TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL RESULTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

November 6, 2019

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") for the three and nine months ended September 30, 2019 should be read in conjunction with the REIT's annual audited consolidated financial statements for the year ended December 31, 2018 and the condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 and 2018 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. 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 suggesting future outcomes or events.

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 applied in drawing a conclusion or making a forecast or projection, including management's perception 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 relatively 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., or any of its affiliates ("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"), same property net operating income ("Same Property NOI"), indebtedness ("Indebtedness"), gross book value ("GBV"), Indebtedness to GBV ratio, net earnings before interest, tax, depreciation and amortization and fair value gain (loss) on financial instruments ("Adjusted EBITDA"), interest coverage ratio, and adjusted cash provided by operating activities are not measures defined by 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, Same Property NOI, Indebtedness, GBV, Indebtedness to GBV ratio, Adjusted EBITDA, interest coverage 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 capital needs. The REIT calculates FFO in accordance with the guidelines set out by the Real Property Association of Canada ("Realpac"). Management considers this non-IFRS measure to be an important measure of the REIT's operating performance.

AFFO is an important performance measure to determine the sustainability of future distributions paid to holders of Units ("Unitholders"). In calculating AFFO, the REIT makes certain non-cash adjustments to FFO such as: amortization of fair value mark-to-market adjustments on assumed mortgages, amortization of deferred financing costs, straight-line rent, instalment note receipts and non-cash compensation expense related to Unit-based incentive plans and a deduction of a reserve for capital expenditures, tenant inducements, and leasing costs. The method applied by the REIT to calculate AFFO differs from the definition of AFFO as defined by Realpac. Management considers these non-cash adjustments important in determining the amount of sustainable cash available to fund future distributions to Unitholders.

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

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.

Same Property NOI is defined by the REIT as NOI for properties that were owned for an entire quarter or annual reporting period in both the current and comparative year. Adjustments are made to NOI to exclude non-cash items such as amortization of tenant inducements, leasing costs and straight-line rent. Same Property 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 excluding the impact attributable to acquisitions and dispositions.

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 EBITDA is defined by the REIT as net earnings before, where applicable, interest, taxes, depreciation, amortization and fair value gain (loss) on financial instruments and investment properties and excludes non-recurring items such as transaction costs on sale of investment properties.

The interest coverage ratio is used by the REIT to determine the REIT's ability to service the interest requirements of its outstanding debt. The ratio is calculated by dividing Adjusted EBITDA by the REIT's interest obligations for the period. Management considers this non-IFRS measure useful in assessing the REIT's ability to service its debt.

Adjusted cash provided by operating activities measures the amount of sustainable cash provided by operating activities less interest expense. Adjusted cash provided by operating activities is presented in this MD&A because management considers this non-IFRS measure to be an important measure in assessing the REIT's availability of cash flow for distribution.

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BASIS OF PRESENTATION

The REIT's condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018 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 and nine months ended September 30, 2019 ("Q3-2019"), and ("YTD-2019"), respectively, three and nine months ended September 30, 2018 ("Q3-2018") and ("YTD-2018"), respectively, and three months ended June 30, 2019 ("Q2-2019").

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 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 September 30, 2019, the REIT owned and operated a portfolio of 45 commercial properties across Canada consisting of approximately 3.7 million square feet.

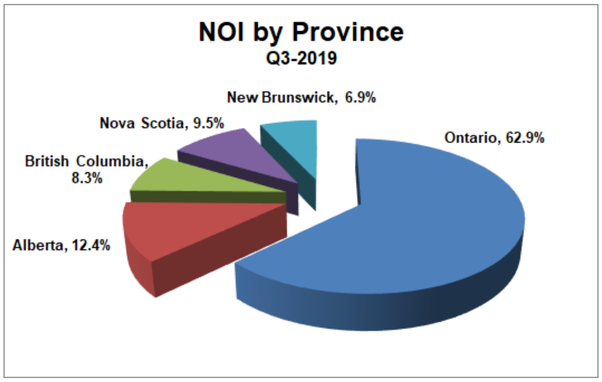
The objectives of the REIT are to:

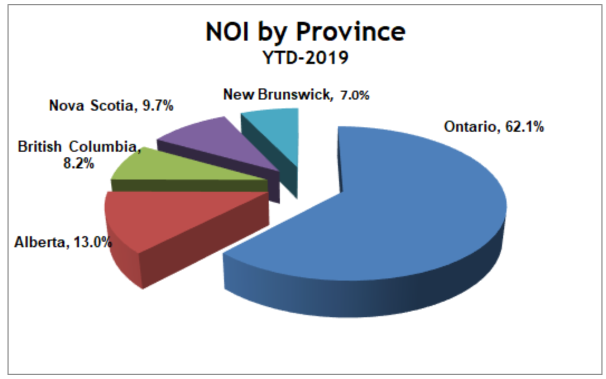
- generate stable cash distributions on a tax-efficient basis;
- expand the asset base of the REIT and increase its distributable cash flow through acquisitions of commercial rental properties across Canada and such other jurisdictions where opportunities exist; and
- enhance the value of the REIT's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

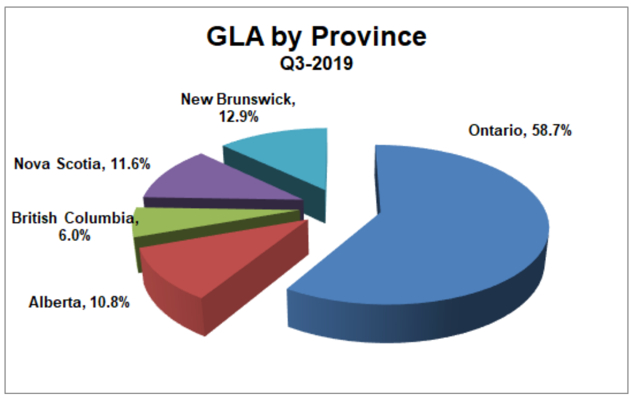
The REIT seeks to identify potential acquisitions using investment criteria that focus on the security of cash flow, capital appreciation, value enhancement through more efficient management of the assets being acquired and growth of FFO and AFFO per Unit.

