Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	September 30, 2017	December 31, 2016
Assets		
Non-current assets:		
Investment properties (note 4)	$ 497,168	$ 427,078
Instalment notes receivable (note 5)	629	744
Deposits	416	395
Derivative instruments (note 12)	504	–
Total non-current assets	498,717	428,217
Current assets:		
Derivative instruments (note 12)	65	–
Tenant and other receivables (note 6)	1,335	1,638
Prepaid expenses and other assets	2,317	1,390
Instalment notes receivable (note 5)	156	212
Restricted cash (note 7)	603	228
Cash and cash equivalents	31,698	24,784
Total current assets	36,174	28,252
Total assets	$ 534,891	$ 456,469
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 8)	$ 257,379	$ 234,608
Derivative instruments (note 12)	–	269
Class B LP Units (note 9)	27,948	26,355
Total non-current liabilities	285,327	261,232
Current liabilities:		
Mortgages payable (note 8)	27,635	18,857
Tenant rental deposits and prepayments	1,945	1,902
Accounts payable and accrued liabilities (note 11)	7,600	6,387
Derivative instruments (note 12)	–	417
Total current liabilities	37,180	27,563
Total liabilities	322,507	288,795
Unitholders' equity (note 13)	212,384	167,674
Total liabilities and unitholders' equity	$ 534,891	$ 456,469

Subsequent events (note 21)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on November 9, 2017.

"William J. Biggar" Trustee

"Roland A. Cardy" Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Revenue	$ 14,017	$ 10,060	$ 39,650	$ 29,589
Expenses:				
Property operating	2,991	2,213	8,865	6,717
Realty taxes	2,262	1,663	6,190	4,882
Income before the undernoted	8,764	6,184	24,595	17,990
Other income (expenses):				
General and administration expenses	(613)	(551)	(1,827)	(1,684)
Finance costs (note 15)	(2,410)	(1,931)	(6,757)	(5,694)
Distributions on Class B LP Units (note 9)	(639)	(639)	(1,918)	(1,918)
Fair value adjustment of Class B LP Units (note 9)	(1,335)	(2,326)	(1,593)	(5,685)
Fair value adjustment of investment properties (note 4)	5,833	(3,256)	11,922	(5,157)
Unrealized gain on change in fair value of derivative instruments (note 12)	731	193	1,255	317
Net income (loss) and comprehensive income (loss) for the period	$ 10,331	$ (2,326)	$ 25,677	$ (1,831)

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Nine months ended September 30, 2017 and 2016
(Unaudited)

	Trust Unit capital (note 13(b))	Cumulative income (loss)	Total
Unitholders' equity, January 1, 2016	$ 103,649	$ 6,903	$ 110,552
Changes during the period:			
Units issued, net of costs	40,076	–	40,076
Net loss and comprehensive loss for the period	–	(1,831)	(1,831)
Distributions	–	(8,524)	(8,524)
Issue of units under Distribution Reinvestment Plan ("DRIP") (note 13(e))	1,909	–	1,909
Unitholders' equity, September 30, 2016	145,634	(3,452)	142,182
Changes during the period:			
Units issued, net of costs	27,128	–	27,128
Net income and comprehensive income for the period	–	1,730	1,730
Distributions	–	(4,098)	(4,098)
Issue of units under DRIP (note 13(e))	732	–	732
Unitholders' equity, December 31, 2016	173,494	(5,820)	167,674
Changes during the period:			
Units issued, net of costs	30,765	–	30,765
Net income and comprehensive income for the period	–	25,677	25,677
Distributions	–	(13,866)	(13,866)
Issue of units under DRIP (note 13(e))	2,134	–	2,134
Unitholders' equity, September 30, 2017	$ 206,393	$ 5,991	$ 212,384

