



STERLING

OFFICE AND INDUSTRIAL TRUST

2018
ANNUAL REPORT



OUR VISION

TO BE THE MOST RELIABLE, WELL-MANAGED AND TRANSPARENT REIT IN THE UNITED STATES.



OUR MISSION

TO PROVIDE LOW-RISK AND INCOME-PRODUCING REAL ESTATE INVESTMENT OPPORTUNITIES TO INVESTORS.



TABLE OF CONTENTS

2	Financial Highlights
4	Investor Message
6	Our Business
8	2018 Acquisitions
10	Performance Summary
13	Board of Trustees
14	Investor Relations
15	Audited Financials

FINANCIAL HIGHLIGHTS

	2018	2017
INCOME STATEMENT		
Rental Revenues	\$ 18,213	\$ 10,040
Total Expenses ⁽¹⁾	20,960	12,585
Net Income (Loss)	(2,630)	(2,525)
Funds From Operations	7,124	3,357
BALANCE SHEET		
Total Real Estate Investments ⁽²⁾	\$ 109,041	\$ 94,224
Total Assets	138,462	117,224
Total Liabilities	84,212	76,609
Shareholder Equity	54,250	40,615
SHAREHOLDER DATA		
Common Shares/UPREIT Units Outstanding	7,0471	5,298
UPREIT Units Outstanding	2,626	2,342
Common Shares Outstanding	4,421	2,956

(1) Total Expenses included acquisition costs for the period 1/1/17 through 6/30/17. Subsequent to 7/1/17, acquisition costs are capitalized.

(2) Total Real Estate Investments include real estate and related assets purchased at the time of acquisition.

OUR VALUES

RESPECT

We develop and maintain relationships based on trust, cooperation, collaboration and open communication with investors, state and federal agencies, brokers and our many service providers. We recognize that we may not always agree, but we express differences with respect.

EXCELLENCE

We achieve excellence by constantly improving so our work environment supports learning, innovation and change. We understand these activities are essential for achieving excellence.

INTEGRITY

Integrity is the foundation of our credibility. We set high standards for our work and follow the highest ethical and professional standards.

TRANSPARENCY

To best serve our investors, we provide accurate, complete and conservative information. We produce reports that are objective, useful, clear and candid. The results of our work are intended to add value to our investor.

STEWARDSHIP

We dare to lead with a focus beyond today. We are committed to our investors long-term, working to build a stronger trust for future generations and acting at all times with an owner mentality.



DEAR VALUED INVESTORS,



North Park 1

On behalf of your Board of Trustees, Officers and the entire Sterling Team, thank you for placing your trust in us to provide consistent dividends and long-term growth of your investment in Sterling Office and Industrial Trust. Our diligence in 2018 led us to exceed our business plan initiatives for the year. We successfully acquired high-value office and industrial assets, completed our third stock offering, secured several new leases and lease extensions and further strengthened the Trust's balance sheet. We are pleased with the Trust's first three years of operations. We have established a strong foundation of quality, income producing real estate to build upon in the years ahead.

SUSTAINABLE GROWTH THROUGH ACQUISITIONS

2018 was a year of proven sustainability for Sterling Office and Industrial Trust. Since our inception in April of 2016, we have continued to introduce high-value real estate into the portfolio, creating a strong foundation to build upon. Our patient and disciplined acquisition strategy has proven effective and is delivering strong and consistent property performance. Our 2018 financial statements reflect the Trust's first full year showcasing our most sizable investments to-date, including the 2017 acquisitions of Pacific Hills Office Park (Omaha, NE,) North Park Office Park (Omaha, NE) and College Oaks Office Park (Overland Park, KS). The performance of these properties helped accelerate our Funds from Operation (FFO) by 112% from the prior year, ending at \$7.1 million.

We take a patient and long-term approach to investing. We aim to build sustainable growth as opposed to seeking growth for the sake of growth. With this mindset, our acquisition activity was less than anticipated in 2018 due to property valuations remaining at near record high levels. Real estate cycles come and go, and in recent months we have witnessed how markets can suddenly change course, often in response to unpredictable factors. At Sterling, we will not let short-term market swings distract us from our long-term strategy and objectives.

Despite the headwinds for acquiring qualifying investment real estate in 2018, the Trust selectively secured two new assets. In February, we acquired Barry Pointe (Kansas City, KS), an 18,500 square foot, multi-tenant office building, and in May we acquired Five Star Commerce Center (Maple Grove, MN), a 163,000 square foot, multi-tenant, mixed use industrial building. Both properties performed above expectations in their inaugural year with the Trust and are positioned for long-term success. The impact of these acquisitions helped grow our total assets by \$21.2 million, ending the year at \$138.4 million.

Our REIT has established a firm footing. Our base of solid real estate, coupled with the highly respected reputation and core competencies of our people, position us for sustainable long-term growth.

FINANCIAL PERFORMANCE

The Trust's 2018 financial performance reflects the results of well-executed fundamentals since our April 2016 inception. Total revenues for 2018 improved by \$8.2 million over 2017, ending the year at \$18.2 million. Our properties continue to achieve strong profit margins. Net Operating Income (NOI) continues to stay at an optimal level, improving to \$11.7 million, which resulted in a net operating margin of 65.0%.

This financial stability provides tremendous flexibility and access to a wide variety of capital resources, positioning us well for future investment opportunities. In February 2018, we raised approximately \$15 million of capital through the issuance of common shares. We ended the year with nearly \$18 million of cash and cash equivalents and did not carry a balance on our partially-secured credit facilities. Our debt to market capitalization on our portfolio remained below 53% with an average debt to maturity extended beyond seven years and a weighted average interest rate of 4.26%.

Our most intrinsic measure of success has been and continues to be the value we create for our investors. In 2018, we returned \$4.1 million in dividends and distributions to our investors and improved our shareholder equity by 33.6%, ending the year at \$54.3 million. Our dividend coverage ratio (FFO/dividend yield) grew to 174.87%. Further, our Compounded Annual Growth Rate (CAGR), measured from the Trust's inception, ended the year at a remarkable 14.7%. We believe these returns are paramount for any Trust at this stage of existence.

In December 2018, your Board of Trustees elected to increase the dividend yield from 5.50% to 5.75%, effective January 1, 2019. The Board's election to raise the dividend is supported by strong financial metrics and stable operating cash flow. This change improves the dividend payout by 4.6%, with the per share dividend advancing from \$0.56 per share to \$0.59 per share.

OPERATING PERFORMANCE

Sterling Office and Industrial Trust ended the year with 22 properties and approximately 1.47 million square feet of real estate, located in eleven states. Based on square footage, our portfolio continues to be well diversified with office and industrial investments split at 51% and 49%, respectively. Our 2018 economic occupancy declined marginally from 2017, although it remains on pace with national average for both office and industrial sectors, ending the year at 90.6%.

In 2018 we secured new leases on 254,000 square feet, having a gross value of \$18.3 million over the life of the lease. Our multi-tenant office markets are highly competitive. We continue to improve our existing properties to retain our current tenants as well as secure new prospects. We invested \$1.35 million in capital improvements to address property needs that will extend the life of and add appeal to our current properties. This meticulous attention to maintaining our properties enhances our reputation across all markets.

LOOKING AHEAD

2018 was an excellent year by several measures, and we approach 2019 with excitement. Our primary business objective that drives our successful approach is unchanged. We work for you, our investors, and are dedicated to providing reliable dividends and growing the value of your investment. We will continue to pursue opportunistic and strategic property purchases that are consistent with our conservative approach. Further, we will continue our efforts to maintain high occupancy rates at our properties through leasing and re-leasing activities.

Building a high-performing investment fund takes tremendous effort. We are grateful and appreciate the talented employees of Sterling who are charged with managing the operations and affairs of our Trust. Their hard work, commitment and collaboration will remain cornerstones of our long-term success. On behalf of the entire Sterling Team, we thank you, our investors, for your confidence in us and your continued support.

Respectfully,

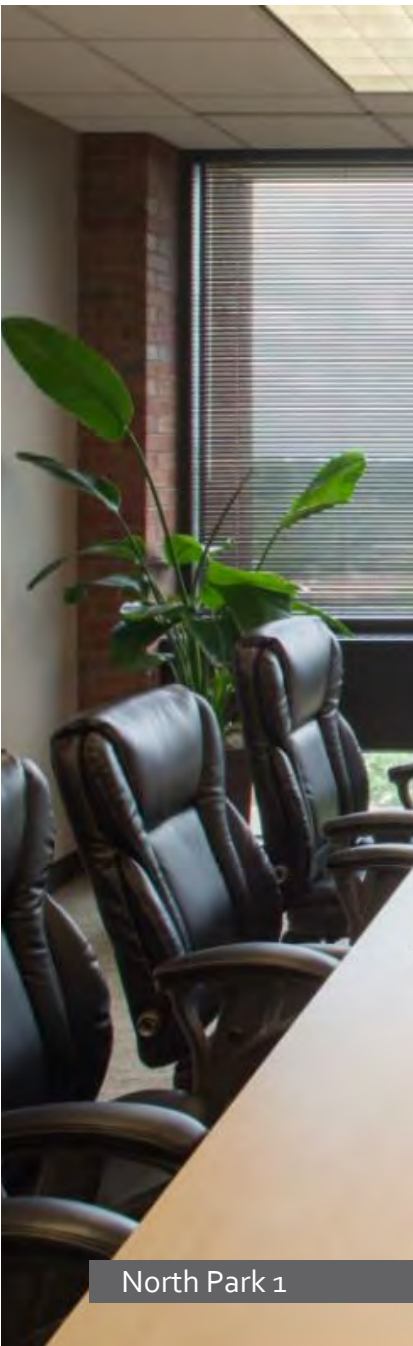
Wilbur D. Wright *Kenneth P. Regan*

Wilbur D. Wright
Chairman of the Board

Kenneth P. Regan
Chief Executive Officer



OUR BUSINESS



North Park 1

THE REIT STRUCTURE

A Real Estate Investment Trust ("REIT") is an investment vehicle created in 1960 by the United States Congress with the Real Estate Investment Trust Act. This Act authorized a real estate ownership structure treated similar to mutual funds; a tax-exempt pass-through entity with broad based ownership, distributing most of its earnings and capital gains to investors. Investment in a REIT offers diversification benefits, since REITs often offer differing investment strategies in terms of property type and geographic focus.

STERLING OFFICE AND INDUSTRIAL TRUST

Sterling Office and Industrial Trust is an unincorporated North Dakota trust formed on March 2, 2016, to invest primarily in a diversified portfolio of freestanding, single or multi-tenant office and industrial properties leased to creditworthy tenants. The Trust has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code. The Trust's Mission is to provide investors the opportunity of long-term ownership in lower-risk and well-managed income-producing real estate.