PORTFOLIO OVERVIEW

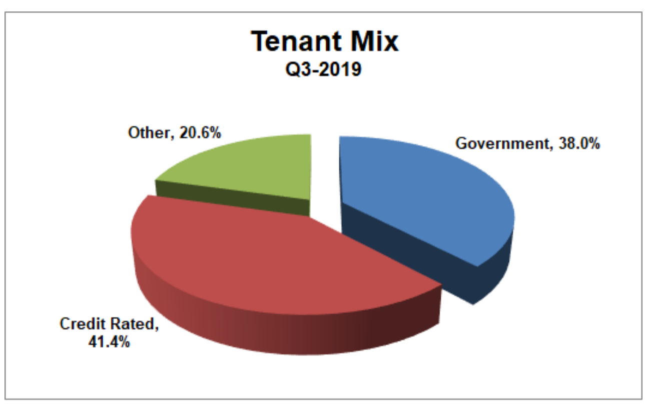
COMPOSITION BY GEOGRAPHIC REGION







TENANT MIX



The tenant mix is based on annualized gross revenue.

PORTFOLIO SUMMARY

At September 30, 2019, the REIT's portfolio was comprised of 45 office properties totaling approximately 3.7 million square feet of gross leasable area ("GLA"). The following tables highlight certain information about the REIT's properties as at September 30, 2019:

Property Name	City	Occupancy	Remaining Lease Term [1]	GLA
Alberta				
855 8th Avenue SW	Calgary	97%	1.8 years	75,700
4500 & 4520 - 16th Avenue NW	Calgary	94%	5.2 years	77,600
1020 68th Avenue NE	Calgary	100%	4.3 years	148,400
13140 St. Albert Trail	Edmonton	100%	1.6 years	95,200
British Columbia				
810 Blanshard Street	Victoria	100%	5.3 years	34,400
727 Fisgard Street	Victoria	100%	9.3 years	47,600
9200 Glenlyon Parkway	Burnaby	100%	7.3 years	90,600
32071 South Fraser Way	Abbotsford	100%	5.0 years	52,300
New Brunswick				
500 Beaverbrook Court	Fredericton	98%	2.6 years	55,600
295 Belliveau Avenue	Shediac	100%	2.3 years	42,100
410 King George Highway	Miramichi	60%	2.7 years	73,600
551 King Street	Fredericton	100%	2.8 years	85,300
495 Prospect Street	Fredericton	100%	2.5 years	85,000
845 Prospect Street	Fredericton	100%	2.4 years	39,000
414-422 York Street	Fredericton	86%	4.3 years	33,600
440-470 York Street	Fredericton	80%	3.0 years	60,100
Nova Scotia				
36 & 38 Solutions Drive	Halifax	97%	4.2 years	129,200
120, 130, 134 & 140 Eileen Stubbs Avenue	Halifax	90%	4.5 years	297,300

[1] Weighted by annualized gross revenue.

Property Name	City	Occupancy	Remaining Lease Term [1]	GLA
Ontario				
1595 16th Avenue	Richmond Hill	100%	2.2 years	120,200
251 Arvin Avenue	Hamilton	100%	4.8 years	6,900
61 Bill Leathem Drive	Ottawa	100%	3.3 years	148,100
777 Brock Road	Pickering	100%	3.4 years	98,900
400 Carlingview Drive	Toronto	100%	8.4 years	26,800
6865 Century Avenue	Mississauga	100%	2.1 years	63,800
1161 Crawford Drive	Peterborough	100%	2.5 years	32,500
197-199 Dundas Street	London	40%	2.2 years	20,200
520 Exmouth Street	Sarnia	100%	2.2 years	34,700
529-533 Exmouth Street	Sarnia	100%	2.4 years	15,400
5900 Explorer Drive	Mississauga	100%	0.9 years	40,000
3115 Harvester Road	Burlington	100%	2.9 years	78,800
135 Hunter Street East	Hamilton	100%	3.8 years	24,400
340 Laurier Avenue West	Ottawa	99%	1.1 years	279,100
360 Laurier Avenue West	Ottawa	100%	3.0 years	107,100
400 Maple Grove Road	Ottawa	100%	4.9 years	107,200
78-90 Meg Drive	London	100%	0.7 years	11,300
301 & 303 Moodie Drive	Ottawa	90%	5.4 years	148,500
8 Oakes Avenue	Kirkland Lake	100%	2.5 years	41,000
5160 Orbitor Drive	Mississauga	100%	10.5 years	31,400
534 Queens Avenue	London	100%	1.7 years	19,000
231 Shearson Crescent	Cambridge	100%	4.6 years	60,600
6 Staples Avenue	Richmond Hill	100%	14.0 years	122,000
2300 St. Laurent Boulevard	Ottawa	100%	5.4 years	37,500
3650 Victoria Park Avenue	Toronto	94%	3.8 years	154,500
80 Whitehall Drive	Markham	100%	8.7 years	60,800
5775 Yonge Street	Toronto	100%	4.5 years	274,100
Average/Total		97%	4.1 years	3,687,400

[1] Weighted by annualized gross revenue.

TENANT PORTFOLIO

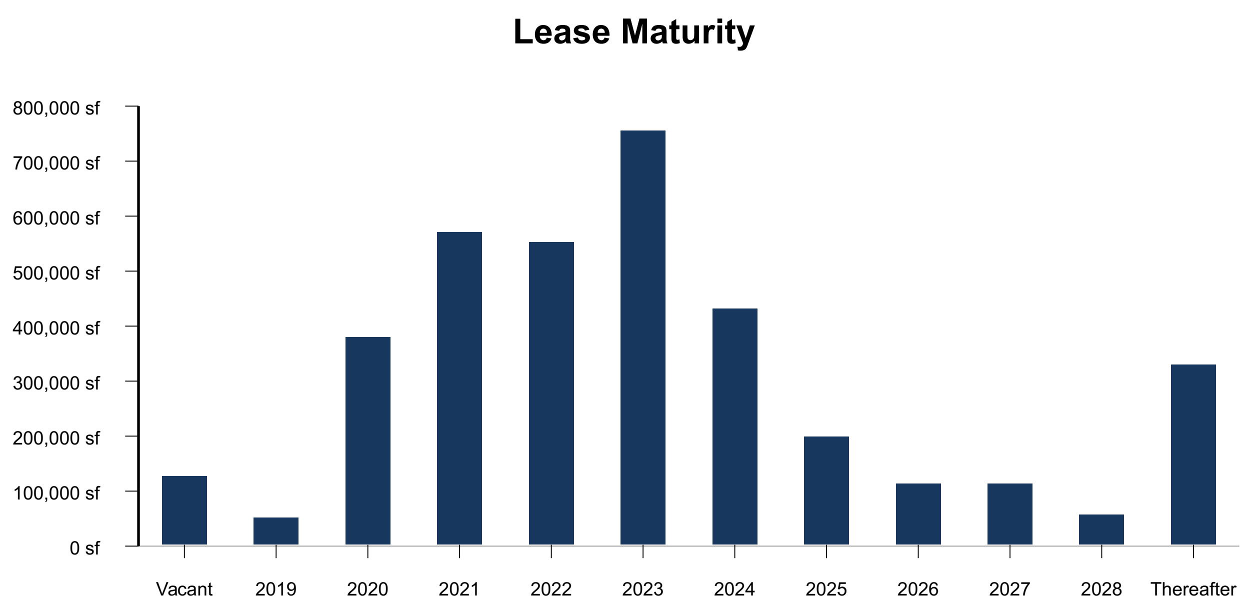
The REIT's 10 largest tenants as at September 30, 2019 were as follows:

Tenant	% of Gross Revenue	GLA	Remaining Lease Team [1]
Her Majesty the Queen - Correctional Services	6.9%	219,500	1.5 years
Meloche Monnex Inc.	3.7%	115,000	3.7 years
Lumentum Ottawa Inc.	3.1%	148,100	3.3 years
Her Majesty the Queen - Public Safety	3.0%	89,500	0.4 years
Ontario Power Generation Inc.	3.0%	98,900	3.4 years
Her Majesty the Queen - Management Board Secretariat	2.9%	82,500	1.9 years
Alberta Health Services	2.8%	70,700	5.1 years
Alberta Infrastructure	2.8%	103,700	2.5 years
LMI Technologies Inc.	2.8%	90,600	7.3 years
Staples Canada ULC	2.7%	122,000	14.0 years
	33.7%	1,140,500	3.9 years

[1] Weighted by annualized gross revenue.

LEASE ROLLOVER PROFILE

As at September 30, 2019 the lease rollover profile of the REIT was as follows:



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

THIRD QUARTER HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Portfolio				
Number of properties			45	45
Portfolio GLA			3,687,400 sf	3,692,400 sf
Occupancy rate			97%	97%
Remaining weighted average lease term			4.1 years	4.3 years
Revenue from government & credit-rated tenants			79.4%	78.6%
Financial				
Revenue	$25,668	$22,501	$76,924	$62,121
NOI	14,972	13,305	44,943	36,866
Net income and comprehensive income	9,145	10,000	22,753	29,957
Same Property NOI	13,243	12,912	34,344	33,912
Same Property NOI growth	2.6%	(2.6)%	1.3%	(2.7)%
FFO	$9,600	$8,558	$28,012	$23,892
FFO per Unit - Basic	0.15	0.14	0.45	0.45
FFO per Unit - Diluted	0.15	0.14	0.44	0.44
AFFO	$9,530	$8,326	$27,328	$23,006
AFFO per Unit - Basic	0.15	0.14	0.44	0.43
AFFO per Unit - Diluted	0.15	0.14	0.43	0.43
AFFO payout ratio - Diluted	102%	107 %	104%	104 %
Distributions declared	$9,824	$9,095	$28,160	$23,923

Q3-2019 revenue and NOI increased 14% and 13% compared to the same period in 2018. This was mainly due to the properties acquired in the latter half of 2018 and early 2019, offset by the disposition of two industrial properties in December 2018 and 417 Exeter Road, London, Ontario during the quarter. These dispositions are in line with the REIT's strategy to recycle capital and acquire office properties in urban markets.

	September 30, 2019	December 31, 2018
Debt		
Indebtedness to GBV ratio	52.0%	56.5%
Interest coverage ratio	2.97x	3.19x
Indebtedness - weighted average fixed interest rate	3.43%	3.41%
Indebtedness - weighted average term to maturity	3.22 years	3.85 years

Indebtedness to GBV ratio was positively impacted by the timing of cash on hand from the Unit offering in Q3-2019. During the quarter, indebtedness to GBV ratio decreased from 57.7% to 52.0%.

UNIT OFFERING

On September 12, 2019, the REIT completed the issuance of 12,201,500 Units at a price of $6.60 per Unit, including 1,591,500 Units issued on the full exercise of the over-allotment option, for aggregate gross proceeds of approximately $80,530 (the "Offering").

LEASING ACTIVITIES

During Q3-2019, the REIT contractually leased and renewed 140,921 square feet with an average lease term of 4.71 years with an average increase of approximately 7% over expiring rates. This included early lease renewals with the Ontario government tenant at 5775 Yonge Street, Toronto, Ontario totaling 55,465 square feet and the British Columbia government at 810 Blanshard Street, Victoria, British Columbia totaling 34,397 square feet, which extends each tenant's occupancy for a further five years.

SUBSEQUENT EVENTS

On November 4, 2019, the REIT acquired a 209,400 square foot office property located at 3699 63rd Avenue NE, Calgary, Alberta for approximately $100,500 plus closing costs. The purchase price was satisfied by cash on hand and first mortgage financing of approximately $65,325.

On October 24, 2019, the REIT announced it had agreed to acquire a 315,400 square foot office property located at 101 McNabb Street, Markham, Ontario for approximately $90,000 plus closing costs. The purchase price will be satisfied by cash on hand, first mortgage financing of approximately $63,000 and issuance of Units in an aggregate amount of $15,000 at a price per Unit equal to five day volume weighted average price as of five business days prior to closing. Closing is expected to be on or about November 15, 2019.

QUARTERLY INFORMATION

The following table provides select information pertaining to the REIT’s operations.

	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17
Revenue	$ 25,668	$ 25,489	$ 25,767	$ 24,947	$ 22,501	$ 19,902	$ 19,718	$ 16,364
Property operating costs	(10,696)	(10,338)	(10,947)	(10,506)	(9,196)	(7,967)	(8,092)	(6,421)
NOI	14,972	15,151	14,820	14,441	13,305	11,935	11,626	9,943
General and administration expenses	(1,387)	(1,041)	(1,608)	(644)	(783)	(854)	(819)	(742)
Finance costs	(5,053)	(5,181)	(5,100)	(4,836)	(4,169)	(3,610)	(3,442)	(2,846)
Transaction costs on sale of investment properties	(581)	—	—	(403)	—	—	—	—
Distributions on Class B LP Units	(634)	(634)	(634)	(634)	(634)	(634)	(634)	(638)
Fair value adjustment of Class B LP Units	(1,323)	171	(4,226)	4,140	86	(811)	1,067	(943)
Fair value adjustment of investment properties	3,195	3,891	(1,620)	7,913	2,065	(4,503)	10,605	(1,859)
Unrealized gain (loss) on change in fair value of derivative instruments	(44)	(101)	(280)	(314)	130	(34)	65	154
Net income and comprehensive income for the period	$ 9,145	$ 12,256	$ 1,352	$ 19,663	$ 10,000	$ 1,489	$ 18,468	$ 3,069
FFO per Unit - basic	$ 0.15	$ 0.15	$ 0.15	$ 0.14	$ 0.14	$ 0.15	$ 0.16	$ 0.15
AFFO per Unit - basic	$ 0.15	$ 0.15	$ 0.14	$ 0.14	$ 0.14	$ 0.15	$ 0.15	$ 0.15
AFFO per Unit - diluted	$ 0.15	$ 0.15	$ 0.14	$ 0.14	$ 0.14	$ 0.15	$ 0.14	$ 0.15
AFFO payout ratio - basic	101%	100%	106%	106%	106%	100%	102%	101%
AFFO payout ratio - diluted	102%	102%	108%	107%	107%	101%	104%	102%
Number of investment properties	45	46	46	45	45	41	40	39

