Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three and six months ended June 30, 2016 and 2015
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	June 30, 2016	December 31, 2015
Assets		
Non-current assets:		
Investment properties (note 4)	$ 341,588	$ 342,150
Instalment notes receivable (note 5)	828	956
Deposits	341	341
Total non-current assets	342,757	343,447
Current assets:		
Tenant and other receivables (note 6)	940	1,439
Prepaid expenses and other assets (note 7)	1,803	1,210
Instalment notes receivable (note 5)	277	308
Cash and cash equivalents	1,142	610
Total current assets	4,162	3,567
Total assets	$ 346,919	$ 347,014
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages and notes payable (note 8)	$ 193,479	$ 193,355
Derivative instruments (note 12)	886	936
Class B LP Units (note 10)	25,321	21,962
Total non-current liabilities	219,686	216,253
Current liabilities:		
Mortgages and notes payable (note 8)	2,808	6,580
Credit facilities (note 9)	10,424	7,191
Tenant rental deposits and prepayments	1,701	1,550
Accounts payable and accrued liabilities (note 11)	4,626	4,190
Derivative instruments (note 12)	624	698
Total current liabilities	20,183	20,209
Total liabilities	239,869	236,462
Unitholders' equity (note 13)	107,050	110,552
Total liabilities and unitholders' equity	$ 346,919	$ 347,014

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on August 3, 2016.

"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 and six months ended June 30, 2016 and 2015
(Unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenue	$ 9,653	$ 8,882	$ 19,529	$ 17,772
Expenses:				
Property operating	2,093	1,883	4,504	3,901
Realty taxes	1,620	1,442	3,219	2,882
Income before the undernoted	5,940	5,557	11,806	10,989
Other income (expenses):				
General and administration expenses	(446)	(439)	(1,133)	(944)
Finance costs (note 15)	(1,883)	(1,820)	(3,763)	(3,637)
Distributions on Class B LP Units (note 10)	(640)	(508)	(1,279)	(1,016)
Unrealized gain (loss) on change in fair value of derivative instruments (note 12)	163	158	124	(681)
Fair value adjustment of Class B LP Units (note 10)	(775)	479	(3,359)	650
Fair value adjustment of investment properties (note 4)	(1,264)	(2,870)	(1,901)	(1,801)
Loss on sale of investment property	–	(350)	–	(350)
Net income and comprehensive income for the period	$ 1,095	$ 207	$ 495	$ 3,210

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)

Six months ended June 30, 2016 and 2015
(Unaudited)

	Trust Unit capital (note 13(c))	Cumulative income (loss)	Total
Unitholders’ equity, January 1, 2015	$ 101,814	$ 546	$ 102,360
Changes during the period:			
Units issued and repurchased, net of issue costs	(413)	–	(413)
Net income and comprehensive income for the period	–	3,210	3,210
Distributions	–	(5,028)	(5,028)
Issue of units under Distribution Reinvestment Plan (“DRIP”) (note 13(e))	807	–	807
Unitholders’ equity, June 30, 2015	102,208	(1,272)	100,936
Changes during the period:			
Units issued and repurchased, net of issue costs	714	–	714
Net income and comprehensive income for the period	–	13,261	13,261
Distributions	–	(5,086)	(5,086)
Issue of units under DRIP (note 13(e))	727	–	727
Unitholders’ equity, December 31, 2015	103,649	6,903	110,552
Changes during the period:			
Units issued and repurchased, net of issue costs	(26)	–	(26)
Net income and comprehensive income for the period	–	495	495
Distributions	–	(5,156)	(5,156)
Issue of units under DRIP (note 13(e))	1,185	–	1,185
Unitholders’ equity, June 30, 2016	$ 104,808	$ 2,242	$ 107,050