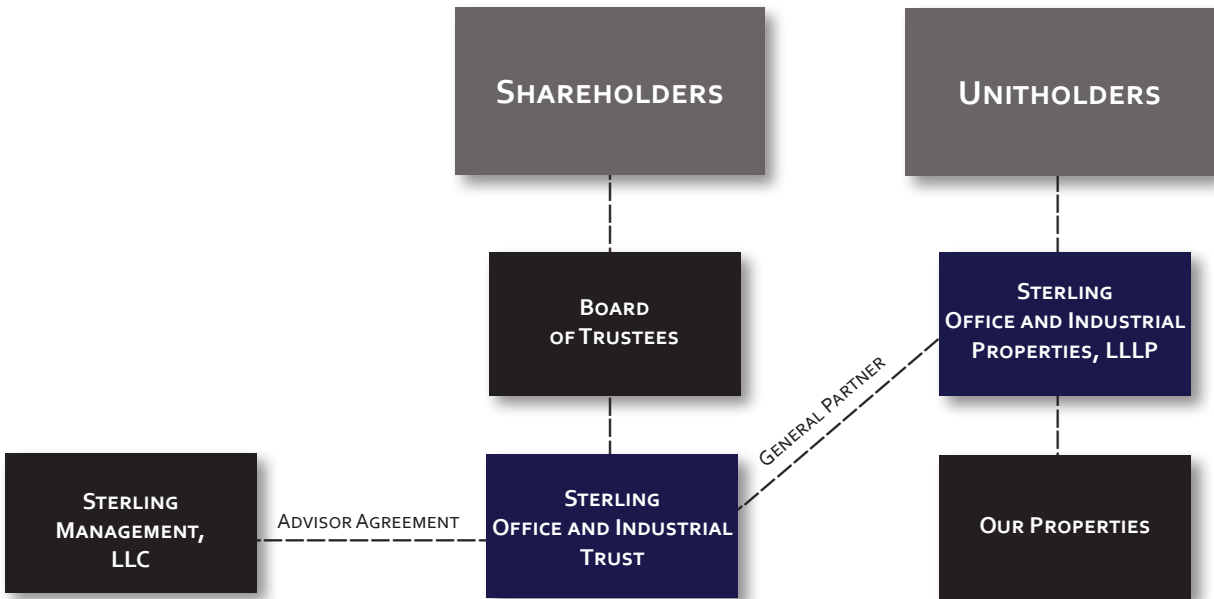
STERLING OFFICE AND INDUSTRIAL PROPERTIES, LLLP

Sterling Office and Industrial Trust is an Umbrella Partnership Real Estate Investment Trust that holds all of its properties in a separate partnership, Sterling Office and Industrial Properties, LLLP ("Sterling Office and Industrial Properties"). The Trust controls Sterling Office and Industrial Properties and acts as its general partner. The Trust uses Sterling Office and Industrial Properties to acquire properties, including through the exchange of limited partnership units for properties. These "UPREIT" exchanges can be advantageous, as the seller may be able to defer taxation of gain until the seller later resells the limited partnership units received in the exchange. By offering sellers the ability to defer taxation, the Trust gains an advantage in acquiring quality properties.

STERLING MANAGEMENT, LLC

Sterling Office and Industrial Trust operates under the direction of the Board of Trustees. Sterling Office and Industrial Trust has no employees, and therefore retains Sterling Management, LLC to manage its owned real estate and business operations. Sterling Management's CEO, President, CIO, and CAO serve as executive officers of the trust.

ORGANIZATIONAL STRUCTURE



2018 ACQUISITIONS



BARRY POINTE, KANSAS CITY, MO



DATE ACQUIRED: 2-16-2018
PURCHASE PRICE: \$2,280,000
SQUARE FEET: 18,502
NUMBER OF BUILDINGS: 1
ASSET CLASS: OFFICE
OCCUPANTS: 6 FULL-SERVICE LEASE TENANTS



FIVE STAR COMMERCE CENTER, MAPLE GROVE, MN

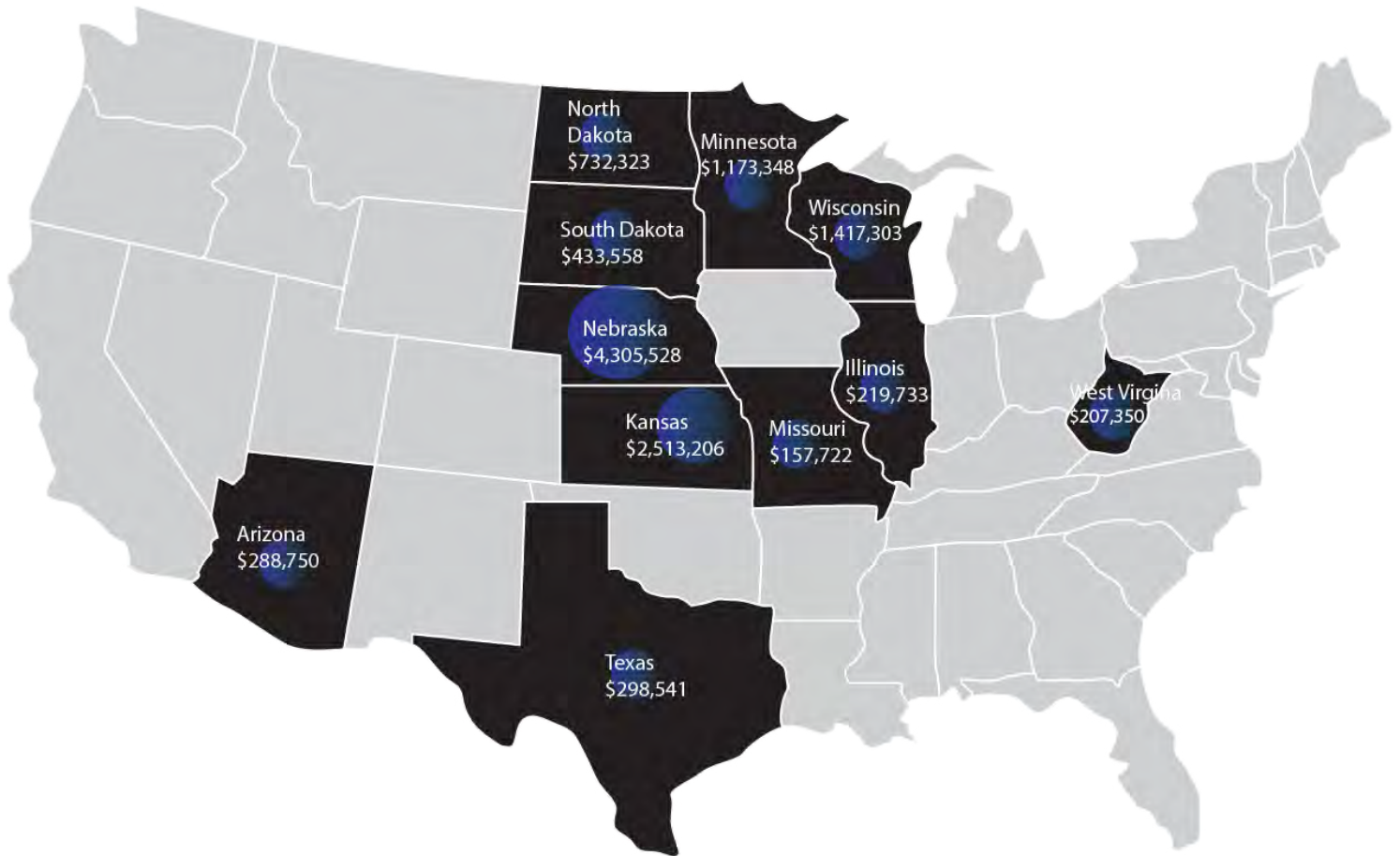


DATE ACQUIRED: 5-24-2018
PURCHASE PRICE: \$12,470,000
SQUARE FEET: 163,012
NUMBER OF BUILDINGS: 3
ASSET CLASS: INDUSTRIAL
OCCUPANTS: 13 FULL-SERVICE LEASE TENANTS



OUR PORTFOLIO

NET OPERATING INCOME BY STATE



DIVERSIFIED ASSETS BY INDUSTRY

We consider many factors as we build our portfolio of diversified office and industrial investment real estate. These factors include tenant strength, lease duration, financing terms, geography and industry. Our properties are geographically diverse with locations now in eleven states. Our properties are well located in or near metropolitan areas. We intend to maintain a long-term, buy-and-hold strategy while expanding our footprint throughout the Midwest corridor.

INVESTMENT OBJECTIVES

- Provide our investors a high-quality, long-term real estate investment through acquisition of stabilized office and industrial properties in the Midwest region of the United States.
- Offer an investment option where our common share value is correlated to real estate as an asset class rather than traditional asset classes such as stocks and bonds.
- Provide a hedge against inflation through the use of short-term and long-term lease arrangements with our tenants.

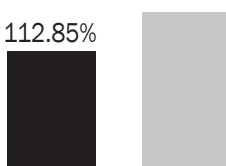
KEY PERFORMANCE INDICATORS



DIVIDEND
COVERAGE RATIO

+54.9%

112.85% 174.79%



2017

2018

4,420,510

TOTAL SHARES
OUTSTANDING

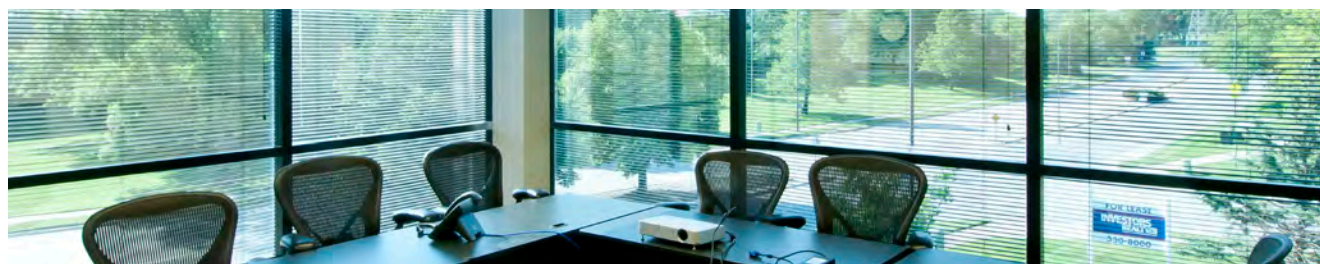
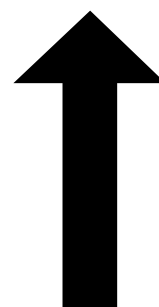
2,626,518