Q3-2019 revenue and property operating costs increased compared to the previous quarter mainly due to higher operating cost recovery revenue and termination payments received at certain properties, partially offset by the disposition of 417 Exeter Road. The increase in property operating costs is mainly attributable to increased repairs and maintenance mainly in the Ontario and Alberta portfolio and utility expenses mainly in the Ontario portfolio, offset by lower seasonal costs. NOI decreased during the quarter mainly due to the disposition in Q3-2019.

General and administration expenses increased in Q3-2019 compared to the previous quarter due to an increase in the fair value adjustment of Unit options.

ANALYSIS OF FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the three and nine months ended September 30, 2019 and 2018 are summarized below.

	Three months ended September 30		Nine months ended September 30	
	2019	**2018**	**2019**	**2018**
Revenue	$ 25,668	$ 22,501	$ 76,924	$ 62,121
Expenses:				
Property operating costs	(6,580)	(5,519)	(19,534)	(15,162)
Realty taxes	(4,116)	(3,677)	(12,447)	(10,093)
NOI	$ 14,972	$ 13,305	$ 44,943	$ 36,866
Other income (expenses):				
General and administration expenses	(1,387)	(783)	(4,036)	(2,456)
Finance costs	(5,053)	(4,169)	(15,334)	(11,221)
Transaction costs on sale of investment property	(581)	—	(581)	—
Distributions on Class B LP Units	(634)	(634)	(1,902)	(1,902)
Fair value adjustment of Class B LP Units	(1,323)	86	(5,378)	342
Fair value adjustment of investment properties	3,195	2,065	5,466	8,167
Unrealized gain (loss) on change in fair value of derivative	(44)	130	(425)	161
Net income and comprehensive income	$ 9,145	$ 10,000	$ 22,753	$ 29,957

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 tenant inducements.

Property operating costs include building maintenance, heating, ventilation and air-conditioning, elevator, insurance, utilities, management fees and other operational costs.

The REIT's revenue increased 14% and NOI increased 13% from Q3-2018 mainly due to acquisitions completed in the latter half of 2018 and early 2019, as well as a 2.6% increase in Same Property NOI. This was partially offset by property dispositions in Q4-2018 and Q3-2019.

Occupancy for the portfolio increased to 97% from 96% during the quarter mainly due to new lease deals completed in the New Brunswick and Ontario portfolios.

SAME PROPERTY ANALYSIS

Same Property NOI includes investment properties that were owned for the full current and comparative reporting period.

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Number of properties	38	38	36	36
Revenue	$ 21,551	$ 21,223	$ 54,793	$ 54,819
Expenses:				
Property operating	(5,961)	(5,413)	(14,507)	(13,499)
Realty taxes	(3,606)	(3,489)	(9,023)	(8,871)
NOI	$ 11,984	$ 12,321	$ 31,263	$ 32,449
Add:				
Amortization of leasing costs and tenant inducements	620	204	1,498	648
Straight-line rent	639	387	1,583	815
Same Property NOI	$ 13,243	$ 12,912	$ 34,344	$ 33,912

Same Property Occupancy

	As at September 30	
	2019	2018
Alberta	97.2%	96.5%
British Columbia	100.0%	100.0%
New Brunswick	90.0%	91.1%
Nova Scotia	91.9%	96.0%
Ontario	98.2%	97.0%
Total	96.0%	96.0%

Same Property NOI

	Three months ended September 30			
	2019	2018	Variance	Variance %
Alberta	$ 1,649	$ 1,400	$ 249	17.8 %
British Columbia	437	429	8	1.9 %
New Brunswick	1,159	1,172	(13)	(1.1)%
Nova Scotia	1,546	1,623	(77)	(4.7)%
Ontario	8,452	8,288	164	2.0 %
	$ 13,243	$ 12,912	$ 331	2.6 %

Q3-2019 Same Property NOI increased 2.6% compared to the same period in 2018. Current and comparative periods include termination payments, project management fees and short term lease rental revenue. Excluding these items, Same Property NOI increased by 1.1% in the quarter and year to date.

Ontario, the REIT's largest portfolio, continues to experience steady growth in Same Property NOI. The Alberta portfolio continues to be positively impacted by termination payments received in the current year. Same Property NOI in Nova Scotia increased 2.4% excluding the termination payments received in the comparative period, mainly due to increased revenue from contractual rent step ups.

The REIT is focused on growth of Same Property NOI through the following initiatives:

- achieving positive leasing spreads on renewal with contractual rent step-ups throughout the term;
- competitive tendering of all expenses; and
- improving building efficiencies through energy saving initiatives.

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. 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 $604 or 77% in Q3-2019 and $1,580 or 64% in YTD-2019 compared to the same period in 2018 mainly due to an increase in asset management fees as a result of portfolio growth and the recognition of the change in the fair value of Unit options.

FINANCE COSTS

The REIT's finance costs for the three and nine months ended September 30, 2019 and 2018 are summarized below. Finance costs exclude cash distributions and fair value adjustments on Class B LP Units.

	Three months ended September 30		Nine months ended September 30	
	2019	**2018**	**2019**	**2018**
Interest on mortgages payable	$ 4,630	$ 3,922	$ 13,991	$ 10,540
Other interest expense and standby fees	152	48	568	138
Amortization of mortgage discounts (premiums)	(6)	2	(23)	4
Amortization of financing costs	277	197	798	539
Total finance costs	$ 5,053	$ 4,169	$ 15,334	$ 11,221

The increase in interest on mortgages payable in Q3-2019 and YTD-2019 is due to additional borrowing associated with the acquisitions in 2018 and beginning of 2019.

Other interest expense and standby fees relate to costs incurred on the REIT's credit facilities and increased by $104 in Q3-2019 and by $430 YTD-2019 due to the REIT's increased level of borrowing.

