TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL RESULTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014

August 6, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the unaudited condensed consolidated interim financial results of True North Commercial Real Estate Investment Trust (the "REIT") dated August 6, 2014, for the three and six months ended June 30, 2014 should be read in conjunction with the REIT's audited annual consolidated financial statements for the year ended December 31, 2013 and the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2014 and 2013 and the accompanying notes thereto. These documents are available on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking statements are provided for the purposes of assisting the reader in understanding the REIT's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and readers are cautioned such statements may not be appropriate for other purposes. Forward-looking information may relate to future results, performance, achievements, events, prospects or opportunities for the REIT or the real estate industry and may include statements regarding the financial position, business strategy, budgets, projected costs, capital expenditures, financial results, taxes, plans and objectives of or involving the REIT. In some cases, forward-looking information can be identified by such terms as "may", "might", "will", "could", "should", "would", "expect", "plan", "anticipate", "believe", "intend", "seek", "aim", "estimate", "target", "goal", "project", "predict", "forecast", "potential", "continue", "likely", or the negative thereof or other similar expressions concerning matters that are not historical facts.

Forward-looking statements necessarily involve known and unknown risks and uncertainties, which may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, assumptions may not be correct and objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the REIT's control, affect the operations, performance and results of the REIT and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to, risks related to the trust units of the REIT ("Units") and risks related to the REIT and its business. See "Risks and Uncertainties". The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance actual results will be consistent with such forward-looking statements.

Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations believed to be appropriate in the circumstances, including the following: the Canadian economy will remain stable over the next 12 months; inflation will remain relatively low; interest rates will remain stable; conditions within the real estate market, including competition for acquisitions, will be consistent with the current climate; the Canadian capital markets will provide the REIT with access to equity and/or debt at reasonable rates when required; and the risks referenced above, collectively, will not have a material impact on the REIT. While management considers these assumptions to be reasonable based on currently available information, they may prove to be incorrect.

The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Except as specifically required by applicable Canadian law, the REIT undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

NON-IFRS FINANCIAL MEASURES

Certain terms used in this MD&A such as Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO"), Adjusted Funds from Operations Normalized ("AFFO Normalized"), Net Operating Income ("NOI"), indebtedness ("Indebtedness"), gross book value ("GBV") and Indebtedness to GBV Ratio are not measures defined under IFRS as prescribed by the International Accounting Standards Board, do not have standardized meanings prescribed by IFRS and should not be compared to or construed as alternatives to profit/loss, cash flow from operating activities or other measures of financial performance calculated in accordance with International Financial Reporting Standards ("IFRS"). FFO, AFFO, AFFO Normalized, NOI, Indebtedness, GBV and Indebtedness to GBV Ratio as computed by the REIT may not be comparable to similar measures presented by other issuers.

FFO is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for other capital needs. The REIT calculates FFO in accordance with the guidelines set out by the Real Property Association of Canada. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance.

AFFO is an important performance measure to determine the sustainability of future distributions paid to holders of Units ("Unitholders") after a provision for capital expenditures, tenant inducements and leasing costs. AFFO is calculated as FFO subject to certain adjustments, including: (a) amortization of fair value mark-to-market adjustments on mortgages acquired, amortization of deferred financing costs, amortization of tenant inducements and compensation expense related to Unit-based incentive plans; and (b) a deduction of a reserve for normalized maintenance capital expenditures. Other adjustments may be made to AFFO as determined by the trustees of the REIT ("Trustees") in their discretion. AFFO Normalized is also an important performance measure, defined as AFFO adjusted for non-recurring items and other items as determined by the Trustees. AFFO and AFFO Normalized should not be interpreted as an indicator of cash generated from operating activities as neither considers changes in working capital. Management considers these non-IFRS measures to be important measures of the REIT's operating performance.

NOI is defined by the REIT as rental revenue from property operations less property operating costs and property taxes. NOI is presented in this MD&A because management considers this non-IFRS measure to be a valuable measure for evaluating the operating performance of the REIT's properties.

Indebtedness is defined in the REIT's Amended and Restated Declaration of Trust ("DOT") made as of May 22, 2014, and is a measure of the amount of leverage utilized by the REIT. GBV is defined in the DOT and is a measure of the value of the REIT's assets. The Indebtedness to GBV ratio is a compliance measure in the DOT and establishes the limit of financial leverage for the REIT. The indebtedness to GBV ratio is presented in this MD&A as management considers this non-IFRS measure to be an important measure of the REIT's financial position.

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OVERVIEW AND STRATEGY

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to the DOT, and governed by the laws of the Province of Ontario. The registered office of the REIT is 1801 – 3300 Bloor Street West, West Tower, Toronto, Ontario, Canada, M8X 2X2. The REIT is listed on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN.

The REIT is focused on acquiring and owning commercial rental properties across Canada and other jurisdictions where opportunities exist.

The objectives of the REIT are to:

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

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

BASIS OF PRESENTATION

The REIT's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2014 and 2013 have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of dollars, except for Unit and per Unit information.

On June 19, 2013, the Units and the class B limited partnership units ("Class B LP Units") of True North Commercial Limited Partnership ("the Partnership") were consolidated (the "Consolidation") on the basis of one post-consolidation Unit or Class B LP Unit for every two pre-consolidation Unit or Class B LP Unit, respectively.

Certain time periods used in the MD&A are used interchangeably such as three months ended June 30, 2014 ("Q2-2014"), six months ended June 30, 2014 ("YTD – 2014"), three months ended June 30, 2013 ("Q2-2013"), and six months ended June 30, 2013 ("YTD – 2013").

PROPERTY PROFILE

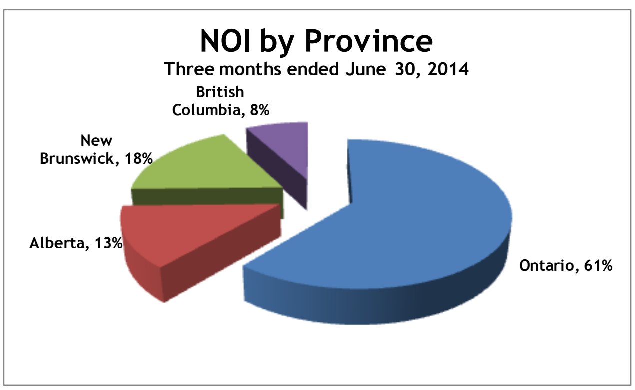
The following table highlights certain information about the REIT's properties as at June 30, 2014:

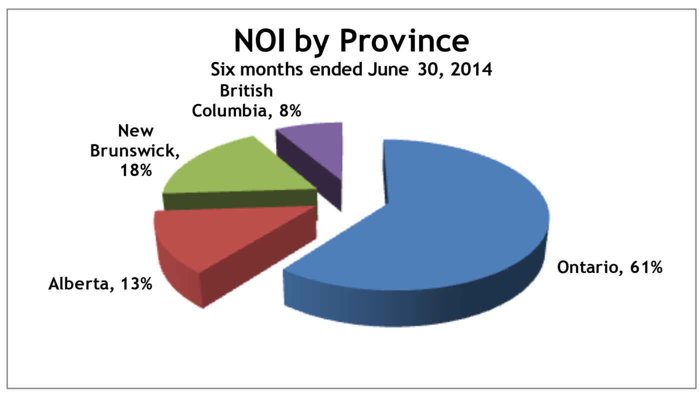
Property Name	City	Province	Type	Occupancy	Average Remaining Lease Term [(1)]	Square Feet
Office						
Carlingview Property	Toronto	ON	Office	100%	3.6 years	26,754
Century Property	Calgary	AB	Office	97.4%	3.5 years	75,675
King Street Property	Fredericton	NB	Office	100%	7.7 years	85,051
Laurier Property	Ottawa	ON	Office	100%	3.7 years	279,055
Maple Property	Ottawa	ON	Office	100%	3.2 years	107,243
Office/Retail						
Miramichi Property	Miramichi	NB	Office/Retail	100%	3.1 years	73,163
Retail						
Coronation Mall	Duncan	BC	Retail	82.9%	5.5 years	48,994
Average/Total				98.5%	4.1 years	695,935

Notes:
(1) Weighted by annualized 2014 gross revenue including contractual leases as at June 30, 2014.

