFFO payout ratio - basic	105%	99%	90%	97%	88%	88%	92%	97%
AFFO payout ratio - diluted	106%	99%	90%	97%	88%	88%	93%	98%
Number of investment properties	30	27	25	25	25	25	21	22

For Q4-2016 compared to Q3-2016, revenue increases more than offset an increase in property operating costs and resulted in an increase in NOI. Revenue increased mainly due to the acquisition of two properties in Q3-2016 and three additional properties in Q4-2016 which was offset by the vacancy at 495 Prospect Street. Property operating costs increased from the acquisitions noted above. General and administration expenses decreased in Q4-2016 compared to Q3–2016 as a result of lower Unit-based compensation expense.

ANALYSIS OF FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the years ended December 31, 2016 and 2015 are summarized below.

	Three months ended December 31		Year ended December 31	
	2016	**2015**	**2016**	**2015**
Revenue	$ 11,762	$ 9,827	$ 41,351	$ 37,118
Expenses:				
Property operating costs	2,736	2,195	9,453	8,229
Realty taxes	2,099	1,558	6,981	5,945
NOI	$ 6,927	$ 6,074	$ 24,917	$ 22,944
Other income (expenses):				
General and administration expenses	(423)	(418)	(2,107)	(1,806)
Finance costs	(1,987)	(1,897)	(7,681)	(7,371)
Distributions on Class B LP Units	(640)	(640)	(2,558)	(2,300)
Unrealized gain(loss) on change in fair value of derivative instruments	630	126	947	(1,207)
Fair value adjustment of Class B LP Units	1,292	1,944	(4,393)	3,630
Fair value adjustment of investment properties	(4,069)	553	(9,226)	2,931
Loss on sale of investment property	-	-	-	(350)
Income (loss) and comprehensive income (loss)	$ 1,730	$ 5,742	$ (101)	$ 16,471

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 costs relating to building maintenance, heating, ventilation and air-conditioning, elevator, insurance, utilities, management fees and other operational costs.

Overall, for Q4-2016 compared to Q4-2015 and YTD-2016 compared to YTD-2015, there was an increase in the number of properties owned by the REIT due to acquisitions in Q3-2016 and Q4-2016, which resulted in increases in revenue, operating costs and realty taxes as discussed in "Financial and Operating Highlights". This has resulted in significant comparative increases in revenue, operating costs, realty taxes and NOI.

Revenue increased by 20% ($1,935) in Q4-2016 compared to Q4-2015, and increased by 11% ($4,233) in YTD-2016 compared to YTD-2015. Property operating costs increased by 25% ($541) in Q4-2016 compared to Q4-2015, and increased by 15% ($1,224) in YTD-2016 compared to YTD-2015. Realty taxes increased by 35% ($541) in Q4-2016 compared to Q4-2015, and increased by 17% ($1,036) in YTD-2016 compared to YTD-2015. NOI increased by 14% ($853) in Q4-2016 compared to Q4-2015, and increased by 9% ($1,973) in YTD-2016 compared to YTD-2015.

Occupancy for the property portfolio decreased slightly year over year from 98.0% to 97.5% due mainly to the acquisition of 3650 Victoria Park Avenue in Q4-2016 which had an occupancy rate of 88.2% on acquisition.

SAME PROPERTY ANALYSIS

Same property analysis for the three months ended December 31, 2016 and 2015 consists of 25 properties, and for the years ended December 31, 2016 and 2015 consists of 20 properties. Same property comparison does not include non-cash adjustments such as amortization of leasing costs, tenant inducements, landlords work and straight-line rent.

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Revenue	$ 10,304	$ 9,819	$ 34,399	$ 33,831
Expenses:				
Property operating	2,339	2,191	7,463	7,468
Realty taxes	1,908	1,558	5,705	5,333
Same-property NOI	$ 6,057	$ 6,070	$ 21,231	$ 21,030

Q4-2016 revenue increased $485 from Q4-2015 mainly due to an increase in recovery revenue as a function of increased operating costs and realty taxes as well as increased capital expenditure recoveries at certain properties. This increase was offset by the vacancy of two tenants at 495 Prospect Street for a portion of the quarter. Property operating costs increased due to increased repairs and maintenance and HVAC repairs at certain properties. Realty taxes increased as a result of reassessments on two properties for previous years. Same-property NOI decreased $13 or 0.2% due to the above. Excluding 495 Prospect Street, Same-property NOI increased $56 or 1.0%.

YTD-2016 revenue increased $568 from YTD-2015 also due to an increase in recovery revenue which corresponds to the increase in realty taxes, as well as increased capital expenditure recoveries at certain properties. Revenue also increased as a result of rent step ups and additional parking revenue at certain properties. Property operating costs decreased slightly year over year due to lower repairs and maintenance offset by higher HVAC repairs and utility costs. Realty taxes increased as a result of reassessments on two properties for previous years as noted in Q4-2016. NOI increased $201 or 1.0% from YTD-2015 as a result of the above.

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 $5 in Q4-2016 compared to Q4–2015. Increased asset management fees of $45, offset by lower Unit-based compensation expense of $16 and additional interest income of $40, contributed to the quarter over quarter increase.

General and administration expenses increased $301 YTD-2016 compared to YTD–2015. Increased professional fees of $28, asset management fees of $114, Unit-based compensation expense of $126 and due diligence costs of $38 relating to a property acquisition the REIT is no longer pursuing, offset by additional interest income of $57, contributed to the year over year increase.

FINANCE COSTS

The REIT's finance costs for the three months and years ended December 31, 2016 and 2015 are summarized below. Finance costs exclude both distributions and fair value adjustments on Class B LP Units.

	Three months ended December 31		Year ended December 31	
	2016	**2015**	**2016**	**2015**
Interest on mortgages and notes payable	$ 1,880	$ 1,765	$ 7,134	$ 6,873
Other interest expense and standby fees	31	78	299	268
Amortization of mortgage discounts	(29)	(32)	(123)	(131)
Amortization of financing costs	105	86	371	361
Total finance costs	$ 1,987	$ 1,897	$ 7,681	$ 7,371

Interest on mortgages and notes payable increased by $115 in Q4-2016 compared to Q4-2015 and by $261 in YTD-2016 compared to YTD-2015 due to the increase in borrowings associated with the acquisitions completed in 2015 and 2016.