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Operating activities:				
Net income (loss) for the period	$ 10,331	$ (2,326)	$ 25,677	$ (1,831)
Adjustments for financing activities included in income:				
Finance costs (note 15)	2,410	1,931	6,757	5,694
Unrealized gain on change in fair value of derivative instruments (note 12)	(731)	(193)	(1,255)	(317)
Distributions on Class B LP Units (note 9)	639	639	1,918	1,918
Fair value adjustment of Class B LP Units (note 9)	1,335	2,326	1,593	5,685
Adjustments for items not involving cash:				
Fair value adjustment of investment properties (note 4)	(5,833)	3,256	(11,922)	5,157
Unit-based compensation expense	92	129	132	238
Change in other non-cash operating items	185	86	425	231
Change in non-cash operating working capital (note 16)	599	529	581	983
Cash provided by operating activities	9,027	6,377	23,906	17,758
Investing activities:				
Acquisitions (note 3)	9	(24,493)	(55,276)	(24,493)
Additions to investment properties (note 4)	(1,262)	(1,349)	(3,383)	(2,789)
Change in restricted cash	(125)	–	(375)	–
Cash used in investing activities	(1,378)	(25,842)	(59,034)	(27,282)
Financing activities:				
Repayment of credit facilities, net of costs	(6,000)	(10,442)	–	(7,207)
Proceeds from new mortgage financing, net of costs	19,713	16,622	62,739	16,622
Repayment of mortgages payable	(13,948)	–	(25,481)	(765)
Principal payments on mortgages	(2,118)	(1,530)	(5,985)	(4,515)
Principal payments on instalment notes receivable (note 5)	43	75	171	234
Finance costs paid	(2,762)	(2,283)	(7,887)	(6,856)
Proceeds from issuance of Units, net of costs	30,382	40,078	30,418	39,937
Cash distributions to unitholders	(4,416)	(2,485)	(11,933)	(6,824)
Cash provided by financing activities	20,894	40,035	42,042	30,626
Increase in cash and cash equivalents	28,543	20,570	6,914	21,102
Cash and cash equivalents, beginning of period	3,155	1,142	24,784	610
Cash and cash equivalents, end of period	$ 31,698	$ 21,712	$ 31,698	$ 21,712
Supplemental cash flow information:				
Units issued under DRIP – unitholders	$ 474	$ 534	$ 1,657	$ 1,340
Units issued under DRIP – Class B LP Units	132	190	477	570

See accompanying notes to condensed consolidated interim financial statements.

Organization:

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

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

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the REIT have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions significant to understand the changes in financial position and performance of the REIT since the last annual consolidated financial statements as at and for the year ended December 31, 2016. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

The condensed consolidated interim financial statements were approved by the Board of Trustees on November 9, 2017.

(b) Basis of presentation:

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

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

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

1. Basis of preparation (continued):

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

(c) Critical judgments and estimates:

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

2. Significant accounting policies:

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

Future accounting changes:

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

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

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

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

IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted.

2. Significant accounting policies (continued):

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

(b) IFRS 9, Financial Instruments:

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

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

(c) IFRS 16, Leases:

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

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

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

3. Acquisitions and dispositions:

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

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

	61 Bill Leathem Drive	5160 Orbitor Drive	727 Fisgard Street	Net assets acquired
Acquisition date	June 15, 2017	June 27, 2017	June 27, 2017	
Net assets acquired:				
Investment properties (including acquisition costs of $1,543)	$ 32,521	$ 8,381	$ 14,241	$ 55,143
Other receivables	9	20	28	57
Prepaid expenses and other assets	337	3	11	351
Tenant rental deposits	–	–	(114)	(114)
Accounts payable and accrued liabilities	(121)	(19)	(21)	(161)
Net assets acquired	$ 32,746	$ 8,385	$ 14,145	$ 55,276
Consideration:				
Proceeds from cash on hand	$ 12,786	$ 3,164	$ 5,122	$ 21,072
Proceeds from new mortgage financing, net of financing costs of $211	19,960	5,221	9,023	34,204
	$ 32,746	$ 8,385	$ 14,145	$ 55,276

The REIT did not dispose of any investment properties during the nine months ended September 30, 2017.