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and six months ended June 30, 2016 and 2015
(Unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Operating activities:				
Net income for the period	$ 1,095	$ 207	$ 495	$ 3,210
Adjustments for financing activities included in income:				
Finance costs (note 15)	1,883	1,820	3,763	3,637
Unrealized (gain) loss on change in fair value of derivative instruments (note 12)	(163)	(158)	(124)	681
Distributions on Class B LP units (note 10)	640	508	1,279	1,016
Fair value adjustment of Class B LP Units (note 10)	775	(479)	3,359	(650)
Adjustments for items not involving cash:				
Fair value adjustment of investment properties (note 4)	1,264	2,870	1,901	1,801
Loss on sale of investment property	–	350	–	350
Unit-based compensation expense	23	27	109	59
Change in other non-cash operating items	78	41	145	58
Change in non-cash operating working capital (note 16)	666	469	454	(283)
Cash provided by operating activities	6,261	5,655	11,381	9,879
Investing activities:				
Acquisitions (note 3)	–	–	–	(6,043)
Net proceeds from the disposition of investment property (note 3)	–	5,916	–	5,916
Additions to investment properties (note 4)	(1,321)	(1,723)	(1,440)	(2,084)
Change in restricted cash	–	(2)	–	(2)
Cash provided by (used in) investing activities	(1,321)	4,191	(1,440)	(2,213)
Financing activities:				
Proceeds from (repayment of) credit facilities, net of costs	1,467	(2,550)	3,235	476
Proceeds from new mortgage financing, net of costs	–	–	–	4,058
Principal payments on mortgages	(1,499)	(1,342)	(2,985)	(2,585)
Repayment of vendor take-back mortgage and mortgage	–	(697)	(765)	(697)
Principal payments on instalment notes receivable (note 5)	78	88	159	161
Finance costs paid	(2,285)	(2,107)	(4,573)	(4,090)
Proceeds from issuance of Units, net of costs	(148)	(8)	(141)	(23)
Units repurchased and cancelled under normal course issuer bid (“NCIB”)	–	(214)	–	(437)
Cash distributions to unitholders	(2,182)	(2,286)	(4,339)	(4,588)
Cash used in financing activities	(4,569)	(9,116)	(9,409)	(7,725)
Increase (decrease) in cash and cash equivalents	371	730	532	(59)
Cash and cash equivalents, beginning of period	771	1,397	610	2,186
Cash and cash equivalents, end of period	$ 1,142	$ 2,127	$ 1,142	$ 2,127
Supplemental cash flow information:				
Units issued under DRIP – unitholders	$ 401	$ 228	$ 806	$ 435
Units issued under DRIP – Class B LP Units	190	186	380	372
Mortgages assumed on sale of investment property	–	9,828	–	9,828

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 declaration of trust amended and restated on 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, together 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 1801 – 3300 Bloor Street West, West Tower, Toronto, Ontario, Canada, M8X 2X2.

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 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, 2015. These condensed consolidated interim financial statements do not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The condensed consolidated interim financial statements were approved on behalf of the Board of Trustees on August 3, 2016.

(b) Basis of presentation:

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

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

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

1. Basis of preparation (continued):

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

(c) Critical judgments and estimates:

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying accounting policies were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2015.

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, 2015.

Future accounting changes:

A number of new standards have been issued but are not effective for the three and six months ended June 30, 2016 and, accordingly, have not been applied in preparing these condensed consolidated interim financial statements.

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

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

2. Significant accounting policies (continued):

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

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

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

(b) IFRS 9, Financial Instruments:

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

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

(c) IFRS 16, Leases:

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

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

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

3. Acquisitions and dispositions:

The REIT did not acquire or dispose of any investment properties during the three and six months ended June 30, 2016.

4. Investment properties:

The following table summarizes the changes in investment properties for the six months ended June 30, 2016 and 2015:

	Investment properties
Balance, December 31, 2014	$ 311,480
Acquisitions	6,077
Additions	2,084
Disposition	(15,869)
Amortization of leasing costs, tenant inducements and straight-line rents	(11)
Fair value adjustment	(1,801)
Balance, June 30, 2015	301,960
Acquisitions	35,048
Additions	433
Amortization of leasing costs, tenant inducements and straight-line rents	(23)
Fair value adjustment	4,732
Balance, December 31, 2015	342,150
Additions	1,440
Amortization of leasing costs, tenant inducements and straight-line rents	(101)
Fair value adjustment	(1,901)
Balance, June 30, 2016	$ 341,588

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

4. Investment properties (continued):

The REIT determined 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 REIT used the midpoint of this range for all investment properties. The key valuation assumptions for the REIT's investment properties are set out in the following table:

	June 30, 2016	June 30, 2015
Terminal and direct capitalization rates - range	6.00% to 11.50%	6.00% to 11.50%
Terminal and direct capitalization rate - weighted average	7.13%	7.18%
Discount rates - range	7.00% to 12.00%	7.00% to 12.00%
Discount rate - weighted average	7.82%	7.82%

The fair values 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:

	June 30, 2016	June 30, 2015
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (9,166)	$ (7,793)
25-basis points decrease	9,693	8,487
Weighted average discount rate:		
25-basis points increase	(9,110)	(7,670)
25-basis points decrease	9,479	8,224

5. Instalment notes receivable:

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

	June 30, 2016	December 31, 2015
Current	$ 277	$ 308
Non-current	828	956
Balance	$ 1,105	$ 1,264

6. Tenant and other receivables:

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

	June 30, 2016	December 31, 2015
Tenant receivables and charge backs	$ 892	$ 1,273
Other receivables	48	166
	$ 940	$ 1,439

As at June 30, 2016, there is no impairment of tenant and other receivables.

