Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three months ended March 31, 2019 and 2018
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	March 31, 2019	December 31, 2018
Assets		
Non-current assets:		
Investment properties (note 4)	$ 956,071	$ 928,137
Instalment notes receivable (note 5)	429	459
Deposits	788	788
Derivative instruments (note 11)	18	136
Total non-current assets	957,306	929,520
Current assets:		
Derivative instruments (note 11)	271	434
Tenant and other receivables (note 6)	2,335	2,655
Prepaid expenses and deposits	3,341	2,738
Instalment notes receivable (note 5)	129	134
Restricted cash	1,380	1,380
Cash and cash equivalents	1,668	2,492
Total current assets	9,124	9,833
Total assets	$ 966,430	$ 939,353
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 7)	$ 452,779	$ 481,184
Class B LP Units (note 8)	28,388	24,162
Total non-current liabilities	481,167	505,346
Current liabilities:		
Mortgages payable (note 7)	98,353	46,012
Credit facilities (note 9)	7,600	3,800
Tenant rental deposits and prepayments	4,421	4,526
Accounts payable and accrued liabilities (note 10)	17,625	16,579
Total current liabilities	127,999	70,917
Total liabilities	609,166	576,263
Unitholders' equity (note 12)	357,264	363,090
Total liabilities and unitholders' equity	$ 966,430	$ 939,353

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on May 8, 2019.

"William J. Biggar" Trustee

"Roland A. Cardy" Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2019 and 2018
(Unaudited)

	2019	2018
Revenue (note 14)	$ 25,767	$ 19,718
Expenses:		
Property operating	6,745	4,912
Realty taxes	4,202	3,180
Income before the undernoted	14,820	11,626
Other income (expense):		
General and administration expenses	(1,608)	(819)
Finance costs (note 15)	(5,100)	(3,442)
Distributions on Class B LP Units (note 8)	(634)	(634)
Fair value adjustment of Class B LP Units (note 8)	(4,226)	1,067
Fair value adjustment of investment properties (note 4)	(1,620)	10,605
Unrealized gain (loss) on change in fair value of derivative instruments (note 11)	(280)	65
Net income and comprehensive income for the period	$ 1,352	$ 18,468

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2019 and 2018
(Unaudited)

	Trust Unit capital (note 12(b))	Cumulative income and distributions	Total
Unitholders' equity, January 1, 2018	$ 245,259	$ 2,938	$ 248,197
Changes during the period:			
Units issued, net of costs	37,957	–	37,957
Net income and comprehensive income for the period	–	18,468	18,468
Distributions	–	(6,457)	(6,457)
Issue of units under DRIP (note 12(e))	812	–	812
Unitholders' equity, March 31, 2018	284,028	14,949	298,977
Changes during the period:			
Units issued, net of costs	54,209	–	54,209
Net income and comprehensive income for the period	–	31,152	31,152
Distributions	–	(24,052)	(24,052)
Issue of units under DRIP (note 12(e))	2,804	–	2,804
Unitholders' equity, December 31, 2018	341,041	22,049	363,090
Changes during the period:			
Units issued, net of costs	21	–	21
Net income and comprehensive income for the period	–	1,352	1,352
Distributions	–	(8,518)	(8,518)
Issue of units under DRIP (note 12(e))	1,319	–	1,319
Unitholders' equity, March 31, 2019	$ 342,381	$ 14,883	$ 357,264

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2019 and 2018
(Unaudited)