TOTAL UNITS
OUTSTANDING

TOTAL SHARES AND
UNITS OUTSTANDING
INCREASED FROM
5,298,534 IN 2017 TO

7,047,029

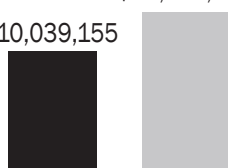
IN 2018
A 33% INCREASE



TOTAL REVENUE

+81.4%

\$10,039,155 \$18,213,022



2017

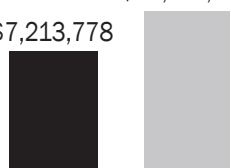
2018



TOTAL NET
OPERATING INCOME

+62.8%

\$7,213,778 \$11,747,362



2017

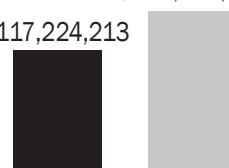
2018



TOTAL ASSETS

+18.1%

\$117,224,213 \$138,461,974



2017

2018



FUNDS FROM
OPERATIONS PER
SHARE INCREASED
FROM \$0.63 IN
2017 TO

\$1.01

IN 2018
A 60.3% INCREASE



TOTAL OFFICE AND
INDUSTRIAL SQUARE
FEET INCREASED
FROM 1,286,967 IN
2017 TO

1,468,481

IN 2018
A 14.1% INCREASE



A DIVIDEND YIELD OF

5.50%

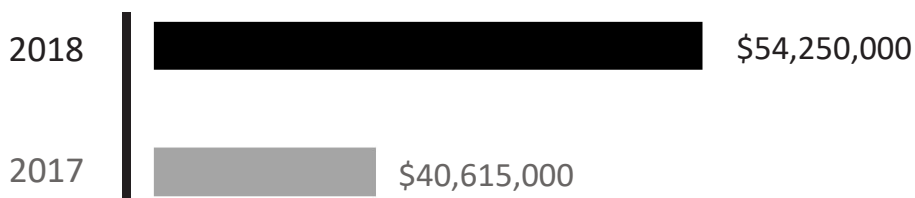
IN 2018
RESULTED IN
\$0.56375 DIVIDENDS
PER SHARE
A 2.5% INCREASE OVER
\$0.55 PER SHARE IN 2017



INVESTOR RETURN

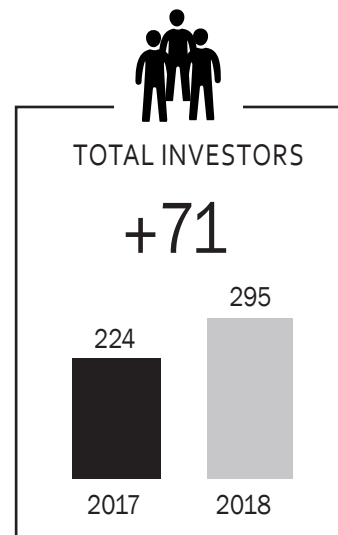
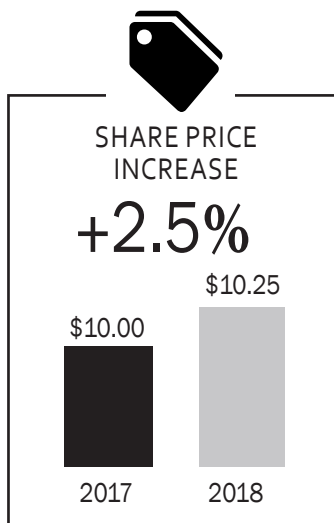
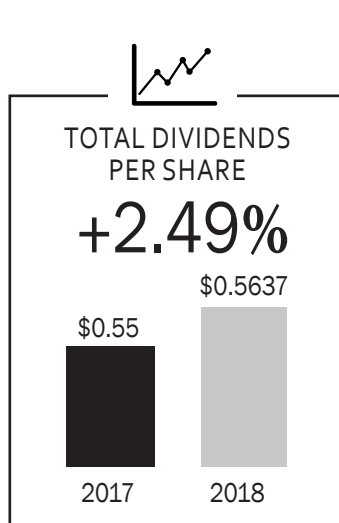
TOTAL EQUITY

Total equity is the residual interest in the assets of an entity that remains after deducting its liabilities. Sterling Office and Industrial Trust's year-end 2018 Equity was \$54,250,000, which includes accumulated depreciation and amortization of \$12,720,000 from real estate property value. Adding back the accumulated depreciation and amortization for 2018 shows an Adjusted Equity position of \$66,970,000.




DIVIDENDS AND DISTRIBUTIONS DECLARED


Sterling Office and Industrial Trust and Sterling Office and Industrial Properties, LLLP began a history of dividend and distribution payments to share and unit holders in 2016. In 2018, the annual yield remained 5.50% (\$0.5637 per share) and declared its 11th consecutive quarterly dividend/distribution payment.




BOARD OF TRUSTEES



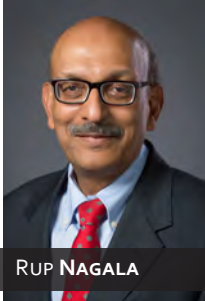
WILBUR WRIGHT



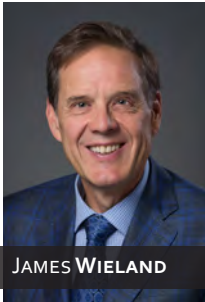
KENNETH REGAN




TIMOTHY HAUGEN



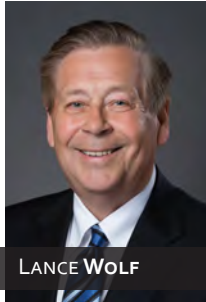
RUP NAGALA



JAMES WIELAND



DANIEL WILSON



LANCE WOLF

EXECUTIVE COMMITTEE

JAMES WIELAND
DANIEL WILSON
WILBUR WRIGHT*

AUDIT COMMITTEE

TIMOTHY HAUGEN*
DANIEL WILSON
WILBUR WRIGHT

Sterling Office and Industrial Trust operates under the direction of our Board of Trustees. The Board is responsible for the overall management and control of our affairs. Our Trustees have decades of business, real estate, property management and banking and finance experience. Each board member is also a shareholder. The Board is deeply involved in the Trust's risk management. As part of this process, the Board receives regular reports from Management, which include consideration of operational, financial, legal, regulatory and strategic risks facing the Trust and Partnership.

NOMINATIONS AND GOVERNANCE COMMITTEE

RUP NAGALA
JAMES WIELAND
LANCE WOLF*

*Indicates Committee Chair

EXECUTIVE OFFICERS



KENNETH REGAN
 Chief Executive Officer



RYAN DOWNS
 President & Secretary



ANGELA STOCK
 Chief Accounting Officer



JOEL THOMSEN
 Chief Investment Officer

INVESTOR RELATIONS

Sterling Office and Industrial Trust was formed to invest primarily in a diversified portfolio of freestanding, single and multi-tenant, office and industrial properties leased to creditworthy tenants. Our work for investors starts with our Mission; to provide investors the opportunity of long-term ownership in lower-risk and well-managed income-producing real estate. It declares our purpose and serves as the gold standard against which we weigh our decisions. It is enduring and drives us to consistently look forward.

Communications concerning shareholder address changes, stock transfers, changes of ownership, payment of dividends or other account services can be directed to:

Investor Relations
1711 Gold Drive South, Suite 100
Fargo, ND 58103
(877) 269-1031
soitir@sretrust.com



ANNUAL MEETING

We sincerely hope you can join us for this year's annual meeting on June 19, 2019, at 6:00 p.m. at the Holiday Inn, Fargo, North Dakota.

If you have any questions regarding the annual meeting, please contact our office by calling (877) 269-1031.

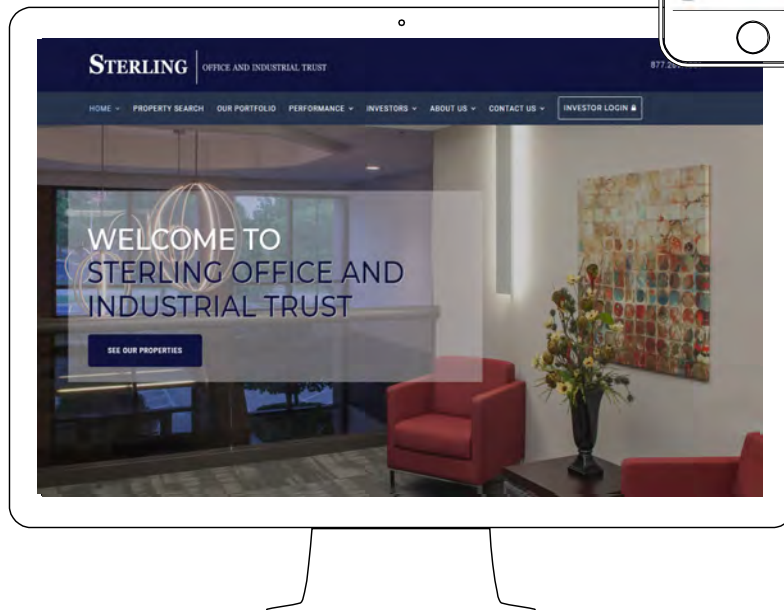
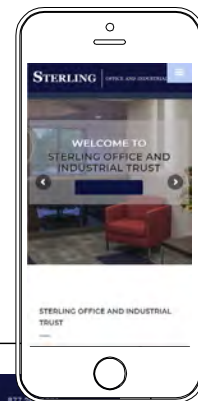
We look forward to seeing you in June!

WE HAVE A NEW WEBSITE!

We are excited to announce that we launched our brand new website in April.