7. Prepaid expenses and other assets:

The following table presents details of the prepaid expenses and other asset balances:

	June 30, 2016	December 31, 2015
Prepaid expenses	$ 1,690	$ 1,210
Pre-acquisition costs	113	–
	$ 1,803	$ 1,210

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

8. Mortgages and notes payable:

As at June 30, 2016, the REIT had $196,719 (December 31, 2015 - $200,467) of principal balances of mortgages and notes payable outstanding. The mortgages and notes carry a weighted average fixed interest rate of 3.35% (December 31, 2015 - 3.34%) after giving effect to the instalment note receipts, and a weighted average term to maturity of 3.08 years (December 31, 2015 – 3.57 years). All interest rates are fixed for the term of the respective mortgages except for six (December 31, 2015 – six) of the REIT's mortgages that have utilized interest rate swaps to fix their floating interest rates (note 12). The mortgages are secured by first and second charges on the respective properties.

As at June 30, 2016, mortgages and notes are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages and notes payable	Scheduled interest payments
2016 – remainder of year	$ 3,036	$ –	$ 3,036	$ 3,425
2017	5,903	11,499	17,402	6,399
2018	3,794	85,594	89,388	4,073
2019	2,931	20,474	23,405	2,787
2020	1,634	37,361	38,995	1,495
Thereafter	3,338	21,155	24,493	2,369
Face value	$ 20,636	$ 176,083	$ 196,719	$ 20,548
Unamortized mark to market mortgage adjustments (2015 - $569)			506	
Unamortized financing costs (2015 - ($1,101))			(938)	
Total mortgages and notes payable			$ 196,287	

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

8. Mortgages and notes payable (continued):

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

	June 30, 2016	December 31, 2015
Current:		
Mortgages and notes payable	$ 3,036	$ 6,784
Unamortized mark to market mortgage adjustments	97	123
Unamortized financing cost	(325)	(327)
	2,808	6,580
Non-current:		
Mortgages and notes payable	193,683	193,683
Unamortized mark to market mortgage adjustments	409	446
Unamortized financing cost	(613)	(774)
	193,479	193,355
	$ 196,287	$ 199,935

9. Credit facilities:

The REIT has a credit agreement with a Canadian chartered bank for a $5,000 (December 31, 2015 - $5,000) and $12,000 (December 31, 2015 - $10,000) floating rate revolving credit facilities (the “Credit Facilities”). The Credit Facilities are secured by two properties and mature on February 12, 2017.

The $5,000 facility bears interest on cash advances above $1,000 at 212.5 basis points per annum over the floating banker’s acceptance rate or under $1,000 at 100 basis points over prime rate. The $12,000 facility bears interest on cash advances above $1,000 at 250 basis points per annum over the floating banker’s acceptance rate or under $1,000 at 150 basis points over prime rate.

The following table provides a breakdown of the amounts outstanding under the Credit Facilities:

	June 30, 2016	December 31, 2015
Credit Facilities	$10,435	$7,200
Unamortized financing cost	(11)	(9)
	$10,424	$7,191

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

10. Class B LP Units:

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

The following table summarizes the changes in Class B LP Units for the six months ended June 30, 2016 and 2015:

	Class B LP Units	Amount
Outstanding, December 31, 2014	3,422,247	$ 20,533
Fair value adjustment	–	(650)
Outstanding, June 30, 2015	3,422,247	19,883
Issuance of Class B LP Units	909,090	5,191
Class B LP Units exchanged to Units at fair value	(25,000)	(132)
Fair value adjustment	–	(2,980)
Outstanding, December 31, 2015	4,306,337	21,962
Fair value adjustment	–	3,359
Outstanding, June 30, 2016	4,306,337	$ 25,321

During the three and six months ended June 30, 2016, the distributions on Class B LP Units were $640 and $1,279, respectively.

11. Accounts payable and accrued liabilities:

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

	June 30, 2016	December 31, 2015
Accounts payable and accrued liabilities	$ 2,687	$ 2,289
Finance costs payable	779	792
Distributions payable	864	852
Unit based compensation liability	296	257
	$ 4,626	$ 4,190

12. Derivative instruments:

The REIT has entered into various interest rate swaps to limit its interest rate exposure from floating to fixed for the terms of mortgages on certain properties. 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 June 30, 2016 were $72,425 (December 31, 2015 – $73,507). Total unrealized gain on change in the fair value of the derivative instruments for the three and six months ended June 30, 2016 totalled to $163 and $124, respectively.