	2019	2018
Operating activities:		
Net income for the period	$ 1,352	$ 18,468
Adjustments for financing activities included in income:		
Finance costs (note 15)	5,100	3,442
Unrealized loss (gain) on change in fair value of derivative instruments (note 11)	280	(65)
Distributions on Class B LP Units (note 8)	634	634
Fair value adjustment of Class B LP Units (note 8)	4,226	(1,067)
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 4)	1,620	(10,605)
Unit-based compensation expense	465	(65)
Change in other non-cash operating items	289	(546)
Change in non-cash operating working capital (note 16)	(762)	3,072
Cash provided by operating activities	13,204	13,268
Investing activities:		
Acquisitions (note 3)	(24,474)	(12,525)
Additions to investment properties (note 4)	(4,478)	(962)
Cash used in investing activities	(28,952)	(13,487)
Financing activities:		
Proceeds from credit facilities	3,800	–
Proceeds from new mortgage financing, net of costs	27,565	22,994
Repayment of mortgages	–	(19,468)
Principal payments on mortgages	(3,873)	(2,861)
Payments received on instalment notes receivable (note 5)	35	39
Finance costs paid	(5,284)	(3,669)
Change in restricted cash	–	500
Proceeds (payments) from issuance of Units, net of costs	(2)	37,933
Cash distributions to unitholders	(7,317)	(5,458)
Cash provided by financing activities	14,924	30,010
Increase (decrease) in cash and cash equivalents	(824)	29,791
Cash and cash equivalents, beginning of period	2,492	7,416
Cash and cash equivalents, end of period	$ 1,668	$ 37,207
Supplemental cash flow information:		
Units issued under DRIP - unitholders	$ 1,190	$ 680
Units issued under DRIP - Class B LP Units	129	132
Mortgage assumed on acquisition of investment properties	–	10,643

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 a second 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, 2018. 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 on behalf of the Board of Trustees on May 8, 2019.

(b) Basis of presentation:

The REIT holds its interest in investment properties and other assets and liabilities related to the investment properties 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.

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"), trust 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 audited consolidated financial statements as at and for the year ended December 31, 2018.

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, 2018 except for the new accounting standards applied on January 1, 2019 as noted below:

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

The REIT adopted IFRS 16 on January 1, 2019 on a retrospective basis. IFRS 16 supersedes the following accounting standards: 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. IFRS 16 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 adoption of IFRS 16 did not have a significant impact to the condensed consolidated interim financial statements.

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

3. Acquisitions:

All acquisitions completed during the three months ended March 31, 2019 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:

	360 Laurier Avenue West
Acquisition Date	Feb 7, 2019
Net assets acquired:	
Investment properties (including acquisition costs of $842)	$ 25,342
Prepaid expenses and other assets	7
Tenant rental deposits	(27)
Accounts payable and accrued liabilities	(848)
	$ 24,474
Consideration:	
Cash on hand	$ 7,547
Mortgage financing, net of financing costs of $73	16,927
	$ 24,474

The REIT did not dispose of any investment properties during the three months ended March 31, 2019 and 2018.

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

4. Investment properties:

The following table summarizes the change in investment properties for the three months ended March 31, 2019 and 2018:

	Investment properties
Balance, December 31, 2017	$ 657,727
Acquisition	23,168
Additions	962
Amortization of leasing costs, tenant inducements and straight-line rents	571
Fair value adjustment	10,605
Balance, March 31, 2018	693,033
Acquisitions	235,937
Additions	7,955
Dispositions	(15,375)
Amortization of leasing costs, tenant inducements and straight-line rents	1,112
Fair value adjustment	5,475
Balance, December 31, 2018	928,137
Acquisition	25,342
Additions	4,478
Amortization of leasing costs, tenant inducements and straight-line rents	(266)
Fair value adjustment	(1,620)
Balance, March 31, 2019	$ 956,071

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

4. Investment properties (continued):

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

	March 31, 2019	March 31, 2018
Terminal and direct capitalization rates - range	4.75% to 10.25%	5.00% to 10.25%
Terminal and direct capitalization rate - weighted average	6.44%	6.79%
Discount rates - range	5.75% to 10.25%	6.00% to 10.25%
Discount rate - weighted average	7.21%	7.52%

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

	March 31, 2019	March 31, 2018
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (29,134)	$ (19,683)
25-basis points decrease	30,410	22,996
Weighted average discount rate:		
25-basis points increase	(27,303)	(19,183)
25-basis points decrease	28,392	21,790

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:

	March 31, 2019	December 31, 2018
Current	$ 129	$ 134
Non-current	429	459
Balance	$ 558	$ 593

6. Tenant and other receivables:

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

	March 31, 2019	December 31, 2018
Tenant receivables	$ 1,973	$ 2,247
Other receivables	362	408
	$ 2,335	$ 2,655

As at March 31, 2019, there is no impairment of tenant and other receivables.