For more information about the Trust, visit us online at:

www.soitrust.com





AUDITED FINANCIALS

December 31, 2018

TABLE OF CONTENTS

ii	Independent Auditor's Report
1	Consolidated Balance Sheets
2	Consolidated Statements of Operations
3	Consolidated Statements of Shareholders' Equity
4	Consolidated Statements of Cash Flows
6	Notes to Consolidated Financial Statements



STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF *DECEMBER 31, 2018* AND *2017*,
AND THE RELATED CONSOLIDATED STATEMENTS OF OPERATIONS,
SHAREHOLDERS' EQUITY AND CASH FLOWS FOR THE YEARS ENDED
DECEMBER 31, 2018 AND *2017*
INCLUDING NOTES

and

INDEPENDENT AUDITORS' REPORT

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT.....	ii
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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets.....	1
Consolidated Statements of Operations.....	2
Consolidated Statements of Shareholders' Equity	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	6

INDEPENDENT AUDITORS' REPORT

To the Shareholders, Audit Committee and Board of Directors
Sterling Office and Industrial Trust and Subsidiaries
Fargo, North Dakota

We have audited the accompanying consolidated financial statements of Sterling Office and Industrial Trust and its subsidiaries ("the Company") which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended December 31, 2018 and 2017 and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years ended December 31, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Chicago, Illinois

April 2, 2019

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017

	December 31, 2018	December 31, 2017
	(in thousands)	
ASSETS		
Real estate investments, net	\$ 103,100	\$ 91,488
Cash and cash equivalents	17,754	6,165
Restricted deposits	335	242
Receivables	1,357	619
Prepaid expenses	134	30
Financing and lease costs, less accumulated amortization of \$27 in 2018 and \$1 in 2017	578	7
Intangible assets, less accumulated amortization of \$7,627 in 2018 and \$4,367 in 2017	15,083	18,560
Other assets	121	113
Total Assets	\$ 138,462	\$ 117,224
LIABILITIES		
Mortgage notes payable, net	\$ 74,948	\$ 68,720
Special assessments payable	414	380
Dividends and distributions payable	1,054	750
Due to related party	121	510
Tenant security deposits payable	364	322
Lease intangible liabilities, less accumulated amortization of \$1,155 in 2018 and \$433 in 2017	4,095	4,374
Accounts payable - trade	1,422	171
Retainage payable	16	-
Accrued expenses and other liabilities	1,778	1,382
Total Liabilities	84,212	76,609
SHAREHOLDERS' EQUITY		
Beneficial interest	35,806	23,678
Noncontrolling interest		
Special limited partner in the Operating Partnership	5	5
Common unitholders in the Operating Partnership	18,439	16,932
Total Noncontrolling Interest	18,444	16,937
Total Shareholders' Equity	54,250	40,615
Total Liabilities and Shareholders' Equity	\$ 138,462	\$ 117,224

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Year Ended December 31,	
	2018	2017
	(in thousands, except per share data)	
Income from rental operations		
Real estate rental income	\$ 15,780	\$ 8,143
Tenant reimbursements	2,433	1,897
	18,213	10,040
Expenses		
Expenses from rental operations		
Interest	3,259	2,122
Depreciation and amortization	9,753	5,882
Real estate taxes	1,929	810
Property management fees	580	254
Utilities	1,396	569
Repairs and maintenance	2,472	1,136
Insurance	89	56
	19,478	10,829
Administration of REIT		
Administrative expenses	163	134
Advisory fees	1,170	798
Acquisition and disposition expenses	-	679
Trustee fees	24	24
Legal and accounting	126	122
	1,483	1,757
Total expenses	20,961	12,586
Loss from operations	\$ (2,748)	\$ (2,546)
Other income (expense)	118	21
Net loss	\$ (2,630)	\$ (2,525)
Net loss attributable to noncontrolling interest	(980)	(1,116)
Net loss attributable to Sterling Office and Industrial Trust	\$ (1,650)	\$ (1,409)
Net loss per common share, basic and diluted	\$ (0.37)	\$ (0.48)

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Shares	Paid-in Capital	Accumulated Distributions		Total		Noncontrolling Interest	Total
			in Excess of Earnings	Beneficial Interest				
(in thousands)								
BALANCE AT DECEMBER 31, 2016	1,353	\$ 12,130	\$ (2,369)	\$ 9,761	\$ 18,844	\$ 28,605		
Issuance of common shares	1,650	16,500	-	16,500	-	16,500		
Contribution of assets in exchange for the issuance of noncontrolling interest shares	-	-	-	-	500	500		
Dividends and distributions declared	-	-	(1,684)	(1,684)	(1,291)	(2,975)		
Dividends reinvested - stock dividend	105	998	-	998	-	998		
Syndication costs	-	-	(488)	(488)	-	(488)		
Net loss	-	-	(1,409)	(1,409)	(1,116)	(2,525)		
BALANCE AT DECEMBER 31, 2017	3,108	\$ 29,628	\$ (5,950)	\$ 23,678	\$ 16,937	\$ 40,615		
Issuance of common shares	1,464	15,000	-	15,000	-	15,000		
Shares issued pursuant to trustee compensation plan	1	10	-	10	-	10		
Contribution of assets in exchange for the issuance of noncontrolling interest shares	-	-	-	-	3,985	3,985		
Dividends and distributions declared	-	-	(2,577)	(2,577)	(1,498)	(4,075)		
Dividends reinvested - stock dividend	170	1,657	-	1,657	-	1,657		
Syndication costs	-	-	(312)	(312)	-	(312)		
Net loss	-	-	(1,650)	(1,650)	(980)	(2,630)		
BALANCE AT DECEMBER 31, 2018	4,743	\$ 46,295	\$ (10,489)	\$ 35,806	\$ 18,444	\$ 54,250		

See notes to consolidated financial statements

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Year Ended December 31,	
	2018	2017
	(in thousands)	
OPERATING ACTIVITIES		
Net loss	\$ (2,630)	\$ (2,525)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	4,319	2,406
Amortization	5,063	3,612
Amortization of debt issuance costs	137	109
Effects on operating cash flows due to changes in		
Receivables	(738)	(475)
Prepaid expenses	(104)	(4)
Other assets	(8)	387
Due to related party	(379)	(265)
Tenant security deposits payable	(57)	1
Accounts payable - trade	151	(181)
Accrued expenses and other liabilities	228	319
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,982	3,384
INVESTING ACTIVITIES		
Purchase of real estate investment properties	(2,993)	(18,833)
Capital expenditures and tenant improvements	(1,352)	(352)
NET CASH USED IN INVESTING ACTIVITIES	(4,345)	(19,185)
FINANCING ACTIVITIES		
Payments for financing and lease costs	(646)	(373)
Principal payments on special assessments payable	(23)	(4)
Principal payments on mortgage notes payable	(1,860)	(1,209)
Advances on lines of credit	11	-
Payments on lines of credit	(11)	-
Proceeds from issuance of common shares	15,000	16,500
Dividends/distributions paid	(2,114)	(1,637)
Payment of syndication costs	(312)	(488)
NET CASH PROVIDED BY FINANCING ACTIVITIES	10,045	12,789
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS	11,682	(3,012)
CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS AT BEGINNING OF PERIOD	6,407	9,419
CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS AT END OF PERIOD	\$ 18,089	\$ 6,407
CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS AT END OF PERIOD		
Cash and cash equivalents	\$ 17,754	\$ 6,165
Restricted deposits	335	242
TOTAL CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS, END OF PERIOD	\$ 18,089	\$ 6,407

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (continued)

	Year Ended December 31,	
	2018	2017
SCHEDULE OF CASH FLOW INFORMATION	(in thousands)	
Cash paid during the period for interest	\$ 3,057	\$ 1,946
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Dividends reinvested	\$ 1,657	\$ 998
Dividends declared and not paid	668	427
UPREIT distributions declared and not paid	386	323
Shares issued pursuant to trustee compensation plan	10	-
Acquisitions of assets in exchange for the issuance of noncontrolling interest units in UPREIT	3,985	500
Increase in land improvements due to increase in special assessments payable	57	104
Acquisition of assets with new financing	8,028	35,023
Acquisition of assets through assumption of debt and liabilities	270	594

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

NOTE 1 - ORGANIZATION

Sterling Office and Industrial Trust (“Sterling”, “the Trust” or “the Company”) is a registered, but unincorporated business trust organized in North Dakota in March 2016. Sterling has elected to be taxed as a Real Estate Investment Trust (“REIT”) under Sections 856-860 of the Internal Revenue Code, which requires that 75% of the assets of a REIT must consist of real estate assets and that 75% of its gross income must be derived from real estate. The net income of the REIT is allocated in accordance with the stock ownership in the same fashion as a regular corporation.

Sterling plans to hold all, or substantially all, of the assets through an operating partnership (“Sterling Office and Industrial Properties, LLLP”), a limited liability limited partnership (“LLLLP”) organized in North Dakota in March 2016. The Operating Partnership will own real estate investments and other real estate related assets, directly or indirectly. As the general partner, Sterling has management responsibility for all activities of the operating partnership. As of December 31, 2018 and 2017, Sterling owned approximately 63.4% and 57.0% of the operating partnership, respectively.

NOTE 2 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements include the accounts of Sterling and all subsidiaries for which we maintain a controlling interest.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of Sterling, Sterling Office and Industrial Properties, LLLP and wholly-owned limited liability companies. All significant intercompany transactions and balances have been eliminated in consolidation.

Additionally, we evaluate the need to consolidate affiliates based on standards set forth in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, Consolidation (“ASC 810”). In determining whether we have a requirement to consolidate the accounts of an entity, management considers factors such as our ownership interest, our authority to make decisions and contractual and substantive participating rights of the limited partners and shareholders, as well as whether the entity is a variable interest entity (“VIE”) for which we have both: a) the power to direct the activities of the VIE that most significantly impact the entity’s economic performance, and b) the obligation to absorb losses or the right to receive benefits from the VIE that could be potentially significant to the VIE.

Principal Business Activity

Sterling expects to acquire primarily freestanding, single or multi-tenant office and industrial properties net leased to creditworthy tenants.

Sterling owns 22 commercial industrial and office properties located in Arizona, Illinois, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Texas, West Virginia and Wisconsin as of December 31, 2018.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

Commercial Property	Location	No. of Properties	Sq. Ft
	Arizona	1	63,618
	Illinois	1	49,090
	Kansas	3	236,837
	Minnesota	4	279,617
	Missouri	1	18,502
	Nebraska	7	395,628
	North Dakota	1	102,000
	South Dakota	1	98,816
	Texas	1	72,800
	West Virginia	1	18,815
	Wisconsin	1	132,758
		22	1,468,481

Concentration of Credit Risk

Our cash balances are maintained in various bank deposit accounts. The bank deposit amounts in these accounts may exceed federally insured limits at various times throughout the year.

Real Estate Investments

Real estate investments are recorded at cost less accumulated depreciation. Ordinary repairs and maintenance are expensed as incurred.

The Company allocates the purchase price of each acquired investment property accounted for as a business combination based upon the estimated acquisition date fair value of the individual assets acquired and liabilities assumed, which generally include (i) land, (ii) building and other improvements, (iii) in-place lease value intangibles, (iv) acquired above and below market lease intangibles, (v) any assumed financing that is determined to be above or below market, (vi) the value of customer relationships and (vii) goodwill, if any. Transaction costs related to acquisitions accounted for as business combinations are expensed as incurred and included within "Administration of REIT expenses" in the accompanying consolidated statements of operations.