13. Unitholders' equity:

(a) Units:

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units ("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.

(b) Special Voting Units:

The DOT and the exchange agreement among the REIT, Starlight Investments Ltd ("Starlight") and TNCGP, amongst others, provide for the issuance of the Special Voting Units which have no economic entitlement in the REIT or in the distribution or assets of the REIT, but are used to provide voting rights proportionate to the votes of the Units to holders of securities exchangeable into Units, including the Class B LP Units. Each Special Voting Unit is not transferable separately from the Class B LP Unit to which it is attached and will be automatically redeemed and cancelled upon exchange of the attached Class B LP Unit into a Unit.

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

13. Unitholders' equity (continued):

(c) Units outstanding:

The following table summarizes the changes in Units for the six months ended June 30, 2016 and 2015:

	Units	Amount
Balance, December 31, 2014	16,890,286	$ 101,814
Issue of Units under the Trustee unit issuance plan	7,807	47
Issue of Units under DRIP	139,813	807
Units repurchased and cancelled under NCIB	(72,800)	(437)
Issuance and repurchase costs	–	(23)
Balance, June 30, 2015	16,965,106	102,208
Units issued for cash	45,454	300
Issue of Units under the Trustee unit issuance plan	8,434	45
Issue of Units under DRIP	135,384	727
Issue of Units from options exercised	52,084	307
Issue of Units from exchange of Class B LP Units	25,000	132
Units repurchased and cancelled under NCIB	(17,800)	(105)
Issuance and repurchase costs	–	35
Balance, December 31, 2015	17,213,662	103,649
Issue of Units under the Trustee unit issuance plan	7,515	44
Issue of Units under DRIP	224,904	1,185
Issue of Units from options exercised	16,667	97
Issuance and repurchase costs	–	(167)
Balance, June 30, 2016	17,462,748	$ 104,808

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

13. Unitholders' equity (continued):

(d) Unit-based compensation plan:

The REIT has adopted a Unit-based compensation plan (the "Plan"). Under the terms of the Plan, the Trustees may, from time to time, at their discretion, and in accordance with TSX requirements, grant certain Trustees and officers of the REIT, employees of Starlight and consultants to the REIT, 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

For the six months ended June 30, 2016 and 2015, the number of Unit options outstanding changed as follows:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2014	658,751	$ 6.43	3.00	259,157
Unit options granted	495,000	6.15	–	–
Outstanding, June 30, 2015	1,153,751	6.31	3.37	401,653
Unit options exercised	(52,084)	1.60	–	–
Outstanding, December 31, 2015	1,101,667	6.53	2.93	464,159
Unit options exercised	(16,667)	1.60	–	–
Outstanding, June 30, 2016	1,085,000	6.61	2.44	754,996

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

13. Unitholders' equity (continued):

For the six months ended June 30, 2016 and 2015, the amount of Unit option compensation liability included in accounts payable and accrued liabilities is as follows:

Balance, December 31, 2014	$	426
Unit options granted		13
Fair value adjustment		46
Balance, June 30, 2015	$	485
Balance, December 31, 2015	$	257
Unit options exercised		(70)
Fair value adjustment		109
Balance, June 30, 2016	$	296

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

	June 30, 2016	June 30, 2015
Average expected Unit option holding period	1.49 years	2.0 years
Average expected volatility rate	18.32%	20%
Average dividend yield	10.10%	10.22%
Average risk-free interest rate	0.52%	0.51%

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

13. Unitholders' equity (continued):

(e) DRIP

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

For the six months ended June 30, 2016 and 2015, the REIT declared distributions of $6,435 and $6,044, respectively.

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 six months ended June 30, 2016 and 2015, the REIT issued 224,904 and 139,813 Units under the DRIP for a stated value of $1,185 and $807, respectively.

14. Transactions with related parties:

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

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

14. Transactions with related parties (continued):

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

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

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

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

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

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

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

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

14. Transactions with related parties (continued):

The following table presents the costs incurred for the three and six months ended June 30, 2016 and 2015:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Asset management fees	$ 286	$ 268	$ 572	$ 527
Acquisition fees	–	–	–	59
Other expenses	29	–	60	–

At June 30, 2016, $102 (December 31, 2015 - $104) is included in accounts payable and accrued liabilities.

No incentive fees or capital expenditure fees were charged for the six months ended June 30, 2016 and 2015.