7. Mortgages payable:

As at March 31, 2019, the REIT had $553,536 (December 31, 2018 - $529,660) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.42% (December 31, 2018 - 3.41%) after giving effect to the instalment note receipts, and a weighted average term to maturity of 3.65 years (December 31, 2018 – 3.85 years). All interest rates are fixed for the term of the respective mortgages except for six (December 31, 2018 – 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.

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

7. Mortgages payable (continued):

As at March 31, 2019, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2019 – remainder of year	$ 12,017	$ 31,519	$ 43,536	$ 13,903
2020	13,719	76,262	89,981	15,736
2021	12,937	26,737	39,674	14,302
2022	10,570	155,434	166,004	11,754
2023	4,199	141,596	145,795	4,877
Thereafter	7,236	61,310	68,546	6,633
Face value	$ 60,678	$ 492,858	$ 553,536	$ 67,205
Unamortized mark to market mortgage adjustments (2018 - $293)			285	
Unamortized financing costs (2018 - ($2,757))			(2,689)	
Total mortgages payable			$ 551,132	

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

	March 31, 2019	December 31, 2018
Current:		
Mortgages payable	$ 99,100	$ 46,880
Unamortized mark to market mortgage adjustments	32	33
Unamortized financing cost	(779)	(901)
	98,353	46,012
Non-current:		
Mortgages payable	454,436	482,780
Unamortized mark to market mortgage adjustments	253	260
Unamortized financing cost	(1,910)	(1,856)
	452,779	481,184
	$ 551,132	$ 527,196

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

8. Class B LP Units:

The Class B LP Units have economic and voting rights equivalent, in all material respects, to Units and are indirectly exchangeable on a one-for-one basis for Units at the option of the holder.

The following table summarizes the changes in Class B LP Units for the three months ended March 31, 2019 and 2018:

	Class B LP Units	Amount
Outstanding, December 31, 2017	4,268,837	$ 28,644
Fair value adjustment	–	(1,067)
Outstanding, March 31, 2018	4,268,837	$ 27,577
Fair value adjustment	–	(3,415)
Outstanding, December 31, 2018	4,268,837	24,162
Fair value adjustment	–	4,226
Outstanding, March 31, 2019	4,268,837	$ 28,388

During the three months ended March 31, 2019 and 2018, the distributions on Class B LP Units were $634 and $634, respectively, and have been recorded as an expense in the condensed consolidated interim statements of income and comprehensive income.

9. Credit facilities:

The REIT has two credit agreements with two Canadian chartered banks.

The $30,000 floating rate revolving secured credit facility bears interest on cash advances at 100 basis points per annum above the prime rate or 205 basis points per annum over the floating banker's acceptance rate. This facility is secured by certain investment properties and matures on February 28, 2020. As at March 31, 2019, $7,600 was drawn on this facility (December 31, 2018 – $3,800).

The $20,000 floating rate revolving unsecured credit facility bears interest on cash advances at 225 basis points per annum above the prime rate or 325 basis points per annum over the floating banker's acceptance rate and matures on December 1, 2020. This facility was undrawn as at March 31, 2019 and December 31, 2018.

On April 1, 2019, the REIT amended its secured credit facility to increase the amount available from $30,000 to $35,000 with no amendments to the interest rate and maturity date.

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

10. Accounts payable and accrued liabilities:

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

	March 31, 2019	December 31, 2018
Accounts payable and accrued liabilities	$ 12,611	$ 12,117
Finance costs payable	1,644	1,567
Distributions payable	2,843	2,832
Unit-based compensation liability	527	63
	$ 17,625	$ 16,579

11. Derivative instruments:

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

The notional principal amounts of the outstanding interest swap contracts at March 31, 2019 were $66,115 (December 31, 2018 – $66,712). Total unrealized gain (loss) on change in the fair value of the derivative instruments for the three months ended March 31, 2019 and 2018 was ($280) and $65, respectively.