The Company elected to early adopt ASU 2017-01, Business Combinations, on a prospective basis as of July 1, 2017. This new guidance clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not considered a business and, thus, accounted for as an asset acquisition as opposed to a business combination. Refer to the "Recent Accounting Pronouncements" section within Note 2 to the consolidated financial statements. Under this guidance, the Company expects most acquisitions of investment property will meet this screen and, thus, be accounted for as asset acquisitions. The Company allocates the purchase price of each acquired investment property that is accounted for as an asset acquisition based upon the relative fair value of the individual assets acquired and liabilities assumed, which generally include (i) land, (ii) building and other improvements, (iii) in-place lease value intangibles, (iv) acquired above and below market lease intangibles, (v) any assumed financing that is determined to be above or below market and (vi) the value of customer relationships. Asset acquisitions do not give rise to goodwill and the related transaction costs are capitalized and included with the allocated purchase price.

For tangible assets acquired, including land, building and other improvements, the Company considers available comparable market and industry information in estimating acquisition date fair value. Key factors considered in the calculation of fair value of both real property and intangible assets include the current market rent values, "dark" periods (building in vacant status), direct costs estimated with obtaining a new tenant, discount rates, escalation factors, standard lease terms, and tenant improvement costs. The Company allocates a portion of the purchase price to the estimated acquired in-place lease value intangibles based on factors available in third party appraisals or cash flow estimates of the property prepared by our internal analysis. These estimates are based upon cash flow projections for the property, existing leases, lease origination costs for similar leases as well as lost rental payments during an

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

assumed lease-up period. The Company also evaluates each acquired lease as compared to current market rates. If an acquired lease is determined to be above or below market, the Company allocates a portion of the purchase price to such above or below market leases based upon the present value of the difference between the contractual lease payments and estimated market rent payments over the remaining lease term. Renewal periods are included within the lease term in the calculation of above and below market lease values if, based upon factors known at the acquisition date, market participants would consider it reasonably assured that the lessee would exercise such options. Fair value estimates used in acquisition accounting, including the discount rate used, require the Company to consider various factors, including, but not limited to, market knowledge, demographics, age and physical condition of the property, geographic location, and size and location of tenant spaces within the acquired investment property.

The portion of the purchase price allocated to acquired in-place lease value intangibles is amortized on a straight-line basis over the life of the related lease as amortization expense. The Company incurred amortization expense pertaining to acquired in-place lease value intangibles of \$5,413 and \$3,476 for the years ended December 31, 2018 and 2017, respectively.

The portion of the purchase price allocated to acquired above and below market lease intangibles is amortized on a straight-line basis over the life of the related lease as an adjustment to rental income. Amortization pertaining to above market lease intangibles of \$484 and \$505 for the years ended December 31, 2018 and 2017, respectively, was recorded as a reduction to income from rental operations. Amortization pertaining to below market lease intangibles of \$855 and \$369 for the years ended December 31, 2018 and 2017, respectively, was recorded as an increase to income from rental operations.

Furniture and fixtures are stated at cost less accumulated depreciation. All costs associated with the development and construction of real estate investments, including acquisition fees and interest, are capitalized as a cost of the property. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for routine maintenance and repairs, which do not add to the value or extend useful lives, are charged to expense as incurred.

Depreciation is provided for over the estimated useful lives of the individual assets using the straight-line method over the following estimated useful lives:

Building and improvements	40 years
Furniture, fixtures and equipment	5-9 years
Tenant improvements	1-20 years

Depreciation expense for the years ended December 31, 2018 and 2017 totaled \$4,319 and \$2,406 respectively.

The Company's investment properties are reviewed for potential impairment at the end of each reporting period whenever events or changes in circumstances indicate that the carrying value may not be recoverable. At the end of each reporting period, the Company separately determines whether impairment indicators exist for each property.

Examples of situations considered to be impairment indicators include, but are not limited to:

- a substantial decline or continued low occupancy rate;
- continued difficulty in leasing space;
- significant financially troubled tenants;
- a change in plan to sell a property prior to the end of its useful life or holding period;
- a significant decrease in market price not in line with general market trends; and
- any other quantitative or qualitative events or factors deemed significant by the Company's management or board of trustees.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

If the presence of one or more impairment indicators as described above is identified at the end of the reporting period or throughout the year with respect to an investment property, the asset is tested for recoverability by comparing its carrying value to the estimated future undiscounted cash flows. An investment property is considered to be impaired when the estimated future undiscounted cash flows from the use and eventual disposition of the property are less than its current carrying value. When performing a test for recoverability or estimating the fair value of an impaired investment property, the Company makes complex or subjective assumptions which include, but are not limited to:

- projected operating cash flows considering factors such as vacancy rates, rental rates, lease terms, tenant financial strength, demographics, holding period and property location;
- projected capital expenditures and lease origination costs;
- projected cash flows from the eventual disposition of an operating property using a property specific capitalization rate;
- comparable selling prices; and
- property specific discount rates for fair value estimates as necessary.

To the extent impairment has occurred, the Company will record an impairment charge calculated as the excess of the carrying value of the asset over its fair value for impairment of investment properties. There were no impairment losses on real estate properties during the years ended December 31, 2018 or 2017.

Cash and Cash Equivalents

We classify highly liquid investments with a maturity of three months or less when purchased as cash equivalents. Restricted cash includes funds escrowed for tenant security deposits, real estate tax, insurance and mortgage escrows and escrow deposits required by lenders on certain properties to be used for future building renovations or tenant improvements and potential Internal Revenue Code Section 1031 tax deferred exchanges (1031 Exchange).

Receivables

Receivables consist primarily of amounts due for rent and real estate taxes. The receivables are non-interest bearing. The carrying amount of receivables is reduced by an amount that reflects management's best estimates of the amounts that will not be collected. As of December 31, 2018 and 2017, management determined no allowance was necessary for uncollectible receivables.

Financing and Lease Costs

Financing costs related to lines of credit have been capitalized and are being amortized over the life of the financing using the effective interest method. Unamortized financing costs are written off when debt is retired before the maturity date and included in amortization expense at that time.

Lease costs incurred in connection with new leases have been capitalized and are being amortized over the life of the lease using the straight-line method. We record the amortization of leasing costs in depreciation and amortization on the consolidated statements of operations. If an applicable lease terminates prior to the expiration of its initial lease term, we write off the carrying amount of the costs to amortization expense.

Debt Issuance Costs

We amortize external debt issuance costs related to notes and mortgage notes using the effective interest rate method, over the estimated life of the related debt. We record debt issuance costs related to notes and mortgage notes, net of amortization, on our consolidated balance sheets as an offset to their related debt. We record debt issuance costs related to revolving lines of credit on our consolidated balance sheets as financing fees, regardless of whether a balance on the line of credit is outstanding. We record the amortization of all debt issuance costs as interest expense.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Dollar amounts in thousands, except share and per share data)

Intangible Assets

Lease intangibles are a result of the purchase price allocation recorded on property acquisition. The lease intangibles represent the estimated value of in-place leases, tenant relationships and the value of leases with above or below market lease terms. Lease intangibles are amortized over the term of the related lease.

The carrying amount of intangible assets is regularly reviewed for indicators of impairments in value. Impairment is recognized only if the carrying amount of the intangible asset is considered to be unrecoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the estimated fair value of the asset. Based on the review, management determined no impairment charges were necessary at December 31, 2018 and 2017.

Noncontrolling Interest

A noncontrolling interest in a subsidiary (minority interest) is in most cases an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and separate from the parent company's equity. In addition, consolidated net income is required to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest and the amount of consolidated net income attributable to the parent and the noncontrolling interest are required to be disclosed on the face of the consolidated statement of operations.

Operating Partnership: Interests in the operating partnership held by limited partners are represented by operating partnership units. The operating partnership's income is allocated to holders of units based upon the ratio of their holdings to the total units outstanding during the period. Capital contributions, distributions, syndication costs, and profits and losses are allocated to noncontrolling interests in accordance with the terms of the operating partnership agreement.

Syndication Costs

Syndication costs consist of costs paid to attorneys, accountants, and selling agents, related to the raising of capital. Syndication costs are recorded as a reduction to beneficial and noncontrolling interest.

Special Limited Partner

Pursuant to the LLLP Agreement, the Founders (as defined in the Trust's Private Placement Memorandum dated April 1, 2016) own, jointly, one (1) special limited partnership interest in the operating partnership. As a special limited partner, the Founders have no voting rights but have rights to certain redemption payments upon liquidation in exchange for the special limited partnership interest.

Federal Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code, as amended, beginning with our taxable year ending December 31, 2016. A REIT calculates taxable income similar to other domestic corporations, with the major difference being a REIT is entitled to a deduction for dividends paid. A REIT is generally required to distribute each year at least 90% of its taxable income. If it chooses to retain the remaining 10% of taxable income, it may do so, but it will be subject to a corporate tax on such income.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

A summary of the tax characterization of the dividends paid to shareholders of the Company's common stock for the years ended December 31, 2018 and 2017 as follows:

	Tax Year Ended December 31,			
	Dividend 2018	% 2018	Dividend 2017	% 2017
Tax status				
Ordinary income	\$ 0.5357	95.04 %	\$ 0.5064	92.08 %
Capital gain	-	- %	-	- %
Return of capital	0.0280	4.96 %	0.0436	7.92 %
	<u>\$ 0.5637</u>	<u>100.00 %</u>	<u>\$ 0.5500</u>	<u>100.00 %</u>

We intend to continue to qualify as a REIT and, provided we maintain such status, will not be taxed on the portion of the income that is distributed to shareholders. In addition, we intend to distribute all of our taxable income; therefore, no provisions or liabilities for income taxes have been recorded in the financial statements.

Sterling conducts its business activity as an Umbrella Partnership Real Estate Investment Trust ("UPREIT") through its Operating Partnership – Sterling Office and Industrial Properties, LLLP. The Operating Partnership is organized as a limited liability limited partnership. Income or loss is allocated to the partners in accordance with the provisions of the Internal Revenue Code 704(b) and 704(c). UPREIT status allows non-recognition of gain by an owner of appreciated real estate if that owner contributes the real estate to a partnership in exchange for a partnership interest. The conversion of a partnership interest to shares of beneficial interest in the REIT will be a taxable event to the limited partner.

We follow ASC Topic 740, *Income Taxes*, to recognize, measure, present and disclose in our consolidated financial statements uncertain tax positions that we have taken or expect to take on a tax return. As of December 31, 2018 and 2017, we did not have any liabilities for uncertain tax positions that we believe should be recognized in our consolidated financial statements.

We have elected to record related interest and penalties, if any, as income tax expense on the consolidated statements of operations and other comprehensive income.