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 $634 in Q3-2019 and 2018 and $1,902 in YTD-2019 and 2018.

FAIR VALUE ADJUSTMENT OF CLASS B LP UNITS

The fair value change in Class B LP Units represents the change in the trading price of the Units (given the Class B LP Units have economic and voting rights equivalent, in all material aspects, to the Units). Any resulting change in the fair value of the Class B LP Units is reported in the period such change occurs. The fair value loss of $1,323 was Q3-2019 is due to an increase in the trading price of the Units from $6.61 at June 30, 2019 to $6.92 at September 30, 2019. The fair value loss of $5,378 in YTD-2019 was due to an increase in the trading price of the Units from $5.66 at December 31, 2018 to $6.92 at September 30, 2019.

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 adjustments in the statement of income and comprehensive income 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 gain of $3,195 for Q3-2019 (YTD-2019 - $5,466) was comprised of an increase in fair value of $5,547 (YTD-2019 - $15,262) as a result of increased future cash flows from positive leasing activity, offset by the write off of $2,352 (YTD-2019 - $9,796) of capital expenditures and acquisition costs.

The key valuation assumptions for the REIT's investment properties as at September 30, 2019 and 2018 are as follows:

	September 30, 2019	**September 30, 2018**
Terminal and direct capitalization rates - range	4.75% to 10.25%	5.00% to 10.25%
Terminal and direct capitalization rate - weighted average	6.39%	6.63%
Discount rates - range	5.75% to 10.25%	6.00% to 10.25%
Discount rate - weighted average	7.19%	7.36%

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 in the statements of income and comprehensive income.

The notional principal amounts of the outstanding interest rate swap contracts at September 30, 2019 were $64,909 (December 31, 2018 – $66,712). Unrealized loss on change in the fair value of the derivative instruments totaled $44 in Q3-2019 ($425 - YTD-2019) compared to unrealized gain of $130 in Q3-2018 ($161 - YTD-2018).

FFO AND AFFO

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

	Three months ended September 30		Nine months ended September 30	
	2019	**2018**	**2019**	**2018**
Net income and comprehensive income	$ 9,145	$ 10,000	$ 22,753	$ 29,957
Add (deduct):				
Fair value adjustment of Unit-based compensation	447	1	855	26
Transaction costs on sale of investment property	581	—	581	—
Fair value adjustment of investment properties	(3,195)	(2,065)	(5,466)	(8,167)
Fair value adjustment of Class B LP Units	1,323	(86)	5,378	(342)
Distributions on Class B LP Units	634	634	1,902	1,902
Unrealized loss (gain) on change in fair value of derivative instruments	44	(130)	425	(161)
Amortization of leasing costs and tenant inducements	621	204	1,584	677
FFO	$ 9,600	$ 8,558	$ 28,012	$ 23,892
Add (deduct):				
Non-cash compensation expense	39	27	$ 99	$ 80
Amortization of financing costs	277	197	798	539
Amortization of mortgage discounts	(6)	2	(23)	4
Instalment note receipts	34	46	123	141
Straight-line rent	519	357	1,089	730
Capital reserve [(1)]	(933)	(861)	(2,770)	(2,380)
AFFO	$ 9,530	$ 8,326	$ 27,328	$ 23,006
FFO per Unit:				
Basic	$ 0.15	$ 0.14	$ 0.45	$ 0.45
Diluted	$ 0.15	$ 0.14	$ 0.44	$ 0.44
AFFO per Unit:				
Basic	$ 0.15	$ 0.14	$ 0.44	$ 0.43
Diluted	$ 0.15	$ 0.14	$ 0.43	$ 0.43
AFFO payout ratio:				
Basic	101%	106%	102%	103%
Diluted	102%	107%	104%	104%
Distributions declared	$ 9,824	$ 9,095	$ 28,160	$ 23,923
Weighted average Units outstanding (000s):				
Basic	64,552	59,362	62,660	53,120
Add:				
Unexercised Unit options	1,158	727	1,078	674
Diluted	65,710	60,089	63,738	53,794

Notes:

(1) Based on an estimate of $1.00 (2018 - $1.00) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

FFO and AFFO for Q3-2019 totaled $0.15 per Unit. This is an increase of $0.01 per Unit over the comparable period in the prior year. The increase was primarily due to an increase in NOI generated from acquisitions completed in the latter half of 2018 and early 2019, as well as a positive contribution from Same Property NOI. This was offset by the property dispositions in December 2018 and Q3-2019 as well as increased finance costs.

Year to date FFO basic and diluted per Unit remained at $0.45 and $0.44, respectively, compared to the same period in 2018. YTD-2019 AFFO basic per Unit increased by $0.01 to $0.44 compared to YTD-2018 and AFFO diluted per Unit remained at $0.43 in both periods.

AFFO basic and diluted payout ratios were negatively impacted by the Offering as the ratios are based on a larger number of Units outstanding without the immediate benefit of increased NOI generated from property acquisitions. Excluding this timing differential, AFFO basic and diluted payout ratio would be 98% and 100% for Q3-2019, and 101% and 103% for YTD-2019, respectively.

DISTRIBUTIONS

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

The trustees of the REIT ("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 Investment". 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 September 30	Nine months ended September 30	Years ended December 31	
	2019	**2019**	**2018**	**2017**
Distributions declared	$ 9,824	$ 28,160	$ 33,045	$ 22,544
Less: DRIP	(1,451)	(4,145)	(3,616)	(2,849)
Cash distributions paid	$ 8,373	$ 24,015	$ 29,429	$ 19,695

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 September 30	Nine months ended September 30	Years ended December 31	
	2019	**2019**	**2018**	**2017**
Net income and comprehensive income	$ 9,145	$ 22,753	$ 49,620	$ 28,746
Cash flow provided by operating activities	14,345	40,336	53,311	30,389
Less: Interest paid	(4,812)	(14,555)	(14,811)	(8,980)
Adjusted cash flow provided by operating activities	9,533	25,781	38,500	21,409
Declared basis:				
Excess (shortfall) of net income and comprehensive income over distributions	(679)	(5,407)	16,575	6,202
Excess (shortfall) of adjusted cash flow provided by operating activities over distributions	(291)	(2,379)	5,455	(1,135)
Cash basis:				
Excess (shortfall) of net income and comprehensive income over distributions	772	(1,262)	20,191	9,051
Excess of adjusted cash flow provided by operating activities over distributions	1,160	1,766	9,071	1,714

Net income and comprehensive income was lower than distributions declared during the quarter by $679, however exceeded cash distributions by $772. The shortfall in net income and comprehensive income over declared and cash distributions for YTD-2019 was $5,407 and $1,262, primarily due to the fair value adjustments on Class B LP Units which is a non-cash adjustment.