12. 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)

12. Unitholders' equity (continued):

(b) Units outstanding:

The following table summarizes the changes in Units for the three months ended March 31, 2019 and 2018:

	Units	Amount
Balance, December 31, 2017	41,287,734	$ 245,259
Issue of Units for cash – public offering	6,325,000	40,290
Issue of Units – non-executive Trustee Unit issuance plan	3,651	24
Issue of Units – DRIP	126,069	812
Issuance costs	–	(2,357)
Balance, March 31, 2018	47,742,454	284,028
Issue of Units for cash – public offering	9,012,550	57,500
Issue of Units – non-executive Trustee Unit issuance plan	11,009	68
Issue of Units – DRIP	449,717	2,804
Issue of Units – options exercised	913	6
Issuance costs	–	(3,365)
Balance, December 31, 2018	57,216,643	341,041
Issue of Units – non-executive Trustee Unit issuance plan	3,427	23
Issue of Units – DRIP	215,419	1,319
Issue of Units – options exercised	2,000	13
Issuance costs	–	(15)
Balance, March 31, 2019	57,437,489	$ 342,381

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

12. 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 outstanding for the three months ended March 31, 2019 and 2018.

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2017	2,005,500	$ 6.51	2.89	902,482
Unit options granted	325,000	6.43	3.94	–
Unit options expired and cancelled	(415,000)	7.64	–	–
Outstanding, March 31, 2018	1,915,500	6.26	3.62	657,488
Unit options exercised	(24,999)	6.17	–	–
Unit options expired and cancelled	(59,001)	6.26	–	–
Unit options granted	329,000	6.66	4.47	–
Outstanding, December 31, 2018	2,160,500	6.32	3.15	970,474
Unit options exercised	(2,000)	6.43	–	–
Outstanding, March 31, 2019	2,158,500	$ 6.32	2.90	1,075,968

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

12. Unitholders' equity (continued):

Options outstanding as of March 31, 2019 consist of the following:

Exercise price	Unit options outstanding	Unit options exercisable	Expiry date
$6.15	480,000	480,000	January 8, 2020
$6.04	195,000	129,994	August 5, 2021
$6.28	247,500	164,991	November 14, 2021
$6.17	280,000	93,328	August 11, 2022
$6.44	306,166	101,827	November 16, 2022
$6.43	320,834	105,828	March 9, 2023
$6.66	329,000	–	September 20, 2023
	2,158,500	1,075,968	

For the three months ended March 31, 2019 and 2018, the amount of Unit-based compensation liability included in accounts payable and accrued liabilities is as follows:

Balance, December 31, 2017	$	351
Unit options exercised		23
Fair value adjustment		(88)
Balance, March 31, 2018	$	286
Balance, December 31, 2018	$	63
Unit options expense		23
Fair value adjustment		441
Balance, March 31, 2019	$	527

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

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

12. Unitholders' equity (continued):

	March 31, 2019	March 31, 2018
Average expected Unit option life	1.73 years	2.29 years
Average expected volatility rate	14.65%	15.46%
Average dividend yield	8.93%	9.20%
Average risk-free interest rate	1.60%	1.74%

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

(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.

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

For the three months ended March 31, 2019 and 2018, the REIT declared distributions of $8,518 and $6,457, respectively.

(e) Dividend reinvestment plan (“DRIP”):

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

For the three months ended March 31, 2019 and 2018, the REIT issued 215,419 and 126,069 Units under the DRIP for a stated value of $1,319 and $812, respectively.

13. Transactions with related parties:

Starlight Group Properties Holdings Inc. (“Starlight”) is considered to be 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 or an affiliate of 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, which was assigned to a Starlight affiliate effective January 1, 2018. 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.

(b) Pursuant to the Asset Management Agreement, Starlight’s affiliate 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’s affiliate 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’s affiliate 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.

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

13. Transactions with related parties (continued):

(e) The REIT reimburses Starlight's affiliate for all reasonable and necessary actual out-of-pocket costs and expenses incurred by Starlight's affiliate 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.