15. Finance costs:

The following table presents the financing costs incurred for the three and six months ended June 30, 2016 and 2015:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Interest on mortgages and notes payable	$ 1,727	$ 1,700	$ 3,468	$ 3,392
Other interest expense and standby fees	101	74	193	119
Amortization mortgage discounts	(32)	(33)	(63)	(66)
Amortization of financing costs	87	79	165	192
	$ 1,883	$ 1,820	$ 3,763	$ 3,637

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

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three and six months ended June 30, 2016 and 2015 is as follows:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Deposits	$ –	$ (11)	$ –	$ (50)
Tenant and other receivables	395	133	499	(329)
Prepaid expenses and other assets	(331)	(332)	(593)	(670)
Tenant rental deposits and prepayments	421	270	151	152
Accounts payable and accrued liabilities	181	409	397	614
	$ 666	$ 469	$ 454	$ (283)

17. Commitments and contingencies:

As at June 30, 2016, the REIT has entered into commitments for building renovations totalling $1,306 (December 31, 2015 - $nil). Included in this amount is $860 relating to commitments for 340 Laurier Avenue West related to its LEED® - EB Gold Certification Retro-Commissioning Project.

At June 30, 2016 and 2015, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

18. Segmented disclosure:

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

19. Capital management:

The REIT's capital management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2015.

The REIT was in compliance with all financial covenants as at June 30, 2016.

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

20. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

The REIT is subject to the risks associated with debt financing, including the risk of the interest rate on floating debt may rise before long-term fixed rate debt is arranged and that the mortgage will not be able to be refinanced on terms similar to those of the existing indebtedness.

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

As at June 30, 2016 and December 31, 2015, the REIT's interest-bearing financial instruments were:

	Carrying value	
	June 30, 2016	December 31, 2015
Fixed-rate instruments:		
Mortgages and notes payable	$ 196,719	$ 200,467
Variable-rate instruments not subject to interest rate swaps:		
Credit Facilities	10,435	7,200

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 12).

An increase (decrease) of 100 basis points in interest rates at June 30, 2016 for the variable-rate financial instruments would have increased (decreased) net income for the period by $9 (December 31, 2015 - $5).

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

20. Risk management and fair values (continued):

(ii) Credit risk:

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

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

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

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

	June 30, 2016	December 31, 2015
0 to 30 days	$ 68	$ 34
31 to 90 days	49	23
Over 90 days	246	632
Total	$ 363	$ 689

As at June 30, 2016, the Federal Government of Canada provides 48% (December 31, 2015 – 49%) of the REIT’s rental revenue.

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

20. Risk management and fair values (continued):

(b) Fair values:

The REIT uses various methods in estimating the fair values recognized in the consolidated financial statements. 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 at fair value on the condensed consolidated interim statements of financial position:

June 30, 2016	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 341,588	$ 341,588
	$ –	$ –	$ 341,588	$ 341,588
Liabilities:				
Class B LP Units	$ 25,321	$ –	$ –	$ 25,321
Derivative instrument, net	–	1,510	–	1,510
	$ 25,321	$ 1,510	$ –	$ 26,831

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

20. Risk management and fair values (continued):

December 31, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 342,150	$ 342,150
	$ –	$ –	$ 342,150	$ 342,150
Liabilities:				
Class B LP Units	$ 21,962	$ –	$ –	$ 21,962
Derivative instrument	–	1,634	–	1,634
	$ 21,962	$ 1,634	$ –	$ 23,596

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

(a) Investment properties:

The REIT determined the fair value of each investment property based on valuation approaches and key assumptions with level 3 inputs as described in note 4.

(b) Class B LP Units:

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

(c) Derivative instruments:

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

21. Subsequent events:

On July 22, 2016, the REIT completed the acquisition of a 63,800 square foot office property located at 6865 Century Avenue in Mississauga, Ontario for $13,400 plus closing costs. The purchase price was funded through first mortgage financing of $9,380 at a rate of 2.70% for a five year term, and a concurrent private placement, which includes (i) the issuance of 1,538,120 Units at $5.85 per Unit for gross proceeds of approximately $9,000, and (ii) the issuance of 42,735 at $5.85 per Unit to an entity controlled by REIT's President and Chief Executive Officer for gross proceeds of $250.

On July 28, 2016, the REIT announced it has agreed to acquire a 40,000 square foot office property located at 5900 Explorer Drive, Mississauga, Ontario for $10,500 plus closing costs. The purchase price is expected to be funded through first mortgage financing of $7,350 at a rate of 2.75% for a five year term, and the remainder to be funded by the above noted private placement. The acquisition is expected to close on or about August 23, 2016.