Adjusted cash flow provided by operating activities in Q3-2019 was less than declared distributions by $291 but exceeded cash distributions by $1,160, and was lower than declared distributions by $2,379 in YTD-2019 but exceeded cash distributions by $1,766. The shortfall was mainly due to the timing of the payments of tenant inducements. The REIT has not been required to fund distributions from alternate sources such as debt, mortgages and other financing instruments.

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 of cash generated by operations and available for distribution to Unitholders. See “Distributions”.

	Three months ended September 30		Nine months ended September 30	
	2019	**2018**	**2019**	**2018**
Adjusted cash flow provided by operating activities	$ 9,533	$ 7,913	$ 25,781	$ 26,956
Non-cash compensation expense	(18)	(24)	(58)	(70)
Change in finance costs payable	30	(264)	(4)	(354)
Instalment note receipts	34	46	123	141
Capital reserve	(933)	(861)	(2,770)	(2,380)
Change in non-cash operating working capital	884	1,516	4,256	(1,287)
AFFO	$ 9,530	$ 8,326	$ 27,328	$ 23,006

AFFO of $9,530 was less than distributions declared by $294 and exceeded distributions paid by $1,157 in Q3-2019. YTD-2019 AFFO of $27,328 was less than distributions declared by $832 and exceeded distributions paid by $3,313. The REIT expects to be able to fund distributions from adjusted cash flow provided by operating activities on a go forward basis.

CAPITAL RESERVE

The REIT considers many factors when determining an appropriate capital reserve. Items such as, property age and asset class, tenant mix, prior capital investment, lease term, recoverability from tenants and current market conditions are all considered. The REIT also engages independent expert consulting firms to perform a comprehensive property condition assessment prior to the acquisition of a property. The report contains a five or ten year projection of estimated sustaining capital expenditures. The detailed analysis considers the quality of construction, age of the building, use of the property, recent capital expenditures and anticipated future maintenance requirements. The estimates generated by the independent consultants help form the basis for estimating the REIT’s on-going reserve. The REIT reviews its capital reserve estimate on an annual basis and makes appropriate adjustments.

The REIT includes a normalized capital reserve adjustment based on historical experience when arriving at AFFO as recoverable and non-recoverable capital expenditures, tenant inducements and leasing costs are fundamental to the operating activities of a real estate company and are not considered discretionary investments. These expenditures are required to preserve rental income and should be taken into consideration when determining the amount of sustainable cash available to fund future distributions. The capital reserve adjustment is an estimate and there is no guarantee that future capital expenditures will reflect historical trends.

LIQUIDITY AND CAPITAL INVESTMENT

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 13, 2019. 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) variable Credit Facilities; and (iv) issuances of debt and equity. Management's objective is to maintain conservative leverage through the use of long term, fixed rate, debt financing. Management also intends to continue to access the equity market and grow through acquisitions thereby strengthening the balance sheet.

The REIT's available funds are as follows:

		September 30, 2019		December 31, 2018
Cash	$	58,757	$	2,492
Undrawn Credit Facilities		55,000		46,200
Available funds	$	113,757	$	48,692

CAPITAL INVESTMENT

The REIT's properties require ongoing capital expenditures and leasing expenditures. Leasing expenditures include tenant inducements, 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 its properties throughout 2019 and beyond. Expenditures are expected to be funded through cash flow generated by operations, the Credit Facilities and cash on hand. For the nine months ended September 30, 2019 and 2018, the REIT invested $10,117 and $5,193 respectively, in capital and leasing expenditures.

ASSET PROFILE

INVESTMENT PROPERTIES

The following table summarizes changes in the REIT's investment properties for the nine months ended September 30, 2019 and 2018:

Balance, December 31, 2017	$ 657,727
Acquisitions	216,999
Additions	5,193
Amortization of leasing costs, tenant inducements and straight-line rents	1,365
Fair value adjustment	8,167
Balance at September 30, 2018	889,451
Acquisitions	42,106
Additions	3,724
Dispositions	(15,375)
Amortization of leasing costs, tenant inducements and straight-line rents	318
Fair value adjustment	7,913
Balance at December 31, 2018	928,137
Acquisitions	25,342
Additions	10,117
Dispositions	(8,700)
Amortization of leasing costs, tenant inducements and straight-line rents	(1,163)
Fair value adjustment	5,466
Balance at September 30, 2019	**$ 959,199**

ACQUISITIONS & DISPOSITIONS

During 2019, the REIT acquired a property located at 360 Laurier Avenue West, Ottawa, Ontario for a purchase price of $24,500 plus closing costs. The REIT funded the acquisition from the proceeds of the sale of two industrial properties in 2018 and new mortgage financing. The acquisition has been accounted for as an asset acquisition.

On July 25, 2019, the REIT disposed of 417 Exeter Road, London, Ontario for a sale price of $8,700.

ADDITIONS

Additions to investment properties for the nine months ended September 30, 2019 were $10,117, consisting of the following:

- Capital expenditures of $1,581 mainly for common area renovations, boiler and lighting upgrades at certain properties; and
- Tenant inducements and leasing costs of $8,536, which include costs incurred to improve space and leasing commissions paid to renew and obtain new 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, co-terminously with the assumed mortgages. At September 30, 2019, the REIT had $422 in instalment notes receivable compared to $593 at December 31, 2018.

PREPAID EXPENSES AND DEPOSITS

At September 30, 2019, the REIT had $6,279 in prepaid expenses and deposits, compared to $2,738 at December 31, 2018. The increase is due to an increase in prepaid realty taxes and deposits related to property acquisitions expected to close in Q4-2019. See "Subsequent Events".

DEBT

MORTGAGES PAYABLE

The following table sets out, as at September 30, 2019, scheduled principal repayments and amounts maturing on the REIT's mortgages over each of the next five fiscal years:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Percentage of total mortgages payable	Weighted average interest rate of maturing debt	Scheduled interest payments
2019 – remainder of year	$ 3,936	$ 23,312	$ 27,248	5.0%	3.42%	$ 4,501
2020	13,649	76,262	89,911	16.8%	3.05%	15,689
2021	12,894	23,247	36,141	6.7%	2.82%	14,286
2022	10,689	155,434	166,123	31.0%	3.31%	11,866
2023	4,322	141,596	145,918	27.2%	3.65%	4,984
Thereafter	7,321	63,925	71,246	13.3%	3.79%	6,702
	$ 52,811	$ 483,776	$ 536,587	100.0%	3.43%	$ 58,028
Unamortized mark to market mortgage adjustments			258			
Unamortized financing costs			(2,447)			
			$ 534,398			

The mortgages have a weighted average fixed interest rate of 3.43% (December 31, 2018 – 3.41%), after giving effect to the instalment notes receipts and a weighted average term to maturity of 3.22 years (December 31, 2018 – 3.85 years).