GEOGRAPHIC DISTRIBUTION

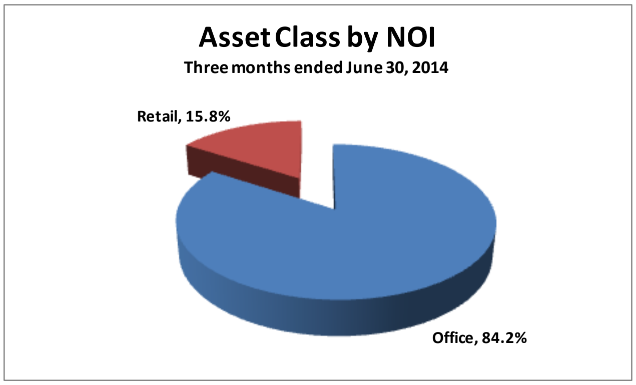
The properties are diversified provincially as follows:

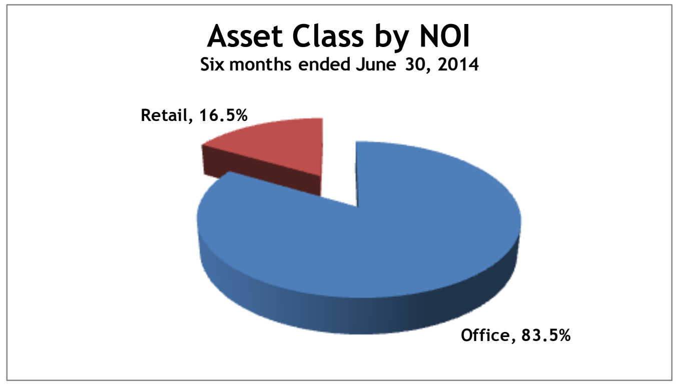




ASSET CLASS DISTRIBUTION

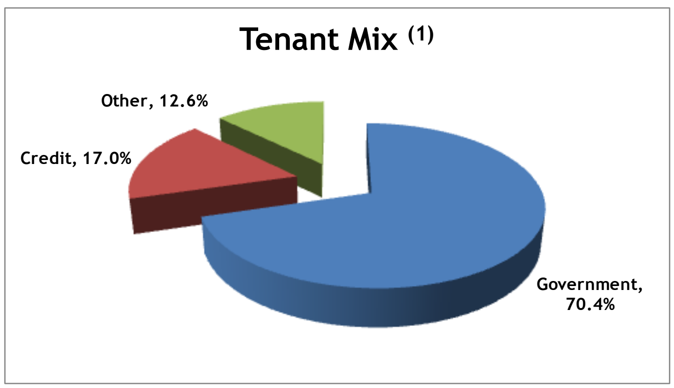
The distribution of the properties by asset class is as follows:





TENANT MIX

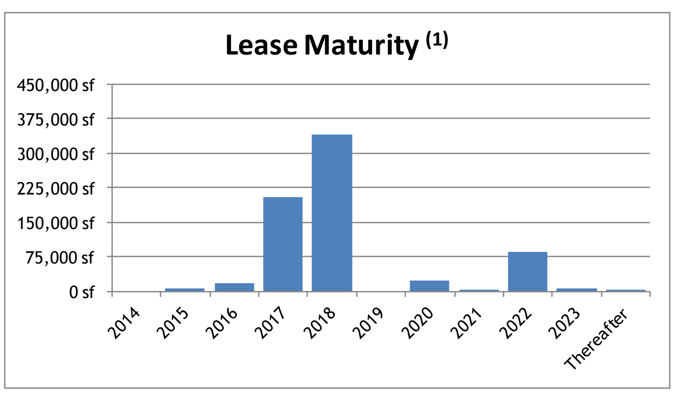
As at June 30, 2014, the percentage of tenants occupying the properties that are government institutions, credit-rated or other is as follows:



(1) The tenant mix is based on annualized 2014 gross revenue including contractual leases as at June 30, 2014.

LEASE ROLLOVER PROFILE

As at June 30, 2014, the lease rollover profile of the REIT is as follows:



(1) Lease maturity is based on square footage of the leases.

SUMMARY OF SIGNIFICANT EVENTS

FINANCIAL HIGHLIGHTS

- Increased revenue $509 or 10.7% to $5,283 from Q2-2013.
- Generated NOI for Q2-2014 and Q2-2013 of $3,257 and $2,988, respectively.
- AFFO of $0.15 per Unit, AFFO Normalized of $0.16 per Unit, and AFFO Normalized payout ratio of 95% for the second quarter of 2014.
- Paid distributions for Q2-2014 and Q2-2013 of $1,842 and $1,671, respectively.
- Portfolio occupancy at June 30, 2014 decreased to 98.5% from 99.5% at the end of Q1-2014.
- Decreased indebtedness to GBV ratio from 59.40% at December 31, 2013 to 57.49% at June 30, 2014.

OTHER INITIATIVES

On July 31, 2014, the REIT completed the acquisition of two commercial properties for an aggregate purchase price of approximately $10,500 plus closing costs. The purchase price was funded through new mortgages of $7,350, the issuance of 378,787 Units pursuant to a concurrent private placement with an entity controlled by the REIT's CEO for gross proceeds of $2,500, a vendor take back mortgage of $750 and the drawdown of approximately $370 from the REIT's credit facilities. The acquisitions represent a combined implied capitalization rate of approximately 7.9% and are expected to be immediately accretive to the REIT's AFFO.

Construction commenced on a 2,600 square foot development at Coronation Mall during Q2-2014. The stand alone building is fully leased to Burger King for a fifteen year term and the tenant is expected to occupy during the fourth quarter of 2014. The addition of Burger King will complement the current tenant base, increasing the traffic and visibility of the Mall.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

			June 30, 2014	December 31, 2013
Summary of Financial Information				
GBV (1)			$193,942	$184,890
Indebtedness (2)			$111,494	$109,818
Indebtedness to GBV (3)			57.49%	59.40%
Weighted average mortgage fixed interest rate			3.53%	3.53%
Weighted average mortgage term to maturity			3.72 years	4.21 years
	Three months ending June 30, 2014	**2013**	**Six months ending June 30, 2014**	**2013**
Revenue	$5,283	$4,774	$10,915	$7,260
NOI	$3,257	$2,988	$6,489	$4,671
Income and comprehensive income	$2,379	$20,871	$7,573	$17,445
FFO	$1,899	$1,518	$3,649	$2,500
FFO per Unit - basic (4)	$0.15	$0.14	$0.30	$0.26
FFO per Unit - diluted (4)	$0.14	$0.13	$0.28	$0.25
AFFO	$1,841	$1,416	$3,492	$1,832
AFFO per Unit - basic (4)	$0.15	$0.13	$0.28	$0.19
AFFO per Unit - diluted (4)	$0.14	$0.12	$0.27	$0.18
AFFO payout ratio - basic	100%	118%	104%	152%
AFFO - Normalized (5)	$1,928	$1,709	$3,841	$2,718
AFFO Normalized per Unit - basic (4)	$0.16	$0.15	$0.31	$0.29
AFFO Normalized per Unit - diluted (4)	$0.15	$0.14	$0.29	$0.27
AFFO Normalized payout ratio - basic	95%	97%	95%	102%
Units outstanding for FFO, AFFO and AFFO Normalized per Unit:				
Weighted average (000s) – basic (4)	12,394	11,237	12,368	9,434
Add: Unexercised Unit Options and Warrants	720	771	720	686
Weighted average (000s) – diluted (4)	13,114	12,008	13,088	10,120

Notes:

(1) "Gross Book Value" is defined in the DOT and includes deferred financing costs of $962 as at June 30, 2014, and $883 as at December 31, 2013. This excludes the derivative instrument of $459 as at December 31, 2013.