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

4. Investment properties:

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

	Investment properties
Balance, December 31, 2015	$ 342,150
Acquisitions	24,429
Additions	2,789
Amortization of leasing costs, tenant inducements, landlords work and straight-line rents	(164)
Fair value adjustment	(5,157)
Balance, September 30, 2016	364,047
Acquisitions	66,569
Additions	647
Amortization of leasing costs, tenant inducements, landlords work and straight-line rents	(116)
Fair value adjustment	(4,069)
Balance, December 31, 2016	427,078
Acquisitions	55,143
Additions	3,383
Amortization of leasing costs, tenant inducements, landlords work and straight-line rents	(358)
Fair value adjustment	11,922
Balance, September 30, 2017	$ 497,168

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

4. Investment properties (continued):

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

	September 30, 2017	September 30, 2016
Terminal and direct capitalization rates - range	5.00% to 11.50%	6.00% to 11.50%
Terminal and direct capitalization rate - weighted average	6.93%	6.97%
Discount rates - range	6.00% to 12.00%	7.00% to 12.00%
Discount rate - weighted average	7.65%	7.81%

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

	September 30, 2017	September 30, 2016
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (14,219)	$ (8,944)
25-basis points decrease	14,627	9,828
Weighted average discount rate:		
25-basis points increase	(14,324)	(8,941)
25-basis points decrease	14,493	9,671

5. Instalment notes receivable:

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

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

5. Instalment notes receivable (continued):

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

	September 30, 2017	December 31, 2016
Current	$ 156	$ 212
Non-current	629	744
Balance	$ 785	$ 956

6. Tenant and other receivables:

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

	September 30, 2017	December 31, 2016
Tenant receivables	$ 1,147	$ 1,580
Other receivables	188	58
	$ 1,335	$ 1,638

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

7. Restricted cash:

The following table presents details of restricted cash:

	September 30, 2017	December 31, 2016
Deposits in trust	$ 603	$ 228

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

8. Mortgages payable:

As at September 30, 2017, the REIT had $286,088 (December 31, 2016 - $254,140) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.15% (December 31, 2016 – 3.17%) after giving effect to the instalment note receipts, and a weighted average term to maturity of 3.42 years (December 31, 2016 – 3.40 years). All interest rates are fixed for the term of the respective mortgages except for six (December 31, 2016 – six) of the REIT's mortgages that have utilized interest rate swaps to fix their floating interest rates (note 12). The mortgages are secured by first and second charges on the respective properties

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

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2017 – remainder of year	$ 2,190	$ –	$ 2,190	$ 2,279
2018	8,594	29,729	38,323	8,425
2019	8,090	24,794	32,884	7,345
2020	5,560	76,399	81,959	4,880
2021	4,586	29,003	33,589	3,811
Thereafter	3,532	93,611	97,143	2,552
Face value	$ 32,552	$ 253,536	$ 286,088	$ 29,292
Unamortized mark to market mortgage adjustments (2016 - $446)			402	
Unamortized financing costs (2016 - ($1,121))			(1,476)	
Total mortgages payable			$ 285,014	

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

8. Mortgages payable (continued):

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

	September 30, 2017	December 31, 2016
Current:		
Mortgages payable	$ 28,073	$ 19,182
Unamortized mark to market mortgage adjustments	16	48
Unamortized financing cost	(454)	(373)
	27,635	18,857
Non-current:		
Mortgages payable	258,015	234,958
Unamortized mark to market mortgage adjustments	386	398
Unamortized financing cost	(1,022)	(748)
	257,379	234,608
	$ 285,014	$ 253,465

9. Class B LP Units:

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

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

9. Class B LP Units (continued):

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

	Class B LP Units	Amount
Outstanding, December 31, 2015	4,306,337	$ 21,962
Fair value adjustment	–	5,685
Outstanding, September 30, 2016	4,306,337	27,647
Fair value adjustment	–	(1,292)
Outstanding, December 31, 2016	4,306,337	26,355
Fair value adjustment	–	1,593
Outstanding, September 30, 2017	4,306,337	$ 27,948

During the three and nine months ended September 30, 2017, distributions on Class B LP Units were $639 and $1,918, respectively, and have been recorded as an expense in the condensed consolidated interim statements of income and comprehensive income.