CREDIT FACILITIES

The REIT has two credit facilities available from two Canadian chartered banks ("Credit Facilities").

The $35,000 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 September 30, 2019, $0 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 above the floating banker's acceptance rate and matures on December 1, 2020. This credit facility was undrawn as at September 30, 2019 and December 31, 2018.

INDEBTEDNESS TO GBV

As at September 30, 2019, the REIT's overall leverage, as represented by the ratio of Indebtedness to GBV was 52.0% compared to 56.5% at December 31, 2018. The Indebtedness to GBV ratio was positively impacted by the timing of the REIT's Offering and deployment of funds into property acquisitions. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT’s Indebtedness to GBV ratio as at September 30, 2019 and December 31, 2018.

	September 30, 2019	December 31, 2018
Total assets	$ 1,028,064	$ 939,353
Deferred financing costs	4,486	4,158
GBV	$ 1,032,550	$ 943,511
Mortgages payable	$ 534,398	$ 527,196
Credit Facilities	—	3,800
Unamortized financing costs and mark to market mortgage adjustments	2,189	2,464
Indebtedness	$ 536,587	$ 533,460
Indebtedness to GBV	**52.0%**	**56.5%**

The REIT’s objectives are to maintain a combination of short, medium and long-term debt 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 September 30, 2019, 0% (December 31, 2018 - 0.7%) of the REIT’s debt was at floating rates.

ADJUSTED EBITDA AND INTEREST COVERAGE RATIO

The interest coverage ratio is useful in determining the REIT's ability to service the interest requirements of its outstanding debt. The ratio is calculated by dividing Adjusted EBITDA by the REIT's interest obligations for the period. Adjusted EBITDA removes the non-cash impact of fair value changes and non-recurring items such as transaction costs on sale of investment properties from net income and comprehensive income.

The following is the reconciliation of net income and comprehensive income to Adjusted EBITDA:

	Twelve months ended September 30	
	2019	**2018**
Net income and comprehensive income	$ 42,416	$ 33,026
Add (deduct):		
Interest expense	19,174	13,387
Fair value adjustment of Unit-based compensation	440	155
Transaction costs on sale of investment property	984	—
Fair value adjustment of investment properties	(13,379)	(6,308)
Fair value adjustment of Class B LP Units	1,238	601
Distributions on Class B LP Units	2,536	2,540
Unrealized loss (gain) on change in fair value of derivative instruments	739	(314)
Amortization of leasing costs, tenant inducements, mortgage premium (discounts) and financing costs	2,889	1,478
Adjusted EBITDA	**$ 57,037**	**$ 44,565**

The following is a calculation of interest coverage ratio:

	Twelve months ended September 30	
	2019	**2018**
Adjusted EBITDA	$ 57,037	$ 44,565
Interest expense	19,174	13,387
Interest coverage ratio	2.97x	3.33x

Interest coverage ratio for the twelve months ended September 30, 2019 decreased compared to the same period in 2018 due to higher interest incurred on the Credit Facilities and additional mortgage interest.

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

As at September 30, 2019 there were 4,268,837 Class B LP Units issued and outstanding. The Class B LP Units were valued at $29,540 as at September 30, 2019 compared to $24,162 as at December 31, 2018. The change in value is due to an increase in the Unit price from $5.66 at December 31, 2018 to $6.92 at September 30, 2019.

There have been no changes in the Class B LP Units outstanding as of November 6, 2019.

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 nine months ended September 30, 2019:

	Units	Amount
Balance at December 31, 2018	57,216,643	$ 341,041
Issue of Units for cash - public offering	12,201,500	80,530
Issuance of Units - non-executive Trustee Unit issuance plan	3,427	23
Issuance of Units - DRIP	654,066	4,145
Issuance of Units - options exercised	62,269	440
Issuance costs	—	(4,378)
Balance at September 30, 2019	70,137,905	$ 421,801

The number of Units outstanding as of November 6, 2019 is as follows:

Balance at September 30, 2019	70,137,905
Issuance of Units - DRIP	77,297
Balance at November 6, 2019	70,215,202

INCENTIVE UNIT PLAN

On June 10, 2019, the REIT established an incentive trust unit plan (the "Incentive Unit Plan") to replace the non-executive Trustee Unit issuance plan and the Unit-based compensation plan (collectively, the "Plans"). The previous Plans granted Units and options, the new Incentive Unit Plan issues two types of units: (i) deferred Units; and (ii) restricted Units (collectively "Incentive Units").

Deferred Units are granted to the non-executive Trustees as part of each Trustee's annual board retainer and meeting fees and vest immediately.

The Trustees may, at their discretion, grant restricted Units to certain Trustees, officers of the REIT and its subsidiaries and certain eligible service providers, subject to certain restrictions (such as vesting requirements) as the Trustees may impose. The Trustees may not extend any vesting conditions beyond November 30 of the third calender year from grant date.

Incentive Units granted pursuant to under the Incentive Unit Plan are comparable to that of the previous Plans and will continue to be classified as liabilities within the REIT's statement of financial position. Unit based compensation expense is recognized in net income and comprehensive income over the vesting period of the Incentive Units. Fair value adjustments are made upon the revaluation of the Incentive Units at each reporting period and recorded in net income and comprehensive income. The fair value of deferred Units as at September 30, 2019 was $74. No restricted Units were issued as at September 30, 2019.

UNIT OPTION PLAN

On June 10, 2019 the Plans were suspended and no further options will be granted. Options that have or will vest are still eligible to be exercised prior to the applicable expiry dates.

Options outstanding at September 30, 2019 consist of the following:

Exercise price [(1)]	Unit Options Outstanding	Unit Options exercisable	Expiry Date
$6.15	225,000	225,000	January 8, 2020
$6.04	175,000	175,000	August 5, 2021
$6.28	234,168	151,659	November 14, 2021
$6.17	263,334	169,994	August 11, 2022
$6.44	302,833	98,494	November 16, 2022
$6.43	317,501	102,495	March 9, 2023
$6.66	329,000	109,660	September 20, 2023
	1,846,836	1,032,302	

(1) In actual dollars.

SHORT FORM BASE SHELF PROSPECTUS

On June 1, 2018, 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) preferred Units; (iii) unsecured debt securities; (iv) subscription receipts exchangeable for Units and/or other securities of the REIT; (v) warrants exercisable to acquire Units and/or other securities of the REIT; and (vi) 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 $300,000.