(2) "Indebtedness" is defined in the DOT and excludes unamortized financing costs of $690 as at June 30, 2014, and $729 as at December 31, 2013.

(3) Defined as the ratio of Indebtedness to Gross Book Value.

(4) For purposes of calculating FFO and AFFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis. Diluted amounts assume the conversion of the unexercised Unit Options and Warrants.

(5) AFFO Normalized is adjusted for non-recurring items such as due diligence acquisition costs related to property acquisitions the REIT is no longer pursuing and rental income recognized as purchase price adjustments under IFRS. See "FFO and AFFO Reconciliations".

FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the three and six months ended June 30, 2014 and 2013 are summarized below.

	Three months ending June 30,		Six months ending June 30,	
	2014	2013	2014	2013
Revenue	$ 5,283	$ 4,774	$ 10,915	$ 7,260
Expenses:				
Property operating costs	1,076	1,070	2,460	1,452
Realty taxes	950	716	1,966	1,137
	2,026	1,786	4,426	2,589
NOI	$ 3,257	$ 2,988	$ 6,489	$ 4,671
General and administration expenses	(572)	(610)	(1,090)	(1,008)
Finance costs	(1,531)	(97)	(3,308)	(1,631)
Fair value adjustment of Class B LP Units	(2,719)	2,241	(2,331)	2,455
Fair value adjustment of investment properties	3,944	16,349	7,813	12,958
Income and comprehensive income	$ 2,379	$ 20,871	$ 7,573	$ 17,445

PROPERTY OPERATIONS

Revenue includes all income earned from the REIT's properties, including rental income and all other miscellaneous income paid by the tenants under the terms of their existing leases, such as base rent, parking, operating costs and realty tax recoveries, as well as adjustments for the straight-lining of rents.

The REIT accounts for rent step-ups and free rent periods by straight-lining the incremental increases and free rent periods over the entire non-cancelable lease term. In Q2-2014, straight-line rent adjustments of $53 (YTD-2014 - $118) were recorded compared to $104 (YTD-2013 - $676) in Q2-2013.

Q2-2014 revenue increased $509 or 10.7% compared to Q2-2013 results (YTD-2013 - $3,655 or 50.3%). The increase is primarily attributed to the acquisition of the King Street Property in November 2013.

Property operating costs include costs relating to building maintenance, heating, ventilation and air-conditioning, elevator, insurance, utilities and management fees and other operational costs. Property operating costs have remained stable quarter over quarter. While the REIT realized a decrease in utilities expense from energy saving projects implemented in 2013 this was offset by the inclusion of operating costs from the King Street Property.

Realty taxes increased $234 or 32.7% compared to Q2-2013 (YTD-2013 - $829 or 72.9%). This is due to an overall increase in realty tax rates as a result of higher property assessment values in 2014 for certain of the REIT's properties.

Occupancy for the property portfolio decreased to 98.5% from 99.5% at Q1-2014, which was due to the departure of a small retail tenant at Coronation Mall.

SAME PROPERTY OPERATIONS ANALYSIS

Same property operations analysis highlights period over period differences due to changes in occupancy, rental rate changes, other income and property expenses.

	Three months ending June 30,				Six months ending June 30,			
		2014		2013		2014		2013
Revenue	$	4,725	$	4,775	$	779	$	760
Expenses:								
Property operating		966		1,071		87		80
Realty taxes		814		716		150		138
		1,780		1,787		237		218
NOI	$	2,945	$	2,988	$	542	$	542

Revenue decreased $50 from Q2-2013 to Q2-2014 due to the decrease in average occupancy. Property operating costs decreased $105 from Q2-2013 to Q2-2014 due to a decrease in utility expenses attributed to energy savings initiatives implemented at one of the REIT's properties. The decrease in operating costs was offset by an increase in realty taxes of $98 quarter over quarter as a result of higher assessed values at certain of the REIT's properties in 2014.

GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses include items such as legal and audit fees, Trustee fees, investor relations expenses, Trustees' and officers' insurance premiums, costs associated with the REIT's unit option plan (the "Unit Option Plan") and other general and administrative expenses associated with the operation of the REIT. Also included in general and administration expenses are asset management fees payable to Starlight Investments Ltd. ("Starlight"). See "Related Party Transactions and Arrangements – Arrangements with Starlight".

The breakdown of general and administration expenses is as follows:

	Three months ending June 30,				Six months ending June 30,			
		2014		2013		2014		2013
Legal, audit and compliance	$	23	$	181	$	87	$	225
Investor relations		28		27		37		30
Unit based compensation		278		42		326		243
General and administration		87		49		330		120
Listing and graduation		-		172		-		172
Asset management fee		156		139		310		218
General and administration expenses	$	572	$	610	$	1,090	$	1,008

General and administration expenses in Q2-2014 were $572 (YTD-2014 - $1,090) compared to $610 (YTD-2013 - $1,008) in Q2-2013. YTD-2014 general and administration expenses remained consistent with YTD-2013.

Legal, audit and compliance decreased $158 from Q2-2013 to Q2-2014 primarily due to legal and audit fee savings as well as due to timing differences of when certain expenses related to regulatory compliance activities were incurred.

Unit based compensation consists of the fair value change of unvested Unit Options and Warrants at each reporting date. As at June 30, 2013, there were 783,154 unvested Unit Options and Warrants compared to 714,553 at June 30, 2014. In addition, the Unit price on June 30, 2013 was $6.35 which is lower when compared to $6.90 on June 30, 2014.

Other general and administration expenses comprise Trustee fees, travel expenses, directors and officers insurance, due diligence costs and other miscellaneous items. General and administration expenses increased $38 from Q2-2013 to Q2-2014 primarily due to increased travel costs as well as an increase in Trustee fees due to additional meetings held in Q2-2014.

In Q2-2013, $172 relates to one time fees associated with the REIT's graduation and listing of its Units on the TSX.

FINANCE COSTS

The REIT's finance costs for the three and six months ended June 30, 2014 and 2013 are summarized below.

	Three months ending June 30,		Six months ending June 30,	
	2014	2013	2014	2013
Interest on mortgages payable	$ 940	$ 855	$ 1,887	1,343
Other interest expense and standby fees	53	-	71	-
Amortization of financing costs	71	47	118	63
	1,064	902	2,076	1,406
Distributions on Class B LP Units	385	317	769	692
Unrealized loss/(gain) on change in fair value of derivative instrument	82	(1,122)	463	(467)
Total finance costs	$ 1,531	$ 97	$ 3,308	$ 1,631

Interest expense on mortgages payable of $940 (YTD-2014 - $1,887) in Q2-2014 has increased $85 (YTD-2013 - $544) compared to Q2-2013, primarily due to additional mortgage financing obtained in connection with the acquisition of the King Street Property in November 2013. Financing costs on mortgages and credit facilities are netted against the related debt, and amortized on an effective interest basis over the expected life of the debt. The amortization of financing costs of $71 (YTD-2014 – $118) in Q2-2014 has increased $24 (YTD-2013 - $55) over Q2-2013.