10. Credit facilities:

The REIT has a credit agreement with a Canadian chartered bank for a $6,000 and a $14,000 floating rate revolving credit facility (the “Credit Facilities”). The Credit Facilities are secured by two properties and mature on November 1, 2018. Both Credit Facilities were undrawn at September 30, 2017.

The $6,000 facility bears interest on cash advances above $1,000 at 212.5 basis points per annum over the floating banker’s acceptance rate or under $1,000 at 100 basis points over prime rate. The $14,000 facility bears interest on cash advances above $1,000 at 250 basis points per annum over the floating banker’s acceptance rate or under $1,000 at 150 basis points over prime rate.

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

11. Accounts payable and accrued liabilities:

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

	September 30, 2017	December 31, 2016
Accounts payable and accrued liabilities	$ 4,750	$ 3,700
Finance costs payable	909	875
Distributions payable	1,719	1,443
Unit based compensation liability	222	369
	$ 7,600	$ 6,387

12. Derivative instruments:

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

The notional principal amounts of the outstanding interest swap contracts at September 30, 2017 were $69,627 (December 31, 2016 – $71,324). Total unrealized gain on change in the fair value of the derivative instruments for the three and nine months ended September 30, 2017 was $731 and $1,255, respectively.

13. Unitholders' equity:

(a) Units:

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

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

13. Unitholders' equity (continued):

(b) Units outstanding:

The following table summarizes the changes in Units for the nine months ended September 30, 2017 and 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 offering	5,324,000	33,009
Issue of Units – Trustee Unit issuance plan	11,348	68
Issue of Units – DRIP	345,336	1,909
Issue of Units – options exercised	16,667	97
Issuance costs	–	(2,346)
Balance, September 30, 2016	24,491,868	145,634
Issue of Units for cash – public offering	4,531,000	28,772
Issue of Units – Trustee Unit issuance plan	4,098	25
Issue of Units – DRIP	120,888	732
Issuance costs	–	(1,669)
Balance, December 31, 2016	29,147,854	173,494
Issue of Units for cash – public offering	5,144,000	32,150
Issue of Units – Trustee Unit issuance plan	10,561	67
Issue of Units – DRIP	356,812	2,134
Issue of Units – options exercised	62,500	379
Issuance costs	–	(1,831)
Balance, September 30, 2017	34,721,727	$ 206,393

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

13. Unitholders' equity (continued):

(c) Unit-based compensation plan:

Under the terms of the REIT's Unit-based compensation plan (the "Plan"), the Trustees may, from time to time, at their discretion, and in accordance with TSX requirements, grant certain Trustees, officers of the REIT and its subsidiaries and certain eligible service providers, non-transferable options to purchase Units, exercisable for a period of up to five years from the date of grant. These options vest over a three-year period beginning one year from the date of grant. The total number of Units reserved under the Plan may not exceed 10% of the Units and Class B LP Units outstanding.

The following table summarizes the changes in Unit options for the nine months ended September 30, 2017 and 2016:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Balance, December 31, 2015	1,101,667	$ 6.53	2.93	464,159
Unit options exercised	(16,667)	1.60	–	–
Unit options cancelled	(22,500)	7.62	–	–
Unit options granted	215,000	6.04	–	–
Balance, September 30, 2016	1,277,500	6.49	2.66	732,496
Unit options granted	292,500	6.28	–	–
Balance, December 31, 2016	1,570,000	6.45	2.87	732,496
Unit options exercised	(62,500)	1.60	–	–
Unit options cancelled	(20,000)	6.16	–	–
Unit options granted	295,000	6.17	–	–
Balance, September 30, 2017	1,782,500	6.58	2.63	903,324

