TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL RESULTS

FOR THE YEAR ENDED DECEMBER 31, 2015

March 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the consolidated financial results of True North Commercial Real Estate Investment Trust (the "REIT") dated March 10, 2016, for the years ended December 31, 2015 and 2014 should be read in conjunction with the REIT's annual audited consolidated financial statements for the years ended December 31, 2015 and 2014, 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 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; Starlight Investments Ltd. ("Starlight") will continue its involvement as asset manager of the REIT in accordance with its current asset management agreement; and the risks referenced above, collectively, will not have a material impact on the REIT. While management considers these assumptions to be reasonable based on currently available information, they may prove to be incorrect.

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

NON-IFRS FINANCIAL MEASURES

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

FFO is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for 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”). AFFO is calculated as FFO subject to certain adjustments, including: amortization of fair value mark-to-market adjustments on mortgages acquired, amortization of deferred financing costs, amortization of tenant inducements, straight-line rent, instalment note receipts and compensation expense related to unit-based incentive plans, a deduction of a reserve for capital expenditures, tenant inducements, and leasing costs. Other adjustments may be made to AFFO as determined by the trustees of the REIT (“Trustees”) in their discretion.

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 second amended and restated declaration of trust (“DOT”) made as of May 22, 2014, and is a measure of the amount of leverage utilized by the REIT. GBV is defined in the DOT and is a measure of the value of the REIT’s total assets. The Indebtedness to GBV Ratio is a compliance measure in the DOT and establishes the limit of financial leverage for the REIT. The Indebtedness to GBV Ratio is presented in this MD&A as management considers this non-IFRS measure to be an important measure of the REIT’s financial position.

Adjusted cash provided by operating activities measures the amount of cash provided by operating activities less interest expense. Adjusted cash provided by operating activities is presented in this MD&A because management considers this non-IFRS measure to be an important measure of the REIT’s operating performance.

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BASIS OF PRESENTATION

The REIT's annual audited consolidated financial statements for the years ended December 31, 2015 and 2014 have been prepared in accordance with IFRS. The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of dollars, except for Unit and per Unit information.

Certain time periods used in the MD&A are used interchangeably such as three months ended December 31, 2015 ("Q4-2015"), year ended December 31, 2015 ("YTD–2015"), three months ended December 31, 2014 ("Q4-2014"), and year ended December 31, 2014 ("YTD–2014").

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 Units are listed on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN. The REIT currently owns and operates a portfolio of twenty five commercial properties consisting of approximately 1.4 million square feet in secondary markets across Canada.

The objectives of the REIT are to:

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

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

PORTFOLIO SUMMARY

At December 31, 2015 the REIT's portfolio was comprised of twenty five commercial properties totaling approximately 1,444,100 square feet of gross leasable area. Coronation Mall located in Duncan, British Columbia was disposed of on June 30, 2015. The operating results for this property are included in the YTD composition by asset class and geographic region charts below.

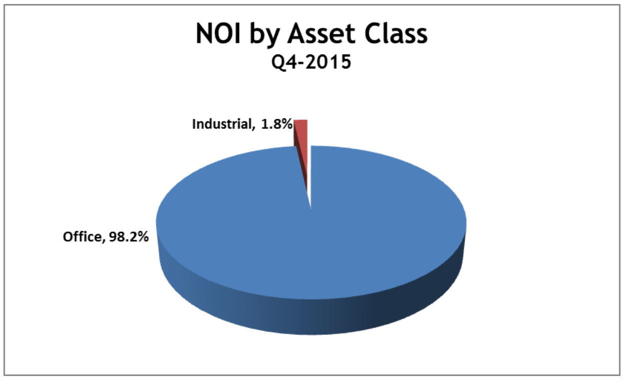
The following table highlights certain information about the REIT's properties ("Properties") as at December 31, 2015:

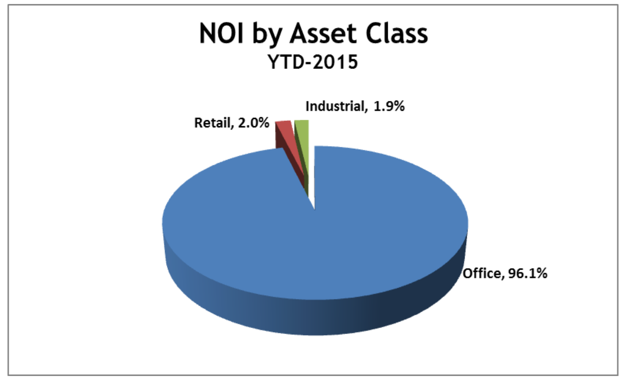
Property Name	City/Town	Type	Occupancy	Remaining Lease Term	Square Feet
Alberta					
855 8th Avenue SW	Calgary	Office	97.4%	3.0 years	75,700
13140 St. Albert Trail	Edmonton	Office	100%	3.9 years	96,800
Ontario					
251 Arvin Avenue	Hamilton	Office	100%	3.5 years	6,900
777 Brock Road	Pickering	Office	100%	7.2 years	98,900
400 Carlingview Drive	Toronto	Office	100%	2.1 years	26,800
1161 Crawford Drive	Peterborough	Office	100%	6.2 years	32,500
197-199 Dundas Street	London	Office	100%	2.8 years	20,200
417 Exeter Road	London	Office	76.8%	4.4 years	35,200
520 Exmouth Street	Sarnia	Office	100%	5.9 years	34,700
529-533 Exmouth Street	Sarnia	Office	100%	2.5 years	15,400
135 Hunter Street East	Hamilton	Office	100%	2.6 years	24,400
63 Innovation Drive	Hamilton	Industrial	100%	7.9 years	45,900
340 Laurier Avenue West	Ottawa	Office	100%	2.2 years	279,100
400 Maple Grove Road	Ottawa	Office	100%	1.7 years	107,200
78-90 Meg Drive	London	Office	100%	4.4 years	11,300
8 Oakes Avenue	Kirkland Lake	Office	100%	6.2 years	41,000
534 Queens Avenue	London	Office	100%	5.5 years	19,000
New Brunswick					
500 Beaverbrook Court	Fredericton	Office	100%	5.4 years	55,600
295 Belliveau Avenue	Shediac	Office	100%	6.1 years	42,100
410 King George Highway	Miramichi	Office	100%	5.4 years	73,200
551 King Street	Fredericton	Office	98.9%	6.3 years	85,100
495 Prospect Street	Fredericton	Office	92.5%	4.5 years	85,000
845 Prospect Street	Fredericton	Office	100%	6.2 years	39,000
414-422 York Street	Fredericton	Office	78.0%	0.9 years	33,000
470 York Street	Fredericton	Office	92.1%	6.3 years	60,100
Average/Total			98.0%	3.9 years(1)	1,444,100

Notes:

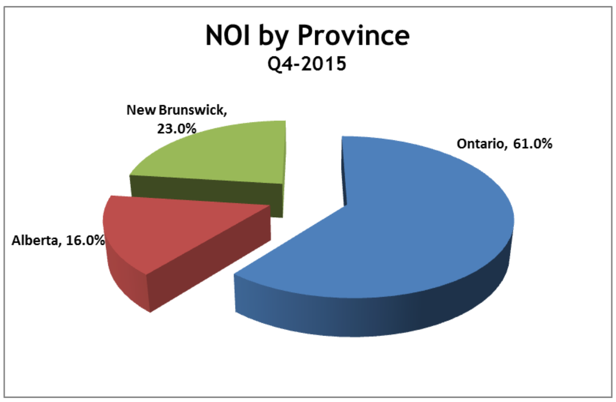
(1) Weighted by expected annualized 2016 gross revenue.

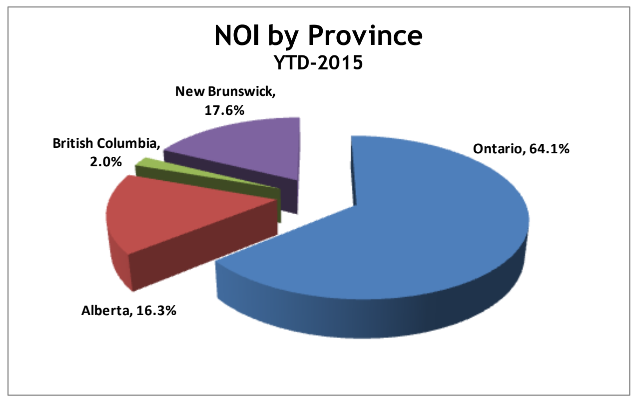
COMPOSITION BY ASSET CLASS





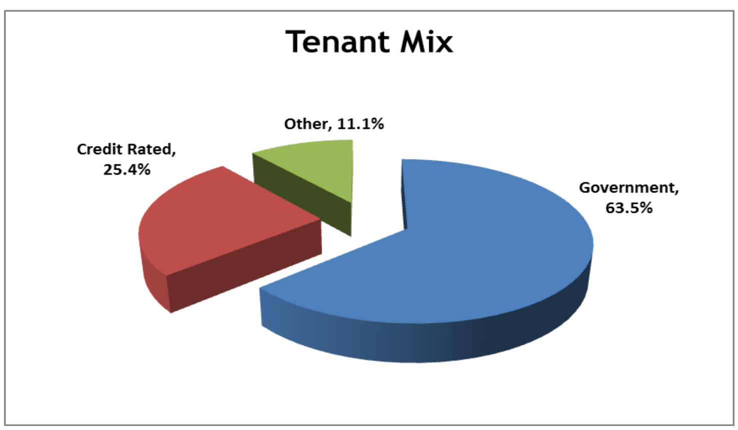
COMPOSITION BY GEOGRAPHIC REGION





TENANT MIX