Revenue Recognition

We derive over 95% of our revenues from tenant rents and other tenant-related activities. We lease commercial space primarily under long-term lease agreements. Commercial tenant rents include base rents, expense reimbursements (such as common area maintenance, real estate taxes and utilities), and a straight-line rent adjustment. We record base rents on a straight-line basis. The monthly base rent income according to the terms of our leases is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. The straight-line rent adjustment increased revenue by \$654 and \$459 for the years ended December 31, 2018 and 2017, respectively. The straight-line receivable balance included in receivables on the consolidated balance sheet as of December 31, 2018 and 2017 was \$1,253 and \$600, respectively. We receive payments for expense reimbursements from certain multi-tenant commercial tenants throughout the year based on estimates. Differences between estimated recoveries and the final billed amounts, which generally are immaterial, are recognized in the subsequent year.

Earnings per Common Share

Basic earnings per common share is computed by dividing net income available to common shareholders (the "numerator") by the weighted average number of common shares outstanding (the "denominator") during the period. Sterling had no dilutive potential common shares as of December 31, 2018 and 2017, and therefore, basic earnings per common share was equal to diluted earnings per common share for the period.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

For the years ended December 31, 2018 and 2017, Sterling's denominators for the basic and diluted earnings per common share were approximately 4,421,000 and 2,956,000 respectively.

Recent Accounting Pronouncements

In May 2014, the FASB and International Accounting Standards Board issued their final standard on revenue from contracts with customers, which was issued by the FASB as Accounting Standards Update 2014-09, Revenue from Contracts with Customers, or ASU 2014-09. ASU 2014-09, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, supersedes most current GAAP applicable to revenue recognition and converges U.S. and international accounting standards in this area. The core principle of the new guidance is that revenue shall only be recognized when an entity has transferred control of goods or services to a customer and for an amount reflecting the consideration to which the entity expects to be entitled for such exchange. Additionally, lease contracts are specifically excluded from ASU 2014-09. In July 2015, the FASB decided to defer the effective date for annual reporting periods beginning after December 15, 2018. Early adoption is permitted beginning on the original effective date of periods beginning after December 15, 2016. Upon adoption, ASU 2014-09 allows for full retrospective adoption applied to all periods presented or modified retrospective adoption with the cumulative effect of initially applying the standard recognized at the date of initial application. We have performed a review of the requirements of the new guidance and have identified which of our revenue streams will be within the scope of ASU 2014-09. We have completed an adoption plan which included a review of transactions supporting each revenue stream to determine the impact of accounting treatment under ASU 2014-09, an evaluation of the method of adoption and assessing changes that might be necessary to information technology systems, processes and internal controls to capture new data and address changes in financial reporting. We adopted this standard effective as of January 1, 2018 and have concluded that the adoption of this guidance did not have an impact on our financial position or results of operations. We concluded this standard will have an impact on the disclosure of gain/loss on sale of real estate investments upon the adoption of the update ASU 2014-09, but will not have an impact on "total real estate rental income."

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which superseded FASB ASC Topic 840. The standard for operating leases as lessor is largely unchanged under ASU 2016-02. However, the standard requires lessees to recognize lease assets and lease liabilities for leases classified as operating and finance leases on the balance sheet. Lessees will recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it will recognize lease expense for such leases generally on a straight-line basis over the lease term.

The Company intends to early adopt the new standard effective January 1, 2019. The new standard was adopted using the optional transition method to apply the standard as of the effective date. The Company elected to apply the package of practical expedients for the leases as lessor for its commercial leases and these leases will continue to be accounted for as operating leases as of the effective date. Further, the Company elected the practical expedient to combine lease and non-lease components for leases as lessor. Finally, the Company evaluated taxes collected from lessees, lessor costs paid directly by lessees, and initial direct costs and determined that the guidance was consistent with existing practice. Based on these evaluations, the Company determined that for leases as lessor, as of January 1, 2019, there was no impact on lease revenue or related expenses.

In November 2016, the FASB issued ASU No. 2016-18 to require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted. The pronouncement requires a retrospective transition method of adoption. Upon adoption, the Company will include amounts generally described

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

as restricted cash within the beginning-of-period, change and end-of-period total amounts on the statement of cash flows rather than within an activity on the statement of cash flows.

In August 2016, the FASB issued ASU No. 2016-15 to provide guidance for areas where there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not currently anticipate that the guidance will have a material impact on our consolidated financial statements.

The new standards must be applied retrospectively to all periods presented in the financial statements. The Company adopted the new standards effective January 1, 2018. While overall cash flows did not change, there were changes between cash flow classifications due primarily to restricted deposits.

As of December 31, 2017, the following cash flows were reclassified:

	As Originally Presented	Year Ended December 31, 2017 Reclassification Adjustments (in thousands)	As Presented Herein
Cash Flows from Operating Activities:			
Restricted deposits - tenant security deposits	\$ (42)	\$ 42	\$ -
Net provided by in operating activities	\$ 3,342	\$ 42	\$ 3,384
Cash Flows from Investing Activities			
Restricted deposits - replacement reserves	\$ (200)	\$ 200	\$ -
Net cash used in Investing activities	\$ (19,385)	\$ 200	\$ (19,185)
Cash and cash equivalents, beginning of period	\$ 9,177		
(adjustments for restricted deposits, beginning of period)		\$ 242	
Cash and cash equivalents and restricted deposits, beginning of period			\$ 9,419
Cash and cash equivalents, end of period	\$ 6,165		
(adjustments for restricted deposits, end of period)		\$ 242	
Cash and cash equivalents and restricted deposits, end of period			\$ 6,407

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying Consolidated Financial Statements.

NOTE 3 – REAL ESTATE INVESTMENTS

As of December 31, 2018

	(in thousands)
Land and land improvements	\$ 26,673
Building and improvements	81,178
Furniture, fixtures and equipment	80
Contruction in progress	1,110
	109,041
Less accumulated depreciation	(5,941)
	<u>\$ 103,100</u>

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Dollar amounts in thousands, except share and per share data)

As of December 31, 2017

	(in thousands)
Land and land improvements	\$ 23,331
Building and improvements	70,813
Furniture, fixtures and equipment	80
	<u>94,224</u>
Less accumulated depreciation	<u>(2,736)</u>
	<u>\$ 91,488</u>

NOTE 4 – RESTRICTED DEPOSITS AND FUNDED RESERVES

Tenant Security Deposits

We have set aside funds to repay tenant security deposits upon tenant move-out.

Replacement Reserves

Pursuant to the terms of certain mortgages, we have established and maintain replacement reserve accounts.

NOTE 5 – LEASE INTANGIBLES

The following table summarizes the net value of other intangible assets and liabilities and the accumulated amortization for each class of intangible:

As of December 31, 2018	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
Intangible Assets		(in thousands)	
In-place leases	\$ 20,955	\$ (6,935)	\$ 14,020
Above-market leases	1,755	(692)	1,063
	<u>\$ 22,710</u>	<u>\$ (7,627)</u>	<u>\$ 15,083</u>
Intangible Liabilities			
Below-market leases	\$ (5,250)	\$ 1,155	\$ (4,095)
	<u>\$ (5,250)</u>	<u>\$ 1,155</u>	<u>\$ (4,095)</u>

As of December 31, 2017	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
Intangible Assets		(in thousands)	
In-place leases	\$ 21,028	\$ (3,841)	\$ 17,187
Above-market leases	1,899	(526)	1,373
	<u>\$ 22,927</u>	<u>\$ (4,367)</u>	<u>\$ 18,560</u>
Intangible Liabilities			
Below-market leases	\$ (4,807)	\$ 433	\$ (4,374)
	<u>\$ (4,807)</u>	<u>\$ 433</u>	<u>\$ (4,374)</u>

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

The estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

Years ending December 31,	Intangible Assets	Intangible Liabilities
	(in thousands)	
2019	\$ 3,461	\$ 728
2020	2,852	701
2021	2,142	625
2022	1,316	363
2023	744	238
Thereafter	4,568	1,440
	<u>\$ 15,083</u>	<u>\$ 4,095</u>

The weighted average amortization period for the intangible assets (in-place leases, above-market leases) and intangible liabilities (below-market leases) acquired as of December 31, 2018 was 4.23 years.

NOTE 6 – LINE OF CREDIT

We have a \$2,920 variable rate (1-month LIBOR plus 2.00%) line of credit agreement with Bank of the West, which expires in June 2020. The line of credit is secured by property in Kansas City, Missouri and Scott Depot, West Virginia. At December 31, 2018 and 2017, there was no balance outstanding on the line of credit, leaving \$2,920 available and unused under the agreement.

The line of credit agreement includes covenants that, in part, impose maintenance of certain debt service coverage ratios. As of December 31, 2018, we were in compliance with all covenants.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Dollar amounts in thousands, except share and per share data)

NOTE 7 – MORTGAGE NOTES PAYABLE

The following table summarizes the Company's mortgage notes payable:

Property Name	Maturity Date	Interest Rate Per Annum	December 31, 2018	December 31, 2017
(in thousands)				
Dock 99	10/10/21	3.53 %	\$ 5,405	\$ 5,619
Five Star 1-3	05/20/28	4.79 %	7,927	-
College Oaks A	01/01/28	4.20 %	11,648	11,900
College Oaks C	01/01/28	4.20 %	1,958	2,000
College Oaks D	01/01/28	4.20 %	2,643	2,700
Little Potato Company	12/21/21	4.35 %	10,027	10,268
MPP-Corsicana, TX	05/10/23	3.72 %	1,615	1,679
MPP-DuQuoin, IL	05/10/23	3.72 %	975	1,014
MPP-Phoenix, AZ	05/10/23	3.72 %	1,714	1,782
North Park 1 and 2	12/15/21	3.91 %	7,134	7,321
North Park 4 and 5	02/10/24	4.54 %	11,212	11,478
Pacific Hills 3, 4, 5 and 6	09/14/27	4.60 %	6,538	6,686
Shoremaster	04/30/21	4.13 %	3,582	3,685
Silvercote	07/01/21	4.15 %	3,010	3,088
Fixed rate mortgage notes payable			75,388	69,220
Less unamortized debt issuance costs			(440)	(500)
			<u>\$ 74,948</u>	<u>\$ 68,720</u>

As of December 31, 2018, we had 14 fixed rate and no variable rate mortgage loans with effective interest rates ranging from 3.53% to 4.79% per annum and a weighted average effective interest rate of 4.26% per annum.

As of December 31, 2017, we had 13 fixed rate and no variable rate mortgage loans with effective interest rates ranging from 3.53% to 4.60% per annum and a weighted average effective interest rate of 4.20% per annum.

The majority of the Company's mortgages payable require monthly payments of principal and interest. Mortgages are secured by the respective properties, assignment of rents, business assets, deeds to secure debt, deeds of trust and/or cash deposits with the lender.