Other interest expense and standby fees for Q2-2014 includes interest of $34 (YTD-2014 - $49) and standby fees of $19 (YTD-2014 - $22) on the credit facilities. Increase in interest in Q2-2014 from Q2-2013 and Q1-2014 is due to the increase in the amount borrowed on the credit facilities. Increase in standby fees in Q2-2014 is related to the second credit facility obtained on March 31, 2014 of $10,000. See "Credit Facilities".

Distributions on Class B LP Units in Q2-2014 were $385 (YTD-2014 - $769) compared to $317 (YTD-2013 - $692) in Q2-2013 as the number of issued and outstanding Class B LP Units have increased. See "Unitholders' Equity & Class B LP Units and Special Voting Units".

The REIT entered into an interest rate swap agreement on February 12, 2013 to limit its interest rate exposure during the term of the mortgage on the Laurier Property resulting in a mortgage that has an effective annual fixed interest rate at 3.39%. For this derivative instrument, an asset or liability is recognized and measured initially at fair value. The asset or liability is re-measured to fair value at each reporting date. Changes in the fair value of the asset or liability are recognized as an unrealized gain or loss on change in fair value of the derivative instrument. The unrealized loss in Q2-2014 of $82 (YTD-2014 - $463) and the unrealized gain in Q2-2013 of $1,122 (YTD-2013 - $467) is the present value of the difference between the fixed rate the lender would offer the REIT on each reporting date compared to the annual fixed rate of 3.39%, multiplied by the principal balance of the mortgage.

FAIR VALUE ADJUSTMENT OF CLASS B LP UNITS

The fair value change in Class B LP Units represents the change in the trading price of the Units (given the Class B LP Units have economic and voting rights equivalent, in all material aspects, to the Units) and any resulting change in their fair value is reported in the period such change occurs. The closing price of the Units on the TSX on June 30, 2014 was $6.90 compared to $5.85 on March 31, 2014, resulting in a fair value loss of $2,719 for Q2-2014. The closing price of the Units on the TSX on December 31, 2013 was $6.00, resulting in a fair value loss of $2,331 for YTD-2014. The closing price of the Units on the TSX on June 30, 2013 was $6.35 compared to $7.40 on March 31, 2013, resulting in a fair value gain of $2,241 for Q2-2013. The closing price of the Units on the TSX on December 31, 2012 was $7.50, resulting in a fair value gain of $2,455 for YTD-2013.

INVESTMENTS PROPERTIES – FAIR VALUE ADJUSTMENT

The REIT has selected the fair value method to account for real estate classified as investment property and records properties at their purchase price (less any purchase price adjustments) in the quarter of acquisition. Any changes in the fair value of investment properties are recognized as fair value gains and losses in the statement of income and comprehensive income in the quarter in which they occur.

The REIT calculates fair value using both the discounted cash flow method and direct capitalization method which are generally accepted appraisal methodologies. Fair value is based on, among other things, assumptions of future cash flows in respect of current and future leases, capitalization rates, terminal capitalization rates, discount rates, market rents, tenant inducements and leasing cost assumptions and expected lease rollovers. Fair values are supported by a combination of internal financial information, market data and external independent valuations.

The following table summarizes the change in fair value of the REIT's investment properties for the six months ended June 30, 2014 and year ended December 31, 2013:

	Investment Properties	Properties Under Development	Total
Balance at December 31, 2012	$ 14,554	$ -	$ 14,554
Acquisitions	157,256	-	157,256
Additions	1,516	45	1,561
Straight-line rent adjustment	714	-	714
Fair value adjustment	5,586	-	5,586
Balance at December 31, 2013	179,626	45	179,671
Additions	1,625	298	1,923
Straight-line rent adjustment	118	-	118
Fair value adjustment	7,813	-	7,813
Balance at June 30, 2014	**$ 189,182**	**$ 343**	**$ 189,525**

Additions to investment properties for the six months ended June 30, 2014 was $1,625, of which $1,283 relates to building enhancements and leasehold improvements at the Laurier Property. The REIT capitalizes all expenditures that enhance the service potential and extend the useful life of the properties.

Properties under development of $298 incurred during the six months ended June 30, 2014 relates to architectural and engineering fees and construction costs associated with a 2,600 square foot building development at Coronation Mall, which is fully leased to Burger King for fifteen years. During Q2-2014, construction commenced and is expected to be completed by the end of the third quarter of 2014 with the tenant occupying in Q4-2014.

The fair value adjustment of $7,813 for the six months ended June 30, 2014 includes $293 of leasehold improvements, and $118 relating to the straight-line rent adjustment, offset by increase in the fair value of all properties of $8,224.

The fair value change in individual properties results from changes in the projected income and cash flow of the REIT's properties as well as from changes in capitalization rates and the discount rates applied. The increase in fair value during 2014 of $8,224 was attributable to capitalization rate changes and changes in lease renewal probabilities.

The key valuation assumptions for the REIT's investment properties at June 30, 2014 and December 31, 2013 are set out in the following table:

	June 30, 2014	December 31, 2013
Terminal and direct capitalization rates - range	6.34% - 11.60%	6.34% - 11.60%
Terminal and direct capitalization rate - weighted average	6.88%	7.02%
Discount rates - range	7.15% - 10.50%	7.15% - 10.50%
Discount rate - weighted average	7.46%	7.53%

FFO AND AFFO RECONCILIATIONS

FFO

The REIT calculates FFO in accordance with the guidelines set out by the Real Property Association of Canada. Reconciliation of income and comprehensive income, determined in accordance with IFRS, to FFO for the three and six months ended June 30, 2014 and 2013 is as follows:

	Three months ending June 30,		Six months ending June 30,	
	2014	2013	2014	2013
Income and comprehensive income	$ 2,379	$ 20,871	$ 7,573	$ 17,445
Add / (Deduct):				
Revaluation of Unit Options and Warrants [(1)]	278	42	326	243
Fair value adjustment of investment properties	(3,944)	(16,349)	(7,813)	(12,958)
Fair value adjustment of Class B LP Units	2,719	(2,241)	2,331	(2,455)
Distributions on Class B LP Units	385	317	769	692
Unrealized loss/(gain) on change in fair value of derivative instrument	82	(1,122)	463	(467)
FFO	$ 1,899	$ 1,518	$ 3,649	$ 2,500
FFO per Unit - basic [(2)]	$0.15	$0.14	$0.30	$0.26
FFO per Unit - diluted [(2)]	$0.14	$0.13	$0.28	$0.25
Weighted average Units outstanding:				
Basic - (000s) [(2)]	12,394	11,237	12,368	9,434
Add:				
Unexercised Unit Options and Warrants	720	771	720	686
Diluted - (000s) [(2)]	13,114	12,008	13,088	10,120

Notes:

(1) Unit Options and Warrants are treated as a financial liability and are remeasured to fair value at each reporting date.

(2) For purposes of calculating FFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis. Diluted amounts also assume the conversion of the unexercised Unit Options and Warrants.

FFO increased $381 or 25.1% compared to Q2-2013 and FFO per unit increased $0.01 compared to Q2-2013. The increase is primarily attributed to the King Street Property which was purchased in Q4-2013.

ADJUSTED FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS - NORMALIZED

Reconciliation of FFO, to AFFO and AFFO Normalized for the three and six months ended June 30, 2014 and 2013 is as follows:

	Three months ending June 30,		Six months ending June 30,	
	2014	2013	2014	2013
FFO	$ 1,899	$ 1,518	$ 3,649	$ 2,500
Add / (Deduct):				
Non-cash compensation expense (1)	29	24	52	52
Amortization of deferred financing costs	71	47	118	63
Straight-line rent	(53)	(104)	(118)	(676)
Capital reserve (2)	(105)	(69)	(209)	(107)
AFFO	$ 1,841	$ 1,416	$ 3,492	$ 1,832
AFFO per Unit - basic (3)	$0.15	$0.13	$0.28	$0.19
AFFO per Unit - diluted (3)	$0.14	$0.12	$0.27	$0.18
Distributions declared (4)	$ 1,842	$ 1,671	$ 3,676	$ 3,048
AFFO payout ratio - basic	100%	118%	104%	152%
AFFO	$ 1,841	$ 1,416	$ 3,492	$ 1,832
Add / (Deduct):				
Due diligence acquisition costs	-	-	175	12
Graduation costs	-	172	-	172
Rental income related to purchase price adjustments	87	121	174	702
AFFO - Normalized	$ 1,928	$ 1,709	$ 3,841	$ 2,718
AFFO Normalized per Unit - basic (3)	$0.16	$0.15	$0.31	$0.29
AFFO Normalized per Unit - diluted (3)	$0.15	$0.14	$0.29	$0.27
AFFO Normalized payout ratio - basic	95%	97%	95%	102%

Notes:

(1) Non-cash compensation expense includes certain Trustee fees.

(2) Based on an estimate of $0.60 (2013 - $0.45) per square foot per annum and includes a reserve for capital expenditures, tenant inducements and leasing costs.

(3) For purposes of calculating AFFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis. Diluted amounts assume the conversion of the unexercised Unit Options and Warrants.

(4) Distributions declared YTD-2013 represents the period from December 14, 2012 to June 30, 2013.

AFFO Normalized increased $219 or 12.8% compared to Q2-2013. While the REIT realized an increase in FFO from the acquisition of the King Street Property, this was offset by the reduction in adjustments to AFFO normalized such as non-recurring graduation costs and purchase price adjustments.

AFFO Normalized was calculated by making the following adjustments to AFFO:

- Rental income recognized as purchase price adjustments under IFRS upon acquisition of $87 (YTD-2014 - $174) in Q2-2014 and $121 (YTD-2013 - $702) in Q2-2013. The rental income relates to rent free periods for various tenants for which the REIT received funds as part of the acquisition;
- Due diligence acquisition costs of $175 for YTD-2014 and $12 for YTD-2013, relate to potential property acquisitions the REIT is no longer pursuing; and
- One-time costs of $172 in Q2-2013 associated with the graduation of the REIT to the TSX on June 19, 2013.

CAPITAL STRUCTURE AND DEBT PROFILE

CAPITAL STRUCTURE

The REIT defines its capital as the aggregate of Unitholders' equity, mortgages payable, credit facilities and Class B LP Units. The REIT's capital management program is designed to maintain a level of capital which allows it to implement its business strategy of building long-term Unitholder value and maintaining sufficient capital reserves while complying with investment and debt restrictions pursuant to the DOT and lender debt covenants.

As at June 30, 2014 and December 31, 2013, the total capital of the REIT was as follows:

	June 30, 2014	December 31, 2013
Mortgages payable (excludes unamortized financing costs of $634 at June 30, 2014 and $729 at December 31, 2013)	$ 106,994	$ 108,418
Credit Facilities (excludes unamortized financing costs of $56 at June 30, 2014 and) $nil at December 31, 2013)	4,500	1,400
Class B LP Units	17,864	15,533
Unitholders' equity	59,663	54,311
Total capital	$ 189,021	$ 179,662

DEBT PROFILE

As at June 30, 2014, the overall leverage, as represented by the ratio of Indebtedness to GBV was 57.49% compared to 59.40% at December 31, 2013. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT's Indebtedness to GBV ratio at June 30, 2014 and December 31, 2013.

	June 30, 2014	December 31, 2013
Total assets	$ 192,980	$ 184,466
Deferred Financing Costs	962	883
Derivative instrument	-	(459)
GBV	$ 193,942	$ 184,890
Mortgages payable	106,360	107,689
Credit facilities	4,444	1,400
Unamortized financing costs	690	729
Indebtedness	$ 111,494	$ 109,818
Indebtedness to GBV	57.49%	59.40%

The REIT's objectives are to maintain a combination of short, medium and long-term debt maturities appropriate for the overall debt level of the REIT, to extend the current weighted average term to maturity and achieve staggered debt maturities while taking into account availability of financing, market conditions and the financial characteristics of each property. Per the DOT, at no time shall the REIT incur debt aggregating more than 20% of GBV at floating interest rates or having maturities less than one year (excluding debt with an original maturity of one year or more falling due in the next 12 months or variable rate debt for which the REIT has entered into interest rate swap agreements to fix the interest rate for a one year period or more).

The mortgages carry a weighted average fixed interest rate of 3.53% (December 31, 2013 – 3.53%), and a weighted average term to maturity of 3.97 years (December 31, 2013 – 4.21 years). All interest rates are effectively fixed for the terms of the respective mortgages.

MORTGAGES PAYABLE

The following table sets out, as at June 30, 2014, scheduled principal repayments and amounts maturing on the mortgages payable over each of the next five fiscal years:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Scheduled interest payments	Percentage of total mortgages payable
2014	$ 1,447	$ -	$ 1,447	$ 1,870	1.35%
2015	2,974	-	2,974	3,661	2.78%
2016	3,080	765	3,845	3,548	3.59%
2017	3,165	9,136	12,301	3,399	11.50%
2018	833	85,594	86,427	1,045	80.78%
Thereafter	-	-	-	-	-
	$ 11,499	$ 95,495	106,994	$ 13,523	100.00%
Unamortized financing costs			(634)		
			$ 106,360		

As part of the purchase of the Miramichi Property in February 2013, the REIT obtained financing from the vendor in the amount of $1,662. Subsequent to the acquisition, this vender take-back mortgage was purchased by a third party as a secured promissory note ("Note"). The Note is to be repaid by an amount equal to the total gross revenue realizable from any new lease of a specified portion of the property. A partial repayment of $897 was made on November 8, 2013 as the REIT received a binding lease renewal of the specified portion of the property expiring June 1, 2016. As at June 30, 2014, the balance outstanding on the Note is $765.

The Note bears interest at an annual fixed rate of 2.0%, is interest-only, secured by a second charge on the Miramichi Property and is due no later than February 12, 2018.

CREDIT FACILITIES

On February 12, 2013, the REIT entered into a credit agreement with a Canadian chartered bank to obtain a $5,000 floating rate revolving credit facility (the “Credit Facility”). The Credit Facility bears interest on cash advances above $1,000 at 225 basis points per annum over the floating banker's acceptance rate or under $1,000 at 100 basis points over prime rate, matures on February 12, 2015 and is secured by a first charge on the Miramichi Property. As at June 30, 2014, $4,500 (December 31, 2013 - $1,400) was drawn on the Credit Facility.

On March 31, 2014, the REIT established an additional revolving credit facility of $10,000 (“ the Second Credit Facility”). The Second Credit Facility bears interest on cash advances above $1,000 at 285 basis points per annum over the floating banker's acceptance rate or under $1,000 at 185 basis points over prime rate. The Second Credit Facility matures on February 12, 2015. As at June 30, 2014, $nil was drawn on the Second Credit Facility.

Total financing costs incurred in obtaining the Second Credit Facility amounted to $79. Both the Credit Facility and Second Credit Facility are secured by the Miramichi and Laurier properties.

CAPITAL RESOURCES

The REIT's portfolio requires ongoing maintenance capital expenditures, tenant inducements and leasing expenditures. Leasing expenditures include the cost of tenant allowances and commissions incurred in connection with the leasing of vacant space and the renewal or replacement of tenants occupying space covered by maturing leases. The REIT plans to continue to invest capital in all its properties throughout 2014 and beyond. Expenditures are expected to be funded through operational cash flow and the available credit facilities. For the six months ended June 30, 2014, the REIT invested $1,625 in capital and leasing expenditures.

LIQUIDITY AND CASH FLOW

LIQUIDITY

Cash flow from operating activities represents the primary source of liquidity to fund distributions, debt service, capital improvements, tenant inducements and leasing costs. The REIT's cash flow from operating activities is dependent upon the occupancy level of its investment properties, the rental rates on its leases, the collectability of rent from its tenants, other expenses and other factors. Material changes in these factors may adversely affect the REIT's net cash flow from operating activities and hence its liquidity. A more detailed discussion of these risks can be found under the "Risks and Uncertainties" section in the REIT's annual MD&A dated March 5, 2014 for the year ended December 31, 2013 and in the annual information form of the REIT dated March 5, 2014. See "Risks and Uncertainties".

The REIT expects to be able to meet all of its obligations, including distributions to Unitholders, and capital expenditure requirements as they become due and to provide for the future growth of the business. The REIT has a number of financing sources available to fulfill its commitments including: (i) cash flow from operating activities; (ii) mortgage debt secured by investment properties; (iii) credit facilities; and (iv) issuances of debt and equity.

CASH FLOW

The following table details the changes in cash and cash equivalents for the three and six months ended June 30, 2014 and 2013:

	Three months ending June 30,		Six months ending June 30,	
	2014	2013	2014	2013
Cash provided by operating activities	$ 1,013	$ 987	$ 3,913	$ 1,508
Cash (used in) provided by investing activities	(517)	136	(1,582)	(138,082)
Cash (used in) provided by financing activities	(564)	(2,880)	(3,461)	137,052
Increase (decrease) in cash and cash equivalents	(68)	(1,757)	(1,130)	478
Cash and cash equivalents, beginning of period	770	3,142	1,832	907
Cash and cash equivalents, end of period	$ 702	$ 1,385	$ 702	$ 1,385

In Q2-2014, the REIT generated $1,013 compared to $987 in Q2-2013 of cash flow from operating activities which is primarily attributed to the addition of the King Street Property offset by a decrease in accounts payable.

Cash used in investing activities in Q2-2014 of $517 relates to investment property additions of $450 and additions to properties under development of $211. The construction of the Burger King development at Coronation Mall Property commenced in Q2-2014. This was offset by the release of funds from restricted cash of $144.

Cash used in financing activities in Q2-2014 of $564 (Q2-2013 - $2,880) is made up of principal mortgage payments of $714 (Q2-2013 - $557), interest payments of $1,253 (Q2-2013 - $855), distributions to Unitholders of $1,207 (Q2-2013 – 1,224) and Units repurchased and cancelled under the NCIB of $179 (Q2-2013 - $nil). The above increases in cash were offset by $2,779 (Q2-2013 $nil) drawn on the Credit Facility. The increase in principal mortgage payments and interest quarter over quarter is due to the additional mortgage on the King Street Property and increased standby fees for the quarter on the Second Credit Facility.

UNITHOLDERS' EQUITY, CLASS B LP UNITS AND SPECIAL VOTING UNITS

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units (the "Special Voting Units") in the capital of the REIT.

UNITS

Each Unit confers the right to one vote at any meeting of Unitholders and to participate *pro rata* in all distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. Unitholders have the right to require the REIT to redeem their Units on demand up to a cumulative maximum of $50 in a calendar month. The Units have no par value. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall cease and the holder thereof shall be entitled to receive a price per Unit ("Redemption Price") as determined by a formula outlined in the DOT. The Redemption Price will be paid in accordance with the conditions provided for in the DOT.

The following table summarizes the changes in Units outstanding:

	Units		Amount
Balance, December 31, 2012	1,369,970	$	2,228
Issuance of Units	7,666,599		58,726
Issuance of Units under DRIP	96,489		663
Issuance of Units from Warrants exercised	3,721		18
Issuance costs	-		(4,716)
Balance, June 30, 2013	9,136,779		56,919
Issuance of Units	386,364		2,550
Issuance of Units under DRIP	126,813		745
Issuance of Units under the non-executive trustee unit issuance plan	9,305		56
Issuance of Units from Unit Options exercised	52,083		276
Issuance costs	-		(472)
Balance, December 31, 2013	9,711,344		60,074
Issuance of Units under DRIP	129,468		764
Issuance of Units under the non-executive trustee unit issuance plan	10,994		68
Issuance of Units from Warrants exercised	8,185		48
Issuance of Units from Unit Options exercised	8,333		46
Units repurchased and cancelled under NCIB	(39,500)		(235)
Issuance costs	-		(5)
Balance, June 30, 2014	9,828,824	$	60,760

CLASS B LP UNITS AND SPECIAL VOTING UNITS

The exchange agreement dated December 14, 2012 between the REIT, Starlight, True North Commercial General Partner Corp. and the Partnership, amongst others (the "Exchange Agreement") and the DOT provide for the issuance of the Special Voting Units which have no economic entitlement in the REIT or in the distribution or assets of the REIT, but are used to provide voting rights to holders of securities exchangeable into Units (i.e., the Class B LP Units) that are equivalent to the votes of the Units. Each Special Voting Unit is not transferable separately from the Class B LP Unit to which it is attached and will be automatically redeemed and cancelled upon the exchange of the attached Class B LP Unit into a Unit.

The Class B LP Units issued by the Partnership to holders, together with the related Special Voting Units, have economic and voting rights equivalent, in all material aspects, to the Units. They are exchangeable at the option of the holder on a one-for-one basis (subject to anti-dilution adjustments) for the Units, under the terms of the Exchange Agreement. Each Class B LP Unit entitles the holder to receive distributions from the Partnership equivalent to the distributions such holder would have received if they were holding Units instead of Class B LP Units.

The Class B LP Units meet the definition of a financial liability under IAS 32, Financial Instruments – Presentation ("IAS 32") and are classified as fair value through profit or loss financial liabilities under IAS 32. The Class B LP Units are measured at fair value at each reporting period with any changes in fair value recorded in the statement of income and comprehensive income. The distributions paid on the Class B LP Units are accounted for as finance costs.

The following table summarizes the changes in Class B LP Units for the six months ended June 30, 2014 and 2013:

	Class B LP Units		Amount
Balance, December 31, 2012	2,134,369	$	16,008
Fair value adjustment	-		(2,455)
Balance, June 30, 2013	2,134,369		13,553
Issuance of Class B LP Units	454,545		3,000
Fair value adjustment	-		(1,020)
Balance, December 31, 2013	2,588,914		15,533
Fair value adjustment	-		2,331
Balance, June 30, 2014	2,588,914	$	17,864

DISTRIBUTIONS

The REIT currently pays monthly distributions of $0.0495 per Unit and Class B LP Unit or $0.594 per Unit and Class B LP Unit on an annualized basis. Distributions declared were $1,842 (YTD-2014 $3,676) for Q2-2014 compared to $1,671 (YTD-2013 - $3,048) for Q2-2013. Pursuant to the terms of the REIT's distribution reinvestment plan (the "DRIP"), $378 (YTD-2014 - $764) was reinvested into 62,479 (YTD-2014 – 129,468) additional Units for Q2-2014 compared to $388 (YTD-2013 - $663) was reinvested into 58,514 (YTD-2013 – 96,489) additional Units for Q2-2013.

UNIT OPTION PLAN

The Unit Option Plan provides for, from time to time, at the discretion of the Trustees, the issuance of Unit Options to purchase Units for cash. Participation in the Unit Option Plan is restricted to the Trustees and officers of the REIT, certain employees of Starlight and eligible service providers of the REIT. The Unit Options are non-transferable and, exercisable for a period of up to five years from the date of grant. The maximum number of Units reserved for issuance under the Unit Option Plan may not exceed 10% of the Units issued and outstanding, which amount shall be inclusive of the issued and outstanding Class B LP Units of the Partnership. All currently outstanding Unit Options vest in equal parts over a three-year period from the date of grant.

Changes in Unit Options are summarized below:

	Number of Unit Options		Weighted average exercise price (in actual dollars)
Outstanding as at December 31, 2012	343,750	$	3.31
Unit Options granted	427,500		7.66
Outstanding as at June 30, 2013	771,250		5.72
Unit Options exercised	(52,083)		1.60
Outstanding as at December 31, 2013	719,167		6.02
Unit Options exercised	(8,333)		1.60
Outstanding as at June 30, 2014	710,834	$	6.07

No Unit Options were exercised during Q2-2014.
Unit Options outstanding at June 30, 2014 consist of the following:

Weighted average exercise price [1]	Number of Unit Options	Weighted average remaining contractual life	Number of Unit Options exercisable
$1.60	183,334	3.16 years	20,834
7.48	100,000	3.46 years	33,333
7.66	427,500	3.62 years	142,500
$6.07	710,834	3.48 years	196,667

(1) In actual dollars.

For the six months ended June 30, 2014 and 2013, option-related compensation expense was $274 and $322, respectively and is included in general and administration expenses. The expense was determined using the Black-Scholes option pricing model, with the following assumptions:

	June 30, 2014	December 31, 2013
Average expected Unit Option holding period	2.06 years	2.54 years
Average expected volatility rate	20.00%	20.00%
Average dividend yield	8.61%	9.90%
Average risk-free interest rate	1.28%	1.45%

WARRANTS

The changes in Warrants outstanding are summarized below:

	Number of Warrants	Weighted average exercise price (in actual dollars)
Outstanding as at December 31, 2012	15,625	$ 4.80
Warrants exercised	(3,721)	4.80
Outstanding as at June 30, 2013	11,904	4.80
Warrants exercised	-	
Outstanding as at December 31, 2013	11,904	4.80
Warrants exercised	(8,185)	4.80
Outstanding as at June 30, 2014	3,719	$ 4.80

On April 28, 2014, 2,585 warrants were exercised at an exercise price of $4.80 per Unit. The fair value adjustment on the warrants exercised of $3 was recognized through Unitholders' equity.

All remaining unexercised warrants expire August 28, 2014.

For the three and six months ended June 30, 2014 and 2013, expenses related to the Warrants were nominal and are included in general and administration expenses. The expenses were determined using the Black Scholes option pricing model.

NORMAL COURSE ISSUER BID (“NCIB”)

On December 4, 2013, the REIT announced the TSX had approved the REIT's notice of intention to implement an NCIB. Under the NCIB, the REIT will have the ability to purchase for cancellation up to a maximum of 746,358 of its Units, representing 10% of the REIT's public float of 7,463,586 Units through the facilities of the TSX. The NCIB commenced on December 6, 2013 and will remain in effect until the earlier of December 5, 2014, or the date on which the REIT has purchased the maximum number of units permitted under the NCIB.

As at June 30, 2014, 39,500 (December 31, 2013 – nil) Units had been repurchased under the NCIB.

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Starlight is considered a related party to the REIT as Starlight is controlled by the Chairman and Chief Executive Officer (“CEO”) of the REIT, who is also a significant Unitholder.

ARRANGEMENTS WITH STARLIGHT

On December 14, 2012, the REIT entered into an asset management agreement with Starlight (the “Asset Management Agreement”). Pursuant to the Asset Management Agreement, Starlight provides advisory, asset management and administrative services to the REIT. The REIT is administered and operated by the CEO and the REIT’s Chief Financial Officer (“CFO”) and an experienced team of real estate professionals from Starlight.

The Asset Management Agreement has an initial term of ten years from the date of the agreement and is renewable for successive five-year terms, unless and until the Asset Management Agreement is terminated in accordance with its termination provisions.

Starlight is entitled to the following fees pursuant to the Asset Management Agreement:

(a) Base annual management fee calculated and payable on a monthly basis, equal to 0.35% of the sum of:

- the historical purchase price of properties owned by the REIT; and
- the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties owned by the REIT.

(b) Acquisition fee equal to:

- 1.0% of the purchase price of a property, on the first $100,000 of properties announced to be acquired in each fiscal year;
- 0.75% of the purchase price of a property on the next $100,000 of properties announced to be acquired in each fiscal year; and
- 0.50% of the purchase price on properties announced to be acquired in excess of $200,000 in each fiscal year.

(c) From and after January 1, 2013, an incentive fee payable by the REIT for each fiscal year equal to 15% of the FFO in excess of the FFO per Unit hurdle rate determined by the Trustees by June 30, 2013 for the 2013 fiscal year, with reference to such parameters and information as the Trustees deem prudent, including without limitation, the 2013 business plan of the REIT, and for fiscal years from and after January 1, 2014, an amount equal to the FFO per Unit for fiscal 2013 plus 50% of the increase in the weighted average consumer price index (or other similar metric as determined by the Trustees) of the jurisdictions in which the properties are located. For the purpose of this calculation, FFO per Unit means the quotient obtained by dividing: (i) the sum of: (A) the gain on the dispositions of any properties in the fiscal year (calculated as the difference between the total sale price set out in any agreement entered into by the REIT with respect to the disposition of the property or properties and the historical purchase price of such property or properties inclusive of costs incurred), and (B) FFO, by (ii) the total number of issued and outstanding Units and Class B LP Units as at the end of such fiscal year.

(d) Capital expenditures fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of $1,000 excluding work done on behalf of tenants or any maintenance capital expenditures.

In addition, the REIT is required to reimburse Starlight for all reasonable and necessary out-of-pocket costs and expenses incurred by Starlight in connection with the performance of the services described in the Asset Management Agreement or such other services which the REIT and Starlight agree in writing are to be provided from time to time by Starlight.

The following table presents the costs incurred for the three and six months ended June 30, 2014 and 2013:

	Three months ending June 30,				Six months ending June 30,			
		2014		2013		2014		2013
Asset management fees	$	156	$	139	$	310	$	218
Acquisition fees		-		-		-		1,335

Of these amounts, $51 is included in accounts payable and accrued liabilities at June 30, 2014 compared to $47 at June 30, 2013. No incentive fees, capital expenditure fees or out of pocket costs were incurred for the three and six months ended June 30, 2014 or 2013.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the securities of the REIT and in the activities of the REIT. Risks and uncertainties are disclosed in the REIT's annual MD&A dated March 5, 2014 for the year ended December 31, 2013 and in the annual information form of the REIT dated March 5, 2014. The annual MD&A and annual information form are available on SEDAR at www.sedar.com. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

Management is not aware of any significant changes in risks and uncertainties applicable to the REIT.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT maintains information systems, procedures and controls to ensure all information disclosed externally is as complete, reliable and timely as possible. Such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

All control systems have inherent limitations, including well-designed and operated systems. No control system can provide complete assurance the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. These inherent limitations include, without limitation, the possibility management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors. As a growing enterprise, management anticipates that the REIT will be continually evolving and enhancing its systems of controls and procedures.

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

The CEO and CFO of the REIT evaluated the effectiveness of the REIT's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings "NI 52-109") and concluded that the design and operation of the REIT's disclosure controls and procedures were effective for the period ended June 30, 2014.

The CEO and CFO of the REIT evaluated the design and effectiveness of the REIT's internal controls over financial reporting (as defined in NI 52-109) and concluded that the design and effectiveness of internal controls over financial reporting continue to be appropriate and were effective for the period ended June 30, 2014.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

A summary of the significant accounting policies are described in Note 2 of the audited consolidated financial statements for the year ended December 31, 2013. Any changes in accounting policies from December 31, 2013 are described in Note 2 to the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2014 and 2013. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at each financial statement date, and revenues and expenses for the periods indicated. Actual results could differ from those estimates.

USE OF ESTIMATES

The preparation of the REIT's financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties management believes will materially affect the methodology or assumptions utilized in making those estimates in its unaudited condensed consolidated interim financial statements.

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

INVESTMENT PROPERTIES

The estimates used when determining the fair value of investment property are discount rates, terminal capitalization rates, capitalization rates and future cash flows. The discount, terminal capitalization and capitalization rates applied are reflective of the characteristics, location and market of the investment property. The future cash flows of the investment property are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. Management determines fair value utilizing internal financial information, external market data and capitalization rates provided by independent industry experts and third-party appraisals.

UNIT OPTION PLAN

The estimates used when determining the fair value of the Unit Option Plan are the average expected Unit Option holding period, the average expected volatility rate, and the average risk-free interest rate. The average expected Unit Option holding period used is estimated as half the life of the respective option agreement applied to that Unit Option upon vesting. The average expected volatility rate applied is estimated based on the historical volatility of comparable entities. The average risk-free interest rate is based on zero-coupon Government of Canada bonds with terms consistent with the average expected Unit Option holding period. Management determines the fair value internally, utilizing the aforementioned inputs, some of which are provided by external market data and some through internal financial information.

FINANCIAL INSTRUMENTS

Financial instruments are classified as one of the following: (i) Fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale or (v) other liabilities. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income and presented in the fair value reserve in equity. The REIT derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

Financial liabilities are classified as FVTPL when the financial liability is either classified as held-for-trading or designated as FVTPL. A financial liability may be designated as FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and lAS 39, Financial Instruments - Recognition and Measurement, permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial assets and financial liabilities are accounted for based on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the designation of such instruments.

	Classification	Measurement
Financial assets:		
Deposits	Loans and receivables	Amortized cost
Tenant and other receivables	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Cash and cash equivalents	FVTPL	Fair value
Financial liabilities:		
Mortgages payable	Other liabilities	Amortized cost
Derivative instrument	FVTPL	Fair value
Class B LP Units	FVTPL	Fair value
Tenant rental deposits and prepayments	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Unit Option Plan	FVTPL	Fair value

The fair values of the REIT's deposits, tenant and other receivables, restricted cash and cash and cash equivalents, as well as the revolving credit facility, tenant rental deposits, accounts payable and accrued liabilities, finance costs payable and distributions payable, approximate their recorded values due to their short-term nature at the date of the consolidated statement of financial position.

The fair value of mortgages payable is estimated based on the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable was approximately $108,000 at June 30, 2014 (December 31, 2013 - $107,900).

Class B LP Units are carried at fair value and the fair value of the Class B LP Units has been determined with reference to the trading price of the Units.

Unit Options and Warrants granted are carried at fair value which is estimated using the Black Scholes option pricing model.

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

COMMITMENTS AND CONTINGENCIES

From time to time in the normal course of business, the REIT is involved in litigation and claims in relation to its investment properties. In the opinion of management, none of these, individually or in aggregate, could result in a liability that would have a significant adverse effect on the financial position of the REIT. The REIT has agreed to indemnify, in certain circumstances, the Trustees and officers of the REIT.

The REIT has entered into commitments for building renovations and construction costs for Burger King at its Coronation Mall Property. The commitments as at June 30, 2014 and December 31, 2013 were $1,161 and $nil, respectively. At June 30, 2014, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

SUBSEQUENT EVENT

On July 31, 2014, the REIT completed the acquisition of two commercial properties for an aggregate purchase price of approximately $10,500 plus closing costs. The purchase price was funded through new mortgages of $7,350, the issuance of 378,787 Units pursuant to a concurrent private placement with an entity controlled by the REIT’s CEO for gross proceeds of $2,500, a vendor take back mortgage of $750 and the drawdown of approximately $370 from the REIT’s credit facilities.

OUTLOOK

The REIT’s external growth strategy focuses on the acquisition of commercial rental properties across Canada and such other jurisdictions where opportunities exist. The REIT will continue to identify potential acquisitions using investment criteria that focus on the security of cash flow, capital appreciation, increasing value through more efficient management of the acquired assets and growth of AFFO per Unit.

Management is focused on further diversifying the geographic concentration of the portfolio through accretive acquisitions. Management believes the geographic diversification of the property portfolio will serve to add stability to the REIT’s cash flow as it reduces the REIT’s vulnerability to economic fluctuations affecting any particular region in Canada.

According to the TD Bank’s Long Term Economic Forecast in December 2013, the Canadian economy was expected to grow by 2.3% in 2014 and 2.5% in 2015. With the release of the data for Q1 2014, TD has revised estimates and has downgraded its 2014 forecast to 2.2%, but expects conditions for acceleration to 2.6% in 2015 to be achieved. A harsh winter hindered growth in Q1 2014 and with high inventory levels, Q2 2014 was expected to see a modest 2% economic expansion before accelerating to a healthier 2.5% pace over the remainder of the year.

Given the modest medium-term economic growth outlook, inflation is expected to increase gradually while the Bank of Canada overnight rate is expected to remain at 1% until the latter half of 2015. Access to debt capital continues to remain strong for commercial real estate and management continues to believe interest rates will fluctuate moderately around current levels through the end of 2015.

Commercial property capitalization rates have been stable in recent months and management does not expect significant capitalization rate expansion or compression in its target markets. Management will selectively pursue accretive acquisition opportunities in both its existing and target markets.

Management expects real estate fundamentals to remain stable throughout 2014 and beyond. The REIT's properties are expected to continue to perform well during the forecast period of modest growth.

QUARTERLY INFORMATION

The following table provides select information pertaining to the REIT's operations for the periods noted therein.

	Q2-14	Q1-14	Q4-13 (1)	Q3-13	Q2-13	Q1-13 (2)	Q4-12 (3)	Period from July 13, 2012 to September 30, 2012
Revenue	$ 5,283	$ 5,632	$5,105	$4,881	$4,774	$ 2,486	$ 73	$ -
Property operating costs	2,026	2,400	2,005	1,874	1,786	803	19	-
NOI	3,257	3,232	3,100	3,007	2,988	1,683	54	-
General and administration expenses	(572)	(518)	(604)	(408)	(610)	(398)	(467)	(295)
Finance costs	(1,531)	(1,777)	(1,501)	(1,347)	(97)	(1,534)	(44)	-
Fair value adjustment of Class B LP Units	(2,719)	388	487	533	2,241	214	(12,928)	-
Fair value adjustment of investment properties	3,944	3,869	(8,361)	989	16,349	(3,391)	(103)	-
Income (loss) and comprehensive income (loss) for the period	$ 2,379	$ 5,194	$(6,879)	$ 2,774	$20,871	$(3,426)	$(13,488)	$ (295)

Notes:

(1) During the three months ended December 31, 2013, the REIT acquired the King Street Property.

(2) During the three months ended March 31, 2013, the REIT acquired five properties.

(3) The REIT acquired Coronation Mall on December 14, 2012.

Additional information relating to the REIT including the REIT's annual information form, can be found on SEDAR at ww.sedar.com.

Dated: August 6, 2014
Toronto, Ontario, Canada