In Q3-2019, the REIT issued 12,201,500 Units for gross proceeds of $80,530 pursuant to the Prospectus. As at December 31, 2018, the REIT had issued 9,012,550 Units for gross proceeds of $57,500 pursuant to the Prospectus. Total Units issued under the Prospectus at September 30, 2019 was 21,214,050 Units for gross proceeds of $138,030.

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 September 30, 2019, the REIT had entered into commitments for building renovations totaling $1,334 (December 31, 2018 - $1,040).

At September 30, 2019, 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 REIT's CEO and 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 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 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 acquired in each fiscal year;
- 0.75% of the purchase price of a property on the next $100,000 of properties acquired in each fiscal year; and
- 0.50% of the purchase price on properties acquired in excess of $200,000 in each fiscal year.

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

The following table presents the expenses incurred for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Asset management fees	$ 794	$ 687	$ 2,358	$ 1,851
Acquisition fees	—	741	245	1,800
Other expenses	73	22	119	66
Total	$ 867	$ 1,450	$ 2,722	$ 3,717

At September 30, 2019, $8 (December 31, 2018 - $277) was included in accounts payable and accrued liabilities. No incentive fees were earned or capital expenditure fees were charged for the three and nine months ended September 30, 2019 and 2018.

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 the REIT's annual MD&A dated March 13, 2019 for the year ended December 31, 2018 and in the AIF. The annual MD&A and AIF are available on SEDAR at www.sedar.com. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

Management is not aware of any significant changes in risks and uncertainties since March 13, 2019.

USE OF ESTIMATES

The preparation of the REIT's condensed consolidated interim 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 condensed consolidated interim financial statements.

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

INVESTMENT PROPERTIES

The estimates used when determining the fair value of investment properties are discount, terminal capitalization and capitalization rates and future cash flows. The discount, terminal capitalization and capitalization rates applied are reflective of the characteristics, location and market of the investment property. The future cash flows of an investment property are based upon rental income from current leases and assumptions about occupancy rates and market rents from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. Management determines fair value by 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 the 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. Unit options granted are carried at fair value which is estimated using the Black Scholes option pricing model.

FINANCIAL INSTRUMENTS

Financial assets are classified and measured using one of the following methods: (i) fair value through profit and loss ("FVTPL"); (ii) fair value through other comprehensive income ("FVTOCI") and (iii) amortized cost. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified at FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as FVTOCI are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income. The REIT derecognizes a financial asset when the contractual rights to the cash flows from the asset expire. Financial liabilities may be designated at FVTPL upon initial recognition.

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

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument. Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred. Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

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 Credit Facilities, tenant rental deposits and prepayments, accounts payable and accrued liabilities approximate their recorded values due to their short-term nature.

The fair value of mortgages payable disclosed in the notes to the REIT’s condensed consolidated interim financial statements 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.

Derivative instruments, such as interest rate swaps, are valued using a valuation technique. 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.

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

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

The REIT implemented the following new standard effective January 1, 2019.

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.

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 condensed consolidated interim 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 the REIT will be continually evolving and enhancing its systems of controls and procedures.

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

The CEO and CFO evaluated the effectiveness of the REIT’s disclosure controls and procedures (as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings* (“NI 52-109”) and concluded that the design and operation of the REIT’s disclosure controls and procedures were effective for the three and nine months ended September 30, 2019.

The CEO and CFO evaluated the design and effectiveness of the REIT’s internal controls over financial reporting (as defined in NI 52-109) and concluded that the design and effectiveness of internal controls over financial reporting continue to be appropriate and were effective for the three and nine months ended September 30, 2019.

OUTLOOK

On October 30, 2019 the Bank of Canada ("BoC") announced they would maintain their overnight lending rate at 1.75 percent, in line with analyst's and the market's expectations, and status quo since October 2018. While the BoC decided to remain unmoved, despite over 30 other central banks having lowered their rates in the past 2 quarters, they acknowledge that persistent global headwinds are beginning to have a material effect on growth, as expected. Weighing these factors, a rate cut in December should be viewed with high probability, barring unforeseen circumstances, as it is now clear the economy is moving towards recession rather than expansion.

The Canadian economy remains steady, growing moderately on the backs of strong hiring and wage growth, and a resurgence in the housing market which has been fueled by the BoC's cessation of rate hikes, and talk of cuts. This is more than balanced out by depressed global trade which suppresses the export sector, a rising dollar which further holds back the export sector, and reduced business investment. Challenges to the energy sector, with transportation issues, lower investment and export demand, further compound the headwinds.

Moving forward, the BoC states it will more strongly look at taking action (such as rate cut) if the most resilient sectors of the economy, housing and consumer consumption, begin to show signs of slowing down.

In a rare coincidence, the US Federal Reserve had its rate announcement on the same day and elected to lower its target range for the third straight time, down to 1.50% - 1.75%. The impact of that decision was factored in by the BoC in their forecasts and will add further pressure to cut rates at their December 4th meeting, as the 'hot flow' of money from the United States to Canada will further drive up the dollar, hurting exports even further.

The outlook in the primary markets where the REIT is active remains positive. The Halifax economy has been exceeding expectations, nearing the highest growth rate of the decade, forecast to reach 2.6% in 2020. This has fueled a population influx and jobs boom to keep pace with migration. The office vacancy rate has remained flat, with new supply being quickly absorbed, and asking rental rates rising over 7% in the past quarter to $14.81 psf.

Similarly, Ottawa's flat vacancy belies an active leasing market as technology and Government users jockey for limited space, with Class A Downtown vacancy currently at 4.0%. With no new construction in the pipeline, this is driving asking rents higher. The lack of options is driving a boom in short-term co-working options, as tenants buy time before finding permanent space.

The Greater Toronto Area markets continue to outperform, with North American-low vacancy in the Downtown nodes (2.2%) causing positive spillover absorption in the suburban nodes. Of note, Toronto North and East have seen declines in availability of approximately 1% over the past twelve months (now 10.3%, and 12.2% respectively).

The BoC's outlook on the overnight rate likely heading lower in 2020 is net positive for the REIT in that borrowing rates are likely to remain favourable for the foreseeable future. Management maintains our view that overall real estate fundamentals will continue to be solid as Canada remains a strong and stable economy, and our exposure to Federal Government and credit-rated tenants will help insulate occupancy levels from potential recessionary forces.

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 annual information form, can be found on SEDAR at www.sedar.com.

Dated: November 6, 2019
Toronto, Ontario, Canada