Other interest expense and standby fees relate to costs incurred on the Credit Facilities. Q4-2016 decreased by $47 compared to Q4-2015 as a result of the cash proceeds generated from the Unit offerings that were used to reduce the Credit Facilities. For YTD-2016, the REIT increased the amount available under its Credit Facilities and during the first half of the year borrowed a larger amount compared to YTD-2015.

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 December 31, 2016 were $71,324 (December 31, 2015 - $73,507). Total unrealized gain (loss) on change in the fair value of the derivative instruments amounts to $947 in YTD-2016 (YTD-2015 – $(1,207)).

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 Q4-2016 ($2,558 YTD-2016) compared to $640 for Q4-2015 ($2,300 YTD-2015). The increase in distributions for YTD-2016 is a result of the issuance of 909,090 Class B LP Units on July 29, 2015 in connection with the acquisition of four properties in Fredericton, New Brunswick offset by the conversion of 25,000 Class B LP Units to Units on November 12, 2015.

FAIR VALUE ADJUSTMENT OF CLASS B LP UNITS

The fair value change in Class B LP Units represents the change in the trading price of the Units (given the Class B LP Units have economic and voting rights equivalent, in all material aspects, to the Units). Any resulting change in the fair value of the Class B LP Units is reported in the period such change occurs. The fair value gain of $1,292 for Q4-2016 is due to a decrease in the trading price of the Units from $6.42 at September 30, 2016 to $6.12 at December 31, 2016. The fair value loss of $4,393 for YTD-2016 is due to an increase in the trading price of the Units from $5.10 at December 31, 2015 to $6.12 at December 31, 2016.

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 $4,069 for Q4-2016 and $9,226 for YTD-2016, compared to a fair value gain of $553 for Q4-2015 and $2,931 for YTD-2015. The fair value loss during the quarter and year ended 2016 is mainly attributable to adjustments for changes in projected future cash flows from market rent assumptions and lease renewal probabilities at certain properties.

The key valuation assumptions for the REIT's investment properties as at December 31, 2016 and 2015 are as follows:

	December 31 2016	December 31 2015
Terminal and direct capitalization rates - range	6.00% - 11.50%	6.00% - 11.50%
Terminal and direct capitalization rate - weighted average	7.16%	7.12%
Discount rates - range	7.00% - 12.00%	7.00% - 12.00%
Discount rate - weighted average	7.78%	7.81%

FFO AND AFFO RECONCILIATIONS

FFO

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

	Three months ended December 31		Year ended December 31	
	2016	**2015**	**2016**	**2015**
Income (loss) and comprehensive income (loss)	$ 1,730	$ 5,742	$ (101)	$ 16,471
Add / (deduct):				
Unit based compensation expense	(56)	(40)	182	56
Fair value adjustment of investment properties	4,069	(553)	9,226	(2,931)
Fair value adjustment of Class B LP Units	(1,292)	(1,944)	4,393	(3,630)
Distributions on Class B LP Units	640	640	2,558	2,300
Unrealized (gain) loss on change in fair value of derivative instruments	(630)	(126)	(947)	1,207
Loss on sale of investment property	-	-	-	350
Amortization of leasing costs, tenant inducements and landlord's work	98	32	212	101
FFO	$ 4,559	$ 3,751	$ 15,523	$ 13,924
FFO per Unit - basic (1)	$0.14	$0.17	$0.62	$0.67
FFO per Unit - diluted (1)	$0.14	$0.17	$0.62	$0.67
Weighted average Units outstanding:				
Basic - (000s) (1)	31,467	21,476	25,007	20,821
Add:				
Unexercised Unit Options	228	79	131	113
Diluted - (000s) (1)	31,695	21,555	25,138	20,934

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 $808 or 22% compared to Q4-2015 ($1,599 or 11% compared to YTD-2015). FFO basic and diluted per Unit decreased to $0.14 in Q4-2016 compared to $0.17 in Q4-2015 (decreased by $0.05 to $0.62 compared to YTD-2015). FFO was positively impacted due to increased NOI as a result of the Q3-2016 and Q4-2016 acquisitions and organic growth in the same store properties and was offset by a vacancy in one of the REIT's Fredericton properties that was leased in Q4-2016.

Both FFO and AFFO per Unit were impacted by the timing differential of the public unit offerings during Q3-2016 and Q4-2016 (See "Trust Unit Offerings'") and deployment of funds into target acquisitions which accounted for $0.031 for Q4-2016 and $0.032 for YTD-2016. 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 property acquisitions.

AFFO

Reconciliation of FFO to AFFO is as follows:

	Three months ended December 31 2016	Three months ended December 31 2015	Year ended December 31 2016	Year ended December 31 2015
FFO	$ 4,559	$ 3,751	$ 15,523	$ 13,924
Add / (deduct):				
Non-cash compensation expense	29	26	108	106
Amortization of deferred financing costs	105	86	371	361
Amortization of mark to market mortgage adjustments	(29)	(32)	(123)	(131)
Instalment note receipts	82	87	336	355
Straight-line rent	21	(36)	74	(67)
Capital reserve (1)	(323)	(262)	(1,146)	(955)
AFFO	$ 4,444	$ 3,620	$ 15,143	$ 13,593
AFFO per Unit - basic (2)	$0.14	$0.17	$0.61	$0.65
AFFO per Unit - diluted (2)	$0.14	$0.17	$0.60	$0.65
Distributions declared	$ 4,738	$ 3,191	$ 15,180	$ 12,414
AFFO payout ratio - basic	105%	88%	98%	91%
AFFO payout ratio - diluted	106%	88%	99%	92%

Notes:

(1) Based on an estimate of $0.75 (2015 - $0.72) 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.