Certain mortgage note agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to worth ratios. As of December 31, 2018, one loan was out of compliance due to repairs and bathroom remodels. Annual waiver has been received from the lender. As of December 31, 2017, no loans were out of compliance.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

We are required to make the following principal payments on our outstanding mortgage notes payable for each of the five succeeding fiscal years and thereafter as follows:

Years ending December 31,	Amount
	(in thousands)
2019	\$ 2,026
2020	2,116
2021	28,730
2022	1,350
2023	4,752
Thereafter	36,414
Total payments	\$ 75,388

NOTE 8 – NONCONTROLLING INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP

Non-controlling Interests

As of December 31, 2018 and 2017, outstanding common limited partnership units totaled 2,735,000 and 2,347,000, respectively. The operating partnership declared fourth quarter distributions of \$386 and \$323, respectively, to limited partners paid in January 2019 and 2018, respectively. Distributions per unit were \$0.5637 and \$0.5500 during the years ended December 31, 2018 and 2017, respectively.

Limited Partners may request the operating partnership to exchange their limited partnership units. The operating partnership may choose to offer the Limited Partner: (i) cash for the exchange or, at the request of the Limited Partner, (2) shares in lieu of cash for the exchange on a basis of one limited partnership unit for one Sterling common share (the “Exchange Request”). The Exchange Request shall be exercised pursuant to a Notice of Exchange. If the issuance of Sterling common shares pursuant to an Exchange Request will cause the shareholder to exceed the ownership limitations, as defined in the Declaration of Trust and/or the Limited Liability Partnership Agreement, among other reasons, payment will be made to the Limited Partner in cash. No Limited Partner may exercise an Exchange Request more than twice during any calendar year, and Exchange Requests may not be made for less than 1,000 limited partnership units. If a Limited Partner owns less than 1,000 limited partnership units, all of the limited partnership units held by the Limited Partner must be exchanged pursuant to the Exchange Request.

Special Limited Partner

As of December 31, 2018 and 2017, outstanding special limited partnership units totaled 1.

Pursuant to the LLLP Agreement, the Founders (as defined in the Trust’s Private Placement Memorandum dated April 1, 2016) own, jointly, one (1) special limited partnership interest in the operating partnership. As a special limited partner, the Founders have no voting rights but have rights to certain redemption payments in exchange for the special limited partnership interest, as described below:

- In connection with a merger or sale of assets or other transaction, or our shares of beneficial interest become listed on a national securities exchange, the operating partnership will redeem the Founders’ special limited partnership interest for \$5,000 plus an amount equal to 15% of the net proceeds remaining, as if all assets of the Trust and the operating partnership had been sold for such value and all liabilities had been satisfied in full according to their terms. The proceeds shall be determined utilizing the then current established share/unit price, or if greater, the value of the partners or shareholders original contribution.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

Redemption of the Founders' special limited partnership interest for the amounts stated above shall be in cash or, at the option of the Founders, units of limited partner interests in our operating partnership or common shares of beneficial interest in the Trust.

NOTE 9 – REDEMPTION PLANS

Our Board of Trustees has approved redemption plans that enable our shareholders to sell their common shares and the partners of our operating partnership to sell their limited partnership units to us, after they have held the securities for at least one year and subject to other conditions and limitations described in the plans.

Our redemption plans currently provide that the maximum amount that can be redeemed under the plan is \$5,000 worth of securities. Currently, the fixed redemption price is \$9.25 per share or unit under the plans which price became effective January 1, 2018. Prior to January 1, 2018 the redemption price was \$9.00 per share or unit under the plan.

We may redeem securities under the plans provided the aggregate total has not been exceeded if we have sufficient funds to do so. The plans will terminate in the event the shares become listed on any national securities exchange, the subject of bona fide quotes on any inter-dealer quotation system or electronic communications network or are the subject of bona fide quotes in the pink sheets. Additionally, the Board, in its sole discretion, may terminate, amend or suspend the redemption plans, either or both of them, if it determines to do so in its sole discretion.

During the years ended December 31, 2018 and 2017, the Company redeemed no common shares or units.

NOTE 10 – BENEFICIAL INTEREST

We are authorized to issue 100,000,000 voting common shares of beneficial interest with \$0.01 par value and 50,000,000 voting preferred shares with \$0.01 par value, which collectively represent the beneficial interest of Sterling. As of December 31, 2018 and 2017, there were 4,743,000 and 3,108,000 common shares outstanding. We had no preferred shares outstanding as of either date.

The Trust declared fourth quarter distributions of \$668 and \$427 to limited partners paid in January 2019 and 2018, respectively. Dividends paid to holders of common shares were \$0.5637 and \$0.5500 per share for the years ended December 31, 2018 and 2017, respectively.

NOTE 11 – DIVIDEND REINVESTMENT PLAN

Our Board of Trustees approved a dividend reinvestment plan to provide existing holders of our common shares with a convenient method to purchase additional common shares without payment of brokerage commissions, fees or service charges.

Under this plan, eligible shareholders may elect to have all or a portion (but not less than 25%) of the cash dividends they receive automatically reinvested in our common shares. The purchase price per common share under the plan equals 95% of the estimated value per common share for dividend reinvestments, as determined by our Board of Trustees.

The purchase price per common share for dividend reinvestments was \$9.74 and \$9.50 at December 31, 2018 and 2017, respectively. The Board, in its sole discretion, may amend, suspend or terminate the plan at any time, without the consent of shareholders, upon a ten day notice to participants.

During the year ended December 31, 2018, 170,000 shares were issued pursuant to dividend reinvestments under the plan. During the year ended December 31, 2017, 105,000 shares were issued pursuant to dividend reinvestments under the plan.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

NOTE 12 – RELATED PARTY TRANSACTIONS

Property Management Fee

During the years ended December 31, 2018 and 2017, we paid property management fees to GOLDMARK Property Management in an amount equal to approximately 5% of rents of the properties managed. GOLDMARK Property Management is owned in part by Kenneth Regan and James Wieland, two of our trustees. For the years ended December 31, 2018 and 2017, we paid management fees of \$13 and \$16, respectively, to GOLDMARK Property Management. In addition, during the years ended December 31, 2018 and 2017, we paid repair and maintenance related payroll and payroll related expenses to GOLDMARK Property Management totaling \$3 and \$2, respectively.

Board of Trustee Fees

We incurred independent Trustee fees of \$24 during both years ended December 31, 2018 and 2017. As of December 31, 2018 and 2017 we owed our independent Trustees \$11 and \$4 for unpaid board of trustee fees, respectively. In March 2018, our Board revised the Trustee Compensation Plan effective March 28, 2018.

The plan provides:

	March 28 through December 31, 2018	Prior to March 28, 2018 (1)	2017 (1)
Board Chairman – Board Meeting	118 shares/meeting	\$1,200/meeting	\$1,200/meeting
Trustee – Board Meeting	79 shares/meeting	\$800/meeting	\$800/meeting
Committee Chair – Committee Meeting	30 shares/meeting	\$300/meeting	\$300/meeting
Trustee – Committee Meeting	30 shares/meeting	\$300/meeting	\$300/meeting

(1) The amounts in the table are actual amounts paid, not rounded.

Common shares earned in accordance with the plan are calculated on an annual basis. Shares earned pursuant to the Trustee Compensation Plan are issued on or about July 15 for Trustees' prior year of service. Non-independent Trustees are not compensated for their service on the Board or Committees.

Advisory Agreement

We are an externally managed trust and as such, although we have a Board of Trustees and executive officers responsible for our management, we have no paid employees. The following is a brief description of the current fees and compensation that may be received by the Advisor under the Advisory Agreement, which must be renewed on an annual basis and approved by a majority of the independent trustees. The Advisory Agreement was approved by the Board of Trustees (including all the independent Trustees) on March 28, 2018, effective January 1, 2018.

Management Fee: 0.8% of our total assets (before depreciation and amortization), annually. Total assets are our gross assets (before depreciation and amortization) as reflected on our consolidated financial statements, taken as of the end of the fiscal quarter last preceding the date of computation. The management fee will be payable monthly in cash or our common shares, at the option of the Advisor, not to exceed one-twelfth of 0.8% of the total assets as of the last day of the immediately preceding month. The management fee calculation is subject to quarterly and annual reconciliations. The management fee may be deferred at the option of the Advisor, without interest.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

During the years ended December 31, 2018 and 2017, we incurred advisory management fees of \$1,170 and \$798 with Sterling Management, LLC, our Advisor. As of December 31, 2018, and 2017, we owed our Advisor \$101 and \$83, respectively, for unpaid advisory management fees. These fees cover the office facilities, equipment, supplies, and staff required to manage our day-to-day operations. In addition, during the years ended December 31, 2018 and 2017, we reimbursed the Advisor for operating expenses such as travel and meals, legal and office supplies totaling \$19 and \$15, respectively.

Acquisition Fee: For its services in investigating and negotiating acquisitions of investments for us, the Advisor receives an acquisition fee of 2.5% of the purchase price of each property acquired, capped at \$375 per acquisition. The total of all acquisition fees and acquisition expenses cannot exceed 6% of the purchase price of the investment, unless approved by a majority of the trustees, including a majority of the independent trustees, if they determine the transaction to be commercially competitive, fair and reasonable to us.

During the years ended December 31, 2018 and 2017, we incurred acquisition fees of \$369 and \$1,009, respectively, with our Advisor. As of December 31, 2018, we had no unpaid acquisition fees. As of December 31, 2017, we owed our Advisor \$375 for unpaid acquisition fees.

Disposition Fee: For its services in the effort to sell any investment for us, the Advisor receives a disposition fee of 2.5% of the sales price of each property disposition, capped at \$375 per disposition.

Financing Fee: 0.25% of all amounts made available to us pursuant to any loan, refinance (excluding rate and/or term modifications of an existing loan with the same lender), line of credit or other credit facility, capped at \$38 per loan, refinance (excluding rate and/or term modifications of an existing loan with the same lender), line of credit or other credit facility.

During the years ended December 31, 2018 and 2017, we incurred financing fees of \$24 and \$84, respectively, with our Advisor for loan financing and refinancing activities. As of December 31, 2018 we had no unpaid financing fees. As of December 31, 2017, we owed our Advisor \$38 for unpaid financing fees.

Development Fee: Based on regressive sliding scale (starting at 5% and declining to 3%) of total project costs, excluding cost of land, for development services requested by us.