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

13. Unitholders' equity (continued):

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

Balance, December 31, 2015	$	257
Unit options granted		56
Unit options exercised		(70)
Fair value adjustment		182
Balance, September 30, 2016	$	425
Balance, December 31, 2016	$	369
Unit options granted		60
Unit options exercised		(279)
Fair value adjustment		72
Balance, September 30, 2017	$	222

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

	September 30, 2017	September 30, 2016
Average expected Unit option holding period	1.62 years	1.60 years
Average expected volatility rate	15.16 %	18.18%
Average dividend yield	9.15%	9.25%
Average risk-free interest rate	1.36%	0.53%

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

13. Unitholders' equity (continued):

(d) Distributions

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

For the nine months ended September 30, 2017 and 2016, the REIT declared distributions on both Units and Class B LP Units of $15,785 and $10,442, respectively.

(e) DRIP

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

For the nine months ended September 30, 2017 and 2016, the REIT issued 356,812 and 345,336 Units under the DRIP for a stated value of $2,134 and $1,910, respectively.

14. Transactions with related parties:

Starlight Group Property Holdings Inc. ("Starlight") is considered a related party of the REIT as Starlight is controlled by the Chairman of the Board, President and Chief Executive Officer of the REIT, who is also a significant unitholder of the REIT. The REIT has engaged Starlight to perform certain services, as outlined below.

(a) Pursuant to an asset management agreement (the "Asset Management Agreement"), entered into with Starlight on December 14, 2012, Starlight is to perform asset management services for a base annual management fee calculated and payable on a monthly basis in arrears on the first day of each month equal to 0.35% of the sum of: (i) the historical purchase price of the properties; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties from the effective date.

14. Transactions with related parties (continued):

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

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

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

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

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

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

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

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

14. Transactions with related parties (continued):

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Asset management fees	$ 421	$ 304	$ 1,160	$ 876
Acquisition fees	–	239	536	239
Other expenses	26	32	113	112

At September 30, 2017, $150 (December 31, 2016 - $151) is included in accounts payable and accrued liabilities.

15. Finance costs:

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Interest on mortgages payable	$ 2,257	$ 1,786	$ 6,381	$ 5,254
Other interest expense and standby fees	37	75	100	268
Amortization of mortgage discounts	(5)	(31)	(45)	(94)
Amortization of financing costs	121	101	321	266
	$ 2,410	$ 1,931	$ 6,757	$ 5,694

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

16. Change in non-cash operating working capital:

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Deposits	$ (42)	$ (54)	$ (21)	$ (54)
Tenant and other receivables	(117)	(173)	360	326
Prepaid expenses and other assets	(102)	(142)	(576)	(735)
Tenant rental deposits and prepayments	(11)	(7)	(71)	144
Accounts payable and accrued liabilities	871	905	889	1,302
	$ 599	$ 529	$ 581	$ 983

17. Commitments and contingencies:

As at September 30, 2017, the REIT has entered into commitments for building renovations totalling $987, of which $785 has been accrued in accounts payable and accrued liabilities.

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

18. Segmented disclosure:

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

19. Capital management:

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

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

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

20. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

The REIT is subject to the risks associated with debt financing, including the risk of interest rates on floating-rate debt increasing before long-term fixed rate debt is arranged and existing mortgages may not be able to be refinanced on terms similar or more favourable than those currently in place.

The REIT's objective of managing interest rate risk is to minimize the volatility of interest expense which impacts earnings.

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

	Carrying value	
	September 30, 2017	December 31, 2016
Fixed-rate instruments:		
Mortgages payable	$ 286,088	$ 254,140

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

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

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

20. Risk management and fair values (continued):

(ii) Credit risk:

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

The REIT is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the consolidated statement of financial position. The REIT monitors its risk exposure regarding obligations with counterparties through the regular assessment of counterparties' credit positions.