In Q4-2016 and YTD-2016 compared to Q4-2015 and YTD-2015, the REIT experienced growth in revenue, FFO and AFFO due to the five acquisitions completed during 2016. The AFFO basic and diluted payout ratio increased to 105% and 106% in Q4-2016. The AFFO basic and diluted payout ratio increased to 98% and 99% YTD-2016. The AFFO basic and diluted payout ratio was mainly impacted by the REIT’s Unit offerings in Q3-2016 and Q4-2016 and offset by the same factors that improved NOI as discussed in “FFO”.

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 December 31 2016	Three months ended December 31 2015	Year ended December 31 2016	Year ended December 31 2015
Adjusted cash flow provided by operating activities	$ 4,747	$ 3,747	$ 16,998	$ 13,752
Non-cash compensation expense	5	3	20	14
Change in finance costs payable	(68)	(20)	(83)	(180)
Instalment note receipts	82	87	336	355
Capital reserve (1)	(323)	(262)	(1,146)	(955)
Change in non-cash operating working capital	1	65	(982)	607
AFFO	$ 4,444	$ 3,620	$ 15,143	$ 13,593

Notes:

(1) Based on an estimate of $0.75 (2015 - $0.72) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

AFFO of $4,444 was $294 lower than distributions declared and $438 above distributions paid for Q4-2016. The shortfall in AFFO from distributions declared is a result of the timing difference in deploying proceeds from the REIT's Unit offerings in Q3-2016 and Q4-2016 into target acquisitions. AFFO of $15,143 was $37 lower than distributions declared and exceeded distributions paid by $2,604 for YTD-2016.

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 December 31 2016	Year ended December 31 2016	Year ended December 31 2015	Year ended December 31 2014
Distributions declared	$ 4,738	$ 15,180	$ 12,414	$ 8,251
Less: DRIP	(732)	(2,641)	(1,534)	(1,520)
Cash distributions paid	$ 4,006	$ 12,539	$ 10,880	$ 6,731

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

	Three months ended December 31	Year ended December 31		
	2016	2016	2015	2014
Income (loss) and comprehensive income (loss)	$ 1,730	$ (101)	$ 16,471	$ 12,981
Cash flow provided by operating activities	6,589	24,347	20,713	11,956
Less: Interest paid	(1,842)	(7,349)	(6,961)	(4,072)
Adjusted cash flow provided by operating activities	4,747	16,998	13,752	7,884
Declared basis:				
Excess (shortfall) of income (loss) and comprehensive income (loss) over distributions	(3,008)	(15,281)	4,057	4,730
Excess (shortfall) of adjusted cash flow provided by operating activities over declared distributions	9	1,818	1,338	(367)
Cash basis:				
Excess (shortfall) of income (loss) and comprehensive income (loss) over cash distributions	(2,276)	(12,640)	5,591	6,250
Excess of adjusted cash flow provided by operating activities over cash distributions	741	4,459	2,872	1,153

For Q4-2016, adjusted cash flow provided by operating activities exceeded distributions declared by $9 and cash distributions by $741. For YTD-2016, adjusted cash flow provided by operating activities exceeded distributions declared by $1,818 and cash distributions paid by $4,459. 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 years ended December 31, 2016 and 2015:

	Investment Properties
Balance at December 31, 2014	$ 311,480
Acquisitions	41,125
Additions	2,517
Disposition	(15,869)
Amortization of leasing costs, tenant inducements, landlords work and straight-line rents	(34)
Fair value adjustment	2,931
Balance at December 31, 2015	342,150
Acquisitions	90,998
Additions	3,436
Amortization of leasing costs, tenant inducements, landlords work and straight-line rents	(280)
Fair value adjustment	(9,226)
Balance at December 31, 2016	**$ 427,078**

ACQUISITIONS:

During 2016, the REIT acquired five properties for an aggregate purchase price $90,800 plus closing costs less adjustments:

Property Name	Location	Acquisition Date	Property Type	Purchase Price
6865 Century Avenue	Mississauga, ON	July 22, 2016	Office	$13,400
5900 Explorer Drive	Mississauga, ON	August 23, 2016	Office	$10,500
1035 Industrial Road	Waterloo, ON	November 15, 2016	Industrial	$8,400
3650 Victoria Park Avenue	Toronto, ON	November 24, 2016	Office	$34,000
4500 & 4520 - 16th Avenue NW	Calgary, AB	December 6, 2016	Office	$24,500
Total				$90,800

The REIT funded its acquisitions from cash on hand, the Private Placement, the issuance of Units through two public offerings and from the proceeds of new mortgage financing. All acquisitions have been accounted for as asset acquisitions.

ADDITIONS:

Additions to investment properties for the year ended December 31, 2016 were $3,436 consisting of the following:

- Capital expenditures of $2,156, of which $1,568 related to 340 Laurier Avenue West primarily in connection with the LEED® - EB Gold Certification Retro-Commissioning Project; and
- Tenant inducements, landlords work and leasing costs of $1,280, which include costs incurred to improve space for tenant retention, as well as allowances paid to tenants.

INSTALMENT NOTES RECEIVABLE

The REIT received non-interest bearing instalment notes from the vendor of certain properties acquired in December 2014. The instalment payments allow the REIT to achieve an effective interest rate of 3.3% per annum on certain assumed mortgages. These instalment notes mature on various dates between April 1, 2017 and April 1, 2027, co-terminously with the assumed mortgages.

The following tables summarize the instalment notes receivable and principal receipts for the year ended December 31, 2016:

Balance, December 31, 2015	$	1,264
Principal receipts on instalment notes receivable		(308)
Balance, December 31, 2016	$	956

The scheduled principal and imputed interest receipts on the instalment notes are as follows:

	Principal receipts	Imputed interest receipts
2017	212	34
2018	151	37
2019	134	43
2020	117	47
2021	97	46
Thereafter	245	185
	$ 956	$ 392

PREPAID EXPENSES AND OTHER ASSETS

As at December 31, 2016, the REIT had $1,390 in prepaid expenses and other assets, compared to $1,210 at December 31, 2015. This is primarily due to an increase in prepaid realty taxes.

LIABILITIES

As at December 31, 2016, the overall leverage, as represented by the ratio of Indebtedness to GBV was 55.41% compared to 59.53% at December 31, 2015. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT's Indebtedness to GBV ratio as at December 31, 2016 and December 31, 2015.

	December 31, 2016	December 31, 2015
Total assets	$ 456,469	$ 347,014
Deferred financing costs	2,187	1,820
GBV	$ 458,656	$ 348,834
Mortgages and notes payable	253,465	199,935
Credit facilities (net of unamortized financing costs)	-	7,191
Unamortized financing costs and mark to market mortgage adjustments	675	541
Indebtedness	$ 254,140	$ 207,667
Indebtedness to GBV	55.41%	59.53%

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

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

As at December 31, 2016, 0% (December 31, 2015 – 3%) of the REIT's debt was at floating rates.

MORTGAGES AND NOTES PAYABLE

The following table sets out, as at December 31, 2016, scheduled principal repayments and amounts maturing on the REIT's mortgages and notes 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	7,683	11,499	19,182	7,925	7.6%
2018	6,942	43,479	50,421	6,626	19.8%
2019	6,304	24,794	31,098	5,485	12.2%
2020	3,719	76,399	80,118	3,076	31.5%
2021	2,687	29,003	31,690	2,064	12.5%
Thereafter	2,336	39,295	41,631	1,461	16.4%
	$ 29,671	$ 224,469	254,140	$ 26,637	100.0%
Unamortized mark to market mortgage adjustments			446		
Unamortized financing costs			(1,121)		
			$ 253,465		

The mortgages carry a weighted average fixed interest rate of 3.17% (December 31, 2015 – 3.34%), after giving effect to the instalment notes receipts and a weighted average term to maturity of 3.40 years (December 31, 2015 – 3.57 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 December 31, 2016, $nil (December 31, 2015 - $5,000) 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 December 31, 2016, $nil (December 31, 2015 – $2,200) was drawn on this credit facility.

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

CLASS B LP UNITS

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

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

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

As at December 31, 2016 and December 31, 2015 there were 4,306,337 Class B LP Units issued. The Class B LP Units were valued at $26,355 at December 31, 2016 compared to $21,962 as at December 31, 2015. The change in value is due to an increase in the Unit price from $5.10 at December 31, 2015 to $6.12 at December 31, 2016.

The REIT has the following Class B LP Units outstanding as of March 8, 2017:

	Units
Balance, December 31, 2016	4,306,337
Issuance of Class B LP Units	-
Balance, March 8, 2017	4,306,337

CONTRACTUAL MATURITIES

The contractual maturities and repayment obligations for the REIT's financial liabilities excluding Class B LP Units as at December 31, 2016 are as follows:

	2017	2018	2019	2020	2021+	Total
Mortgages and notes payable	$ 19,182	$ 50,421	$ 31,098	$ 80,118	$ 73,321	$ 254,140
Mortgage Interest payable	7,925	6,626	5,485	3,076	3,525	26,637
Tenant rental deposits	1,902	-	-	-	-	1,902
Accounts payable and accrued liabilities	6,387	-	-	-	-	6,387
	$ 35,396	$ 57,047	$ 36,583	$ 83,194	$ 76,846	$ 289,066

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 year ended December 31, 2016:

	Units		Amount
Balance, December 31, 2015	17,213,662	$	103,649
Issue of Units for cash - private placement	1,580,855		9,248
Issue of Units for cash - public offerings	9,855,000		61,781
Issue of Units - Trustee Unit issuance plan	15,446		93
Issue of Units - DRIP	466,224		2,641
Issue of Units - options exercised	16,667		97
Issuance and repurchase costs	-		(4,015)
Balance, December 31, 2016	29,147,854	$	173,494

The number of Units outstanding as of March 8, 2017 is as follows:

Balance, December 31, 2016	29,147,854
Issuance of Units under DRIP	87,202
Balance, March 8, 2017	29,235,056

NORMAL COURSE ISSUER BID

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 2016, nil (2015 – 90,600) 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. As at December 31, 2016, the REIT issued 9,855,000 Units (December 31, 2015 – nil) for total proceeds of $61,781 under the Prospectus (See "Trust Unit Offerings").

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 December 31, 2016 consist of the following:

Weighted average exercise price (1)	Unit Options Outstanding	Unit Options exercisable	Expiry Date
$1.60	62,500	62,500	August 27, 2017
$7.48	95,000	95,000	December 14, 2017
$7.66	410,000	410,000	February 12, 2018
$6.15	495,000	164,996	January 8, 2020
$6.04	215,000	-	August 5, 2021
$6.28	292,500	-	November 14, 2021
$6.45	1,570,000	732,496	

(1) In actual dollars.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Cash flow from operating activities represents the primary source of liquidity to fund distributions, debt service, capital improvements, tenant inducements and leasing costs. The REIT's cash flow from operating activities is dependent upon the occupancy level of its investment properties, the rental rates on its leases, the collectability of rent from its tenants, and other factors. Material changes in these factors may adversely affect the REIT's net cash flow from operating activities and hence its liquidity. A more detailed discussion of these risks can be found under the "Risks and Uncertainties" section in the annual information form of the REIT ("AIF") dated March 8, 2017. Also see "Risks and Uncertainties".

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

CASH FLOW

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

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Cash provided by operating activities	$ 6,589	$ 5,570	$ 24,347	$ 20,713
Cash used in investing activities	(67,031)	(634)	(94,313)	(32,551)
Cash provided (used) by financing activities	63,514	(4,849)	94,140	10,262
Increase (decrease) in cash and cash equivalents	3,072	87	24,174	(1,576)
Cash and cash equivalents, beginning of period	21,712	523	610	2,186
Cash and cash equivalents, end of period	$ 24,784	$ 610	$ 24,784	$ 610

Overall, for the periods Q4-2016 and YTD-2016 compared to Q4-2015 and YTD-2015, cash provided by operating activities, cash used in investing activities and cash provided (used) in financing activities were impacted by acquisition activity, the number of properties owned throughout the year by the REIT in 2016 consisting of five acquisitions in the latter half of 2016 and five acquisitions in 2015, and equity issuances during the year.

Cash provided by operating activities increased in Q4-2016 and YTD-2016 compared to Q4-2015 and YTD-2015 primarily due to increased operating income resulting from the higher number of properties owned during the year as well as changes in working capital.

Cash used in investing activities in Q4-2016 and YTD-2016 was mainly due to the acquisition of the five properties during the year of which three were completed in Q4-2016 (See "Acquisitions") and for capital expenditures at 340 Laurier Avenue West relating to the LEED® - EB Gold Certification Retro-Commissioning Project. In 2015, cash used in investing activities primarily related to the acquisition of five office properties in Fredericton, New Brunswick and were also offset by the sale of Coronation Mall in the second quarter of 2015.

Cash provided by financing activities in Q4-2016 and YTD-2016 was higher due to proceeds raised from mortgages and the issuance of Units through the Private Placement and the public offerings in Q3-2016 and Q4-2016 as compared to Q4-2015 and YTD-2015 where funds provided were through borrowings from the Credit Facilities and mortgages.

CAPITAL RESOURCES

The REIT's properties require ongoing capital expenditures, tenant inducements and leasing expenditures. Leasing expenditures include the cost of tenant allowances, leasing commissions and leasehold improvements incurred in connection with the leasing of vacant space and the renewal or replacement of current tenants. The REIT plans to continue to invest capital in all its properties throughout 2017 and beyond. Expenditures are expected to be funded through cash flow generated by operations, the Credit Facilities and cash on hand. For the three months and year ended December 31, 2016, the REIT invested $647 and $3,436 (December 31, 2015 - $417 and $2,517) 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 December 31, 2016, the REIT has entered into commitments for 340 Laurier Avenue West related to its LEED® - EB Gold Certification Retro-Commissioning Project totalling $547 (December 31, 2015 - $nil).

At December 31, 2016 and 2015, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

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

ARRANGEMENTS WITH STARLIGHT

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

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

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

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

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

(b) Acquisition fee equal to:

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

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

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

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

The following table presents the costs incurred for the three months and years ended December 31, 2016 and 2015:

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Asset management fees	$ 334	$ 289	$ 1,210	$ 1,096
Acquisition fees	669	-	908	409
Other expenses	63	14	150	29
Total	$ 1,066	$ 303	$ 2,268	$ 1,534

Of these amounts as at December 31, 2016, $151 (December 31, 2015 - $104) was included in accounts payable and accrued liabilities. No incentive fees or capital expenditure fees were charged for the three months and years ended December 31, 2016 or 2015.

On July 20, 2016, the REIT issued 42,735 Units for cash of $250 pursuant to the Private Placement to an entity under the same common ownership as Starlight.

On July 29, 2015, the REIT issued 45,454 Units for cash of $300 pursuant to a private placement to an entity under the same common ownership as Starlight.

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 AIF. The AIF is available on SEDAR at www.sedar.com. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

REAL PROPERTY OWNERSHIP AND TENANT RISKS

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of such properties. The properties generate revenue through rental payments made by the tenants thereof. The ability to rent vacant space in properties will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors.

If a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be re-leased on economically favourable terms, the properties may not generate revenues sufficient to meet operating expenses, including debt service payments and capital expenditures.

Upon the expiry of any lease, there can be no assurance the lease will be renewed or the tenant will be replaced. The terms of any subsequent lease may be less favourable to the REIT than those of an existing lease. Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the properties or revenues to be derived from them. There can be no assurance that, upon the expiry or termination of existing leases, the average occupancy rates and revenues will be higher than historical occupancy rates and revenues, and it may take a significant amount of time for market rents to be recognized by the REIT due to internal and external limitations on its ability to charge these new market based rents in the short term.

FLUCTUATIONS IN CAPITALIZATION RATES

As interest rates fluctuate in the lending market, generally so too do capitalization rates which affect the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates.

ENVIRONMENTAL MATTERS

The REIT is subject to various requirements (including federal, provincial and municipal laws, as applicable,) relating to environmental matters. Such requirements provide that the REIT could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under the properties, including lead-based paint, asbestos, polychlorinated biphenyls, petroleum-based fuels, mercury, volatile organic compounds, underground storage tanks, pesticides and other miscellaneous materials. Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such materials.

Additional liability may be incurred by the REIT with respect to the release of such substances from the REIT's properties to properties owned by third parties, including properties adjacent to the properties or with respect to the exposure of persons to regulated substances. The failure to remove or otherwise address such substances may materially adversely affect the REIT's ability to sell a property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against the REIT.

It is the REIT's operating policy to obtain or be entitled to rely on an environmental site assessment prior to acquiring a property. Where an environmental site assessment warrants further investigation, it is the REIT's operating policy to conduct further environmental assessments (see "Declaration of Trust and Description of Voting Units – Investment Guidelines" and "Operating Policies – Operating Policies" in the AIF). Although such environmental assessments provide the REIT with some level of assurance about the condition of the properties, the REIT may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which the REIT may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on the REIT business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. Environmental laws and other requirements can change and the REIT may become subject to more stringent environmental laws and other requirements in the future. Compliance with more stringent environmental requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

COMPETITION

The real estate business is competitive. Numerous developers, managers and owners of properties compete with the REIT in seeking tenants. The existence of competing developers, managers and owners and competition for the REIT's tenants could have an impact on the REIT's ability to lease space in the properties and on the rents charged.

The REIT is subject to competition for suitable real property investments with individuals, corporations and institutions (both Canadian and foreign) and other real estate investment trusts which are presently seeking, or which may seek in the future, real property investments similar to those targeted by the REIT. A number of these investors may have greater financial resources than those of the REIT, or operate without the investment or operating restrictions of the REIT. An increase in the availability of the investment funds, and an increase in interest in real property investments, may tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

The REIT seeks to locate and complete property purchases that are accretive to AFFO per Unit. There is a risk that continuing increased competition for real property acquisitions may increase purchase prices to levels that are not accretive.

ILLIQUIDITY OF REAL ESTATE INVESTMENTS

Real estate investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for, and the perceived desirability of, such investments. Such illiquidity may limit the REIT's ability to promptly adjust its portfolio in response to changing economic or other conditions. If the REIT were required to quickly liquidate its properties, the proceeds might be significantly less than the aggregate carrying value of its properties or less than what could be expected to be realized under normal circumstances. In addition, by concentrating on commercial rental properties, the REIT is exposed to the adverse effects on that segment of the real estate market.

INTEREST RATE RISK

The REIT may be subject to higher interest rates in the future, given the current economic climate. The REIT may also be unable to renew its maturing debt either with an existing or a new lender, and if it's able to renew its maturing debt, significantly lower loan-to-value ratios may be used. The REIT will seek to manage this risk by negotiating fixed interest rates where possible. At no time will the REIT incur debt aggregating more than 20% of gross book value of the REIT (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) at floating interest rates or having maturities less than one year.

UNINSURED LOSSES

The DOT requires that the REIT obtain and maintain at all times insurance coverage in respect of its potential liabilities and the accidental loss of value of its assets from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or under-insured loss occur, the REIT could lose its investment in, and anticipated profits and cash flows from, the affected property, but the REIT would continue to be obliged to repay any recourse mortgage indebtedness on such property. There can be no assurance that a claim in excess of the insurance coverage or claims not covered by insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against the REIT not covered by, or in excess of, the insurance coverage could have a material adverse effect on the REIT's business, financial condition or results of operations and distributions.

RISKS RELATED TO INSURANCE RENEWALS

Certain events could make it more difficult and expensive to obtain property and casualty insurance, including coverage for terrorism. The REIT's current insurance policies expires annually and the REIT may encounter difficulty in obtaining or renewing property or casualty insurance on its properties at the same levels of coverage and under similar terms. Such insurance may be more limited and, for catastrophic risks (for example, earthquake, hurricane, flood and terrorism), may not be generally available to fully cover potential losses. Even if the REIT is able to renew its policies at levels and with limitations consistent with its current policies, the REIT cannot be sure that it will be able to obtain such insurance at premium rates that are commercially reasonable. If the REIT were unable to obtain adequate insurance on the properties for certain risks, it could cause the REIT to be in default under specific covenants on certain of its indebtedness or other contractual commitments it has that require the REIT to maintain adequate insurance on its properties to protect against the risk of loss. If this were to occur or if the REIT were unable to obtain adequate insurance and the properties experienced damages that would otherwise have been covered by insurance, it could adversely affect the REIT's financial condition and the operations of the properties.

CREDIT RISK AND TENANT CONCENTRATION

The REIT is exposed to risk as tenants may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties across several asset classes. As well, management seeks to acquire properties with strong tenant covenants in place. The REIT's portfolio includes over 115 tenant leases with a weighted-average term to maturity of approximately 4.4 years. Approximately 87% of the REIT's portfolio was occupied by government and other credit-rated entities based on expected annualized 2017 gross revenue.

RISKS RELATED TO THE REIT AND ITS BUSINESS

ACQUISITIONS

The REIT's strategy includes growth through identifying suitable acquisition opportunities, pursuing such opportunities, completing acquisitions and effectively operating and leasing such properties. There can be no assurance as to the pace of growth through property acquisitions or that the REIT will be able to acquire assets on an accretive basis.

Acquisitions of properties by the REIT are subject to the normal commercial risks and satisfaction of closing conditions that may include, among other things, lender approval, *Competition Act* (Canada) approval, receipt of estoppel certificates and obtaining title insurance. Such acquisitions may not be completed or, if completed, may not be on terms that are exactly the same as initially negotiated.

ACCESS TO CAPITAL AND FINANCING RISK

The real estate industry is highly capital intensive. The REIT requires access to capital to maintain the properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There can be no assurance the REIT will have access to sufficient capital or access to capital on terms favourable to the REIT for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. Further, the REIT may not be able to borrow funds due to the limitations set forth in the DOT.

In addition, financial markets have experienced a sharp increase in volatility during recent years. The underlying market conditions may continue or become worse and unexpected volatility and illiquidity in financial markets may inhibit the REIT's access to long-term financing in the Canadian capital market. As a result, it is possible financing which the REIT may require in order to grow and expand its operations, upon the expiry of the term of financing, upon refinancing of any particular Property may not be available or, if it is available, may not be available on favourable terms to the REIT.

The REIT is subject to the risks associated with debt financing, including the risk the mortgages and banking facilities secured by the properties will not be able to be refinanced or the terms of such refinancing will not be as favourable as the terms of existing indebtedness due to, for instance, higher interest rates. To the extent the REIT utilizes variable rate debt, such debt will result in fluctuations in the REIT's cost of borrowing as interest rates change.

As at December 31, 2016, 0% (December 31, 2015 – 3%) of the REIT's debt was at floating rates.

REGULATION

The REIT is subject to laws and regulations governing the ownership and leasing of real property, employment standards, environmental matters, taxes and other matters. It is possible that future changes in applicable federal, provincial, state, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting the REIT (including with retroactive effect). Any changes in the laws to which the REIT is subject could materially adversely affect the rights and title to the properties. It is not possible to predict whether there will be any further changes in the regulatory regimes to which the REIT is subject or the effect of any such change on its investments.

POTENTIAL CONFLICTS OF INTEREST WITH TRUSTEES

Certain of our Trustees and officers are also Trustees, directors and/or officers of other entities, or are otherwise engaged, and may continue to be engaged, in activities that may put them in conflict with the REIT's business strategy. Consequently, these positions could create, or appear to create, conflicts of interest with respect to matters involving the REIT. Pursuant to the DOT, all decisions to be made by the Board of Trustees which involve the REIT are required to be made in accordance with the Trustee's duties and obligations to act honestly and in good faith with a view to the best interests of the REIT and the Unitholders. In addition, the Trustees and officers of the REIT are required to declare their interests in, and such Trustees are required to refrain from voting on, any matter in which they may have a conflict of interest. However, there can be no assurance that the provisions in the DOT will adequately address potential conflicts of interest or that such actual or potential conflicts of interest will be resolved in the REIT's favour.

Starlight acts as the asset manager for the REIT and also provides management services to other public and private companies. As asset manager for other entities and on its own behalf, Starlight may pursue other business opportunities, including but not limited to, real estate and development business opportunities outside of the REIT. These multiple responsibilities to public entities and other businesses could create competition for the time and efforts of Starlight which materially adversely affect our cash flows, operating results and financial condition.

LITIGATION RISKS

In the normal course of the REIT's operations, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the REIT. Even if the REIT prevails in any such legal proceeding, the proceedings could be costly and time-consuming and would divert the attention of management and key personnel from the REIT's business operations.

TAXATION MATTERS

Management of the REIT believes the REIT currently qualifies as a mutual fund trust and a real estate investment trust for income tax purposes. If the REIT were not to so qualify, the consequences could be material and adverse.

The *Income Tax Act* (Canada) ("Tax Act") contains rules, which tax certain publicly traded or listed trusts in a manner similar to corporations and taxes certain distributions from such trusts as taxable dividends from a taxable Canadian corporation. Distributions paid by a specified investment flow-through ("SIFT") trust as returns of capital will generally not be subject to the tax.

The rules in the Tax Act applicable to SIFT trusts or partnerships ("SIFT Rules") are not applicable to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue.

Unless the REIT qualifies for exclusion from the definition of "SIFT trust" in the Tax Act ("REIT Exception"), the SIFT Rules could impact the level of cash distributions which would otherwise be made by the REIT and the taxation of such distributions to Unitholders. Management of the REIT has determined that the REIT is not subject to the SIFT tax as it meets the REIT Exception for 2016.

If the REIT were to no longer qualify for the REIT Exception, it would not be able to flow through its taxable income to Unitholders and the REIT would therefore be subject to tax. The REIT Exception is applied on an annual basis. As such, it will not be possible to determine if the REIT will satisfy the conditions of the REIT Exception for 2017 or any subsequent year until the end of the particular year.

SIGNIFICANT OWNERSHIP BY STARLIGHT

As of the date hereof, Daniel Drimmer and his Affiliates held an approximate 13.8% effective interest in the REIT through ownership of Units, Class B LP Units and Options. For so long as Starlight maintains a significant effective interest in the REIT, Starlight benefits from certain contractual rights regarding the REIT and Starlight has the ability to exercise influence with respect to the affairs of the REIT and significantly affect the outcome of Unitholder votes, including the ability to prevent certain fundamental transactions, and may discourage transactions involving a change of control of the REIT, including transactions in which an investor might otherwise receive a premium for its Units over the then current market price. The Units may also be less liquid and worth less than they would if Starlight did not have the ability to influence matters affecting the REIT.

Pursuant to the Exchange Agreement, each Class B LP Unit is exchangeable at the option of the holder for one Unit of the REIT (subject to customary anti-dilution adjustments). See "Material Contracts – Exchange Agreement" in the AIF. If Starlight exchanges Class B LP Units for Units and sells Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also produce such effect.

DEPENDENCE ON STARLIGHT

The REIT is dependent upon Starlight for operational and administrative services relating to the REIT's business. Should Starlight terminate the Asset Management Agreement, the REIT may be required to engage the services of an external asset manager. The REIT may be unable to engage an asset manager on acceptable terms, in which case the REIT's operations and cash available for distribution may be adversely affected.

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 financial statements for external purposes in accordance with IFRS.

Because of the inherent limitations in all control systems, including well-designed and operated systems, no control system can provide complete assurance that 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 the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors.

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.

CYBER-SECURITY RISK

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the REIT's information resources. More specifically, a cyber-incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information. The REIT's primary risks that could directly result from the occurrence of a cyber-incident include operational interruption, damage to its reputation and damage to the REIT's business relationships with its tenants. The REIT has implemented processes, procedures and controls to help mitigate these risks, including installing firewalls and antivirus programs on its networks, servers and computers, but these measures, as well as its increased awareness of a risk of a cyber-incident, do not guarantee that its financial results will not be negatively impacted by such an incident.

RISKS RELATED TO THE UNITS

VOLATILE MARKET PRICE FOR THE REIT'S SECURITIES

The market price for the REIT's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the REIT's control, including the following: (a) actual or anticipated fluctuations in the REIT's financial performance and future prospects; (b) recommendations by securities research analysts; (c) changes in the economic performance or market valuations of other issuers that investors deem comparable to the REIT; (d) addition or departure of the REIT's officers; (e) release or expiration of lock-up or other transfer restrictions on outstanding Units or Class B LP Units; (f) sales or perceived sales of additional Units; (g) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the REIT or its competitors; (h) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the REIT's industry or target markets; (i) liquidity of the REIT's securities; (j) prevailing interest rates; (k) the market price of other REIT securities; (l) a decrease in the amount of distributions declared and paid by the REIT; and (m) general economic conditions.

Financial markets have, in recent years, experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such issuers. Accordingly, the market price of the REIT's securities may decline even if the REIT's financial performance, underlying asset values, or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the REIT's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the REIT's securities by those institutions. There can be no assurance that continuing fluctuations in price and volume will not occur.

RETURN ON INVESTMENT ON UNITS NOT GUARANTEED

The Units are equity securities of the REIT and are not traditional fixed income securities. A fundamental characteristic that distinguishes the Units from traditional fixed income securities is that the REIT does not have a fixed obligation to make payments to holders of Units and does not promise to return the initial purchase price of a Unit on a certain date in the future. The REIT has the ability to reduce or suspend distributions to holders of Units if circumstances warrant. The ability of the REIT to make cash distributions to holders of Units, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT and its subsidiaries, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital and capital expenditure requirements. There can be no assurance regarding the amount of income to be generated by the properties. The market value of the Units will deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, unlike interest payments or an interest-bearing debt security, the REIT's cash distributions to holders of Units are composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax returns to holders of Units. Therefore, the rate of return over a defined period for a holder of Units may not be comparable to the rate of return on a fixed income security that provides a "return on capital" over the same period.

DISTRIBUTIONS

At certain times, the REIT has paid distributions to Unitholders which have exceeded adjusted cash flow from operating activities. At the election of Unitholders, the REIT has historically made non-cash distributions under the DRIP which has reduced the amount of cash required to fund the REIT's distributions. As a result, the REIT has not funded distributions from alternate sources such as debt, mortgages or other financing instruments, and has not been required to amend any material contracts.

There can be no assurance in the future the REIT will continue to fund distributions entirely from adjusted cash from operating activities and no assurance Unitholders will continue to elect to receive distributions under the DRIP. In such an event, the REIT may be required to fund its distributions from sources other than operations such as debt, mortgages or other financing instruments, or amend material contracts. In addition, non-cash distributions, such as the issuance of Units under the DRIP, have the effect of increasing the number of Units outstanding which may cause cash distributions to increase over time assuming stable per Unit cash distribution levels.

DILUTION OF UNITS

The number of Units the REIT is authorized to issue is unlimited. The REIT may, in its sole discretion, issue additional Units or convertible securities exchangeable into Units from time to time subject to the rules of any applicable stock exchange on which the Units are then listed. The issuance of any additional Units may have a dilutive effect on the interests of holders of Units.

UNITHOLDER LIABILITY

The DOT provides that no holders of Units will be subject to any liability whatsoever to any person in connection with a holding of Units. In addition, legislation has been enacted in the Province of Ontario and certain other provinces that is intended to provide holders of Units in those provinces with limited liability. However, there remains a risk, which is considered by the REIT to be remote in the circumstances, that a holder of Units could be held personally liable for the obligations of the REIT to the extent that claims are not satisfied out of the assets of the REIT. The affairs of the REIT are conducted in a manner to seek to minimize such risk wherever possible.

NATURE OF INVESTMENT IN UNITS

The Units represent a fractional interest in the REIT and do not represent a direct investment in the REIT's assets and should not be viewed by investors as direct securities of the REIT's assets. A holder of a Unit does not hold a share of a body corporate. Unitholders, in such capacity, do not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions against the REIT. The rights of holders of Units are based primarily on the DOT. There is no statute governing the affairs of the REIT equivalent to the *Canada Business Corporations Act*, which sets out the rights and entitlements of shareholders of corporations in various circumstances. As well, the REIT may not be a recognized entity under certain existing insolvency legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditors' Arrangement Act* (Canada) and thus the treatment of holders of Units upon an insolvency is uncertain.

USE OF ESTIMATES

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

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

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

INVESTMENT PROPERTIES

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

UNIT OPTION PLAN

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

FINANCIAL INSTRUMENTS

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

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

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

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

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

The fair value of mortgages payable is estimated based on the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. Class B LP Units are carried at fair value and the fair value of the Class B LP Units has been determined with reference to the trading price of the Units. Unit Options granted are carried at fair value which is estimated using the Black Scholes option pricing model.

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

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

The following are new standards, amendments to standards and interpretations that have been issued but not yet effective for the three months and year ended December 31, 2016 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 is currently assessing the impact of the new standard.

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 is currently assessing the impact of the new standard on its consolidated financial statements.

The REIT is currently assessing the impact of the new standard.

IFRS 16, Leases ("IFRS 16"):

IFRS 16 supersedes IAS 17 Leases, IFRS Interpretations Committee ("IFRIC") 4 Determining Whether an Arrangement Contains a Lease, Standards Interpretation Committee ("SIC")-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 Leases requirements. The effective date for IFRS 16 is January 1, 2019.

The REIT is currently assessing the impact of the new standard.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

The CEO and CFO evaluated the effectiveness of the REIT's disclosure controls and procedures (as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") and concluded that the design and operation of the REIT's disclosure controls and procedures were effective for the three months and year ended December 31, 2016.

The CEO and CFO evaluated the design and effectiveness of the REIT's internal controls over financial reporting (as defined in NI 52-109) and concluded that the design and effectiveness of internal controls over financial reporting continue to be appropriate and were effective for the three months and year ended December 31, 2016.

OUTLOOK

On January 18, 2017, the Bank of Canada ("BoC") elected to maintain their target for the overnight rate at 0.5% for the twelfth straight announcement, despite their American counterpart raising the Fed Funds Rate by 0.25% at their meeting on December 14, 2016. Although the domestic non-resource sectors of the economy are experiencing strong growth, resource-related sectors appear to have bottomed out, and the US economy is enjoying a strong run from which Canada is benefiting, too many long-term risks remain, and the BoC reflected that caution.

Canadian economic growth is now largely being supported by the service sector's expansion, and the drag caused by the commodity sector has not been as severe as previous quarters as the economy rebalances. Interprovincial labour migration out of Alberta has been one of the most salient features of this shift.

The global economy is strengthening, primarily due to the continued strength and growth of the US economy, and the capital market's anticipation that the US President will follow through on his campaign pledges. Additionally, emerging markets, which had previously struggled, appear to have troughed and are strengthening as well.

Countering all of these positive economic trends is uncertainty on a historic scale. There is no proper way to quantify the impact on the Canadian, or global, economies from some of the policy changes proposed by the new US administration, not to mention knock-on effects from European issues such as Brexit and France's looming election. The BoC, as well as most other market commentators, are taking a wait and see approach in regards to their forecasts.

The BoC's January Monetary Policy Report indicated that Canadian Real GDP grew by 1.3%, higher than the projected 1.1%, and the forecast for 2017 has been revised upwards to 2.1% (from 2.0%). Conversely, inflation has fallen further as CPI ended 2016 at 1.4% (down from a projected 1.5%), with a lowered forecasted rate of 1.8% for 2017. Given the trend of downward revisions in CPI, it is expected that inflation will remain in the lower half of the BoC's target range of 1 to 3% for the foreseeable future.

Management anticipates that despite the global uncertainty, overall real estate fundamentals will remain stable throughout 2017 as Canada remains a strong and stable economy, and a safe haven for global capital. Borrowing costs may increase slightly: while Canadian bond yields have risen by 45 – 60 basis points since the US election in November, lender spreads have contracted somewhat by 5 – 10 basis points.

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

Additional information relating to the REIT including the REIT's AIF can be found on SEDAR at www.sedar.com.

Dated: March 8, 2017
Toronto, Ontario, Canada