Total Cost	Fee	Range of Fee	Formula
0 - 10M	5.0 %	0 - .5M	0M - 5.0% x (TC - 0M)
10M - 20M	4.5 %	.5 M - .95M	.50M - 4.5% x (TC - 10M)
20M - 30M	4.0 %	.95 M - 1.35M	.95M - 4.0% x (TC - 20M)
30M - 40M	3.5 %	1.35 M - 1.70M	1.35M - 3.5% x (TC - 30M)
40M - 50M	3.0 %	1.70 M - 2.00M	1.70M - 3.0% x (TC - 40M)

TC = Total Project Cost

Operating Partnership Units Issued in Connection with Acquisitions

During the period ended December 31, 2018, we issued directly or indirectly, 173,000 operating partnership units to entities affiliated with Messrs. Regan and Wieland, two of our trustees, in connection with the acquisition of various properties. The aggregate value of these units was \$1,778.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

Commissions

During the years ended December 31, 2018 and 2017, we incurred real estate commissions of \$127 and \$630, respectively, owed to GOLDMARK SCHLOSSMAN Commercial Real Estate Services, Inc., which is controlled by Messrs. Regan, Wieland, and Thomsen. There were no outstanding commissions owed as of December 31, 2018 or 2017.

During the year ended December 31, 2018, we incurred brokerage fees of \$234 and \$80 to a broker-dealer benefiting Dale Lian and James Echtenkamp, respectively, shareholders of Sterling and members of our Advisor. During the year ended December 31, 2017, we incurred brokerage fees of \$348, \$73, and \$66 to a broker-dealer benefiting Dale Lian, Joel Thomsen, and James Echtenkamp, respectively, shareholders of Sterling and members of our Advisor. Brokerage fees were based on 7% of the purchase price of Sterling common shares sold. There were no outstanding brokerage fees owed as of December 31, 2018 or 2017.

NOTE 13 – RENTALS UNDER OPERATING LEASES / RENTAL INCOME

Commercial properties are leased to tenants under terms expiring at various dates through 2036. Lease terms often include renewal options. For the years ended December 31, 2018 and 2017, gross revenues from commercial property rentals, including CAM income (common area maintenance) of \$2,433 and \$1,897, respectively, totaled \$18,213 and \$10,040, respectively.

Commercial space is rented under long-term agreements. Minimum future rentals on non-cancelable operating leases as of December 31, 2018 are as follows:

Years ending December 31,	Amount (in thousands)
2019	\$ 12,987
2020	13,234
2021	12,501
2022	10,108
2023	7,266
Thereafter	38,029
	<u><u>\$ 94,125</u></u>

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Environmental Matters

Federal law (and the laws of some states in which we own or may acquire properties) imposes liability on a landowner for the presence on the premises of hazardous substances or wastes (as defined by present and future federal and state laws and regulations). This liability is without regard to fault or knowledge of the presence of such substances and may be imposed jointly and severally upon all succeeding landowners. If such hazardous substance is discovered on a property acquired by us, we could incur liability for the removal of the substances and the cleanup of the property.

There can be no assurance that we would have effective remedies against prior owners of the property. In addition, we may be liable to tenants and may find it difficult or impossible to sell the property either prior to or following such a cleanup.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

Risk of Uninsured Property Losses

We maintain property damage, fire loss, and liability insurance. However, there are certain types of losses (generally of a catastrophic nature) which may be either uninsurable or not economically insurable. Such excluded risks may include war, earthquakes, tornados, certain environmental hazards, and floods. Should such events occur, (i) we might suffer a loss of capital invested, (ii) tenants may suffer losses and may be unable to pay rent for the spaces, and (iii) we may suffer a loss of profits which might be anticipated from one or more properties.

Litigation

The Company is subject, from time to time, to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of such matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material effect on the financial statements of the Company.

NOTE 15 – BUSINESS COMBINATIONS AND ACQUISITIONS

The Company closed on the following property acquisitions during the period ended December 31, 2018:

<u>Date</u>	<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Units/ Square</u>	<u>Acquisition</u>
				<u>Footage/ Acres</u>	<u>Price</u>
					(in thousands)
02/16/18	Barry Pointe	Kansas City, MO	Office	18,502 sq. ft.	\$ 2,280
05/24/18	Five Star 1	Maple Grove, MN	Industrial	47,350 sq. ft.	3,623
05/24/18	Five Star 2	Maple Grove, MN	Industrial	66,449 sq. ft.	5,083
05/24/18	Five Star 3	Maple Grove, MN	Industrial	49,213 sq. ft.	3,765
					<u>\$ 14,751 (a)</u>

(a) Acquisition price does not include capitalized closing costs and adjustments of \$525.

Total consideration given for acquisitions for the year ended December 31, 2018 was completed through issuing approximately 389,000 limited partnership units of the operating partnership valued at \$10.25 per unit, for an aggregate consideration of approximately \$3,985, new loans of \$8,028 and assumed liabilities of \$270 and cash of \$2,993. The value of units issued in exchange for property is determined through a value established annually by our Board of Trustees, and reflects the estimated fair value at the time of issuance.

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Dollar amounts in thousands, except share and per share data)

The Company closed on the following property acquisitions during the period ended December 31, 2017:

Date	Property Name	Location	Property Type	Units/ Square	Acquisition	
				Footage/		Price
				Acres		(in thousands)
02/16/17	North Park 4	Omaha, NE	Office	99,295 sq. ft.	\$ 10,098	
02/16/17	North Park 5	Omaha, NE	Office	71,429 sq. ft.	7,902	
09/14/17	Pacific Hills 3	Omaha, NE	Office	34,130 sq. ft.	3,237	
09/14/17	Pacific Hills 4	Omaha, NE	Office	35,449 sq. ft.	3,623	
09/14/17	Pacific Hills 5	Omaha, NE	Office	34,123 sq. ft.	3,221	
09/14/17	Pacific Hills 6	Omaha, NE	Land	0.8 acres	261	
12/21/17	College Oaks A	Overland Park, KS	Office	168,570 sq. ft.	18,081	
12/21/17	College Oaks C	Overland Park, KS	Office	31,275 sq. ft.	3,195	
12/21/17	College Oaks D	Overland Park, KS	Office	36,992 sq. ft.	4,244	
					\$ 53,862 (a)	

(a) Acquisition price does not include capitalized closing costs and adjustments of \$1,088.

Total consideration given for acquisitions for the year ended December 31, 2017 was completed through issuing approximately 50,000 limited partnership units of the operating partnership valued at \$10.00 per unit, for an aggregate consideration of approximately \$500, new loans of \$35,023 and assumed liabilities of \$594 and cash of \$18,833. The value of units issued in exchange for property is determined through a value established annually by our Board of Trustees, and reflects the estimated fair value at the time of issuance.

The following table summarizes the acquisition date fair values, before proration, the Company recorded in conjunction with the acquisitions discussed above:

	2018	2017
	(in thousands)	
Land, building, tenant improvements and FF&E	\$ 13,431	\$ 45,424
Acquired lease intangible assets	2,421	11,314
Acquired lease intangible liabilities	(576)	(1,788)
Other liabilities	(270)	(594)
Net assets acquired	15,006	54,356
Equity/limited partnership unit consideration	(3,985)	(500)
New loans	(8,028)	(35,023)
Net cash consideration	<u>\$ 2,993</u>	<u>\$ 18,833</u>

The acquisitions completed after July 1, 2017 were considered asset acquisitions and, as such, transaction costs were capitalized upon closing. For acquisitions prior to July 1, 2017, which were accounted for as business combinations, the transaction costs totaled \$679 for the year ended December 31, 2017, are included in "Acquisition expenses" in the accompanying consolidated statements of operations.

Estimated Value of Units/Shares

The Board determined the value of the shares and limited partnership units to be \$10.00 per share/unit effective January 1, 2017. The Board determined the value of the shares and limited partnership units to be \$10.25 per share/unit

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(Dollar amounts in thousands, except share and per share data)

effective January 1, 2018. The price of shares and limited partnership units was arbitrarily determined by the Board of Trustees and should not be considered as an objective indication of the actual value of the Company or the shares or units and it bears no relationship to the Trust's assets, earnings, book value or any other objective value.

In determining this value, the Board relied upon their experience with, and knowledge about, the Trust's real estate portfolio and debt obligations. The Board typically determines the share price on an annual basis.

The trustees determined the current price for 2019 in their discretion and use data points to guide their determination which is typically based on a consensus of opinion. In addition, the Board considers how the price chosen will affect existing share and unit values, redemption prices, dividend coverage ratios, yield percentages, dividend reinvestment factors, and future UPREIT transactions, among other considerations and information.

The Board determined the value of the shares and limited partnership units to be \$10.00 per share/unit effective January 1, 2017. The Board determined the fair value of the shares and limited partnership units to be \$10.25 per share/unit effective January 1, 2018, and this is the current price.

Determination of price is a matter within the Board's sole discretion. The Trust does not determine price based on any rote formula or specific factors. At this time, no shares are held in street name accounts and the Trust is not subject to FINRA's specific pricing requirements set out in Rule 2340 or otherwise. Thus, the Trust does not employ any specific valuation methodology or formula. Rather, the Board looks to available data and information, which is often adjusted and weighted to comport more closely with the assets held by the Trust at the time of valuation. The principal valuation methodology utilized is the NAV calculation/direct capitalization method. The information made available to the Board is assembled by the Trust's Advisor.

As with any valuation methodology, the methodologies utilized by the Board in reaching an estimate of the value of the shares and limited partnership units are based upon a number of estimates, assumptions, judgments or opinions that may, or may not, prove to be correct. The use of different estimates, assumptions, judgments, or opinions would likely have resulted in significantly different estimates of the value of the shares and limited partnership units. In addition, the Board's estimate of share and limited partnership unit value is not based on the book values of our real estate, as determined by GAAP, as our book value for most real estate is based on the amortized cost of the property, subject to certain adjustments.

Furthermore, in reaching an estimate of the value of the shares and limited partnership units, the Board applied a liquidity discount to one valuation scenario in order to reflect the fact that the shares and limited partnership units are not currently traded on a national securities exchange; a discount for debt that may include a prepayment obligation or a provision precluding assumption of the debt by a third party; or the costs that are likely to be incurred in connection with an appropriate exit strategy, whether that strategy might be a listing of the limited partnership units or common shares on a national securities exchange or a merger or sale of our portfolio.

NOTE 16 - SUBSEQUENT EVENTS

On January 15, 2019, we paid a dividend or distribution of \$0.1409 per share on our common shares of beneficial interest or limited partnership units, to common shareholders and limited unit holders of record on December 31, 2018.

Pursuant to the Purchase Agreement dated January 9, 2019 and the First Amendment to Purchase Agreement dated March 6, 2019, the operating partnership purchased 6 industrial properties located in Aberdeen and Pierre, SD; Fargo, ND; Rochester, MN; and La Crosse and Plover, WI for approximately \$19,190 on March 11, 2019. The purchase price was financed with debt and cash.

Pending acquisitions and dispositions are subject to numerous conditions and contingencies and there are no assurances that the transactions will be completed

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Dollar amounts in thousands, except share and per share data)

We have evaluated subsequent events through the date of this report. We are not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.



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