The following table presents the costs incurred for the three months ended March 31, 2019 and 2018:

	March 31, 2019	March 31, 2018
Asset management fees	$ 773	$ 566
Acquisition fees	245	228
Other expenses	24	23

Of these amounts, $282 (December 31, 2018 - $277) is included in accounts payable and accrued liabilities at March 31, 2019.

No incentive fees were earned or capital expenditure fees charged for the period ended March 31, 2019 or 2018.

14. Revenue:

The components of the REIT's revenues for the three months ended March 31, 2019 and 2018 are as follows:

	2019	2018
Base rent	$ 14,067	$ 11,044
Operating costs and realty taxes recoveries	10,828	7,969
Parking and other	872	705
	$ 25,767	$ 19,718

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

15. Finance costs:

The following table presents the financing costs incurred for the three months ended March 31, 2019 and 2018:

	2019	2018
Interest on mortgages payable	$ 4,672	$ 3,236
Other interest expense and standby fees	184	42
Amortization of mortgage discounts	(9)	–
Amortization of financing costs	253	164
	$ 5,100	$ 3,442

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three months ended March 31, 2019 and 2018 is as follows:

	2019	2018
Deposits	$ –	$ (269)
Tenant and other receivables	320	1,721
Prepaid expenses and deposits	(596)	1,006
Tenant rental deposits and prepayments	(132)	145
Accounts payable and accrued liabilities	(354)	469
	$ (762)	$ 3,072

17. Commitments and contingencies:

As at March 31, 2019, the REIT has entered into commitments for building renovations totalling $526 (December 31, 2018 - $1,040).

At March 31, 2019 and 2018, 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.

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

19. Capital management:

The REIT's capital management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2018.

The REIT was in compliance with all financial covenants as at March 31, 2019.

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 rising 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 March 31, 2019 and December 31, 2018, the REIT's interest-bearing financial instruments were:

	Carrying value	
	March 31, 2019	December 31, 2018
Fixed-rate instruments:		
Mortgages payable	$ 553,536	$ 529,660
Variable-rate instruments:		
Credit facilities	$ 7,600	$ 3,800

The REIT is exposed to interest rate risk on its floating-rate debt on certain of its properties which was mitigated by entering into interest rate swaps (note 11).

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

20. Risk management and fair values (continued):

An increase (decrease) of 100 basis points in interest rates at March 31, 2019 for the REIT's variable-rate financial instruments would have minimal impact on net income and comprehensive income for the period.

(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 statements 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 past due but not impaired amounts is as follows:

	March 31, 2019	December 31, 2018
0 to 30 days	$ 935	$ 530
31 to 90 days	275	54
Over 90 days	41	163
Total	$ 1,251	$ 747

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

20. Risk management and fair values (continued):

(b) Fair values:

The fair values of the REIT's financial assets and financial liabilities, except as noted below, approximate their carrying values due to their short-term nature.

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 measured or disclosed at fair value on the condensed consolidated interim statements of financial position:

March 31, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 956,071	$ 956,071
Instalment notes receivable	–	956	–	956
Derivative instruments	–	289	–	289
	$ –	$ 1,245	$ 956,071	$ 957,316
Liabilities:				
Mortgages payable	$ –	$ 551,500	$ –	$ 551,500
Class B LP Units	28,388	–	–	28,388
Unit-based compensation	–	–	527	527
	$ 28,388	$ 551,500	$ 527	$ 580,415

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

20. Risk management and fair values (continued):

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 928,137	$ 928,137
Instalment notes receivable	–	978	–	978
Derivative instrument	–	570	–	570
	$ –	$ 1,548	$ 928,137	$ 929,685
Liabilities:				
Mortgages payable	$ –	$ 528,500	$ –	$ 528,500
Class B LP Units	24,162	–	–	24,162
Unit-based compensation	–	–	63	63
	$ 24,162	$ 528,500	$ 63	$ 552,725

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

(i) Investment properties:

The REIT 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) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at March 31, 2019 was approximately $551,500 (December 31, 2018 - $528,500).

20. Risk management and fair values (continued):

(iii) Class B LP Units:

Pursuant to 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.