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits, and geographically diversifying its portfolio. The REIT monitors outstanding receivables on a monthly basis to ensure a reasonable allowance is provided for all uncollectible amounts.

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

	September 30, 2017	December 31, 2016
0 to 30 days	$ 352	$ 86
31 to 90 days	144	324
Over 90 days	127	41
Total	$ 623	$ 451

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

20. Risk management and fair values (continued):

(b) Fair values:

The REIT uses various methods in estimating the fair values of its financial instruments and investment properties. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

The tables below presents the REIT's assets and liabilities recorded or disclosed at fair value on the condensed consolidated interim statements of financial position:

September 30, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 497,168	$ 497,168
Instalment notes receivable	–	1,140	–	1,140
Derivative instruments	–	569	–	569
	$ –	$ 1,709	$ 497,168	$ 498,877
Liabilities:				
Mortgages payable	$ –	$ 284,300	$ –	$ 284,300
Class B LP Units	27,948	–	–	27,948
	$ 27,948	$ 284,300	$ –	$ 312,248

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

20. Risk management and fair values (continued):

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

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

(i) Investment properties:

The REIT determines the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and the direct capitalization method, both of which are generally accepted appraisal methodologies. The key valuation assumptions of the REIT's investment properties are described in note 4 .

(ii) Instalment notes receivable:

The fair value of instalment notes receivable is estimated based on the present value of future receipts, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying instalment note, plus an estimated credit spread at the reporting date for a comparable financial instrument. The estimated fair value of instalment notes receivable at September 30, 2017 was approximately $1,140 (December 31, 2016 - $1,299).

20. Risk management and fair values (continued):

(iii) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at September 30, 2017 was approximately $284,300 (December 31, 2016 - $257,300).

(iv) Class B LP Units:

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

(v) Unit option liabilities:

Unit options granted are carried at fair value, estimated using the Black-Scholes option pricing model for option valuation using level 3 inputs as described in note 13(c).

(vi) Derivative instruments:

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

21. Subsequent events:

(a) Unit offering:

On October 20, 2017, the REIT issued 6,411,250 Units at a price of $6.28 per Unit for aggregate gross proceeds of approximately $40,263 (the “Offering”). The REIT intends to use the net proceeds of the Offering to fund potential future acquisitions and general trust purposes.

(b) Acquisitions:

On October 19, 2017, the REIT completed the acquisition of a 60,600 square foot office property located at 231 Shearson Crescent, Cambridge, Ontario for $15,750 plus closing costs. The purchase price was satisfied by cash on hand of $5,512 and mortgage financing of approximately $10,238, with an annual interest rate of 3.67% for a five year term.

On November 2, 2017, the REIT completed the acquisition of a 148,500 square foot office property located at 301 & 303 Moodie Drive, Ottawa, Ontario for $18,000 plus closing costs. The purchase price was satisfied by cash on hand of $6,300 and mortgage financing of approximately $11,700, with an annual interest of 3.53% for a five year term.

On November 6, 2017, the REIT completed the acquisition of a 34,400 square foot office property located at 810 Blanshard Street, Victoria, British Columbia for $11,300 plus closing costs. The purchase price was satisfied by cash on hand of $3,390 and mortgage financing of approximately $7,910, with an annual interest of 3.68% for a five year term.

On November 6, 2017, the REIT completed the acquisition of a 120,200 square foot office property located at 1595 16th Avenue, Richmond Hill, Ontario for $29,750 plus closing costs. The purchase price was satisfied by cash on hand of $10,250 and mortgage financing of approximately $19,500, with an annual interest of 3.46% for a five year term.

On October 11, 2017, the REIT announced it had agreed to acquire a 129,200 square foot office property located at 36 & 38 Solutions Drive, Halifax, Nova Scotia for $31,280 plus closing costs. The purchase price will be satisfied by cash on hand of $10,948 and mortgage financing of approximately $20,332, with an annual interest rate of 3.21% for a five year term. Closing of the property is expected to be on or about November 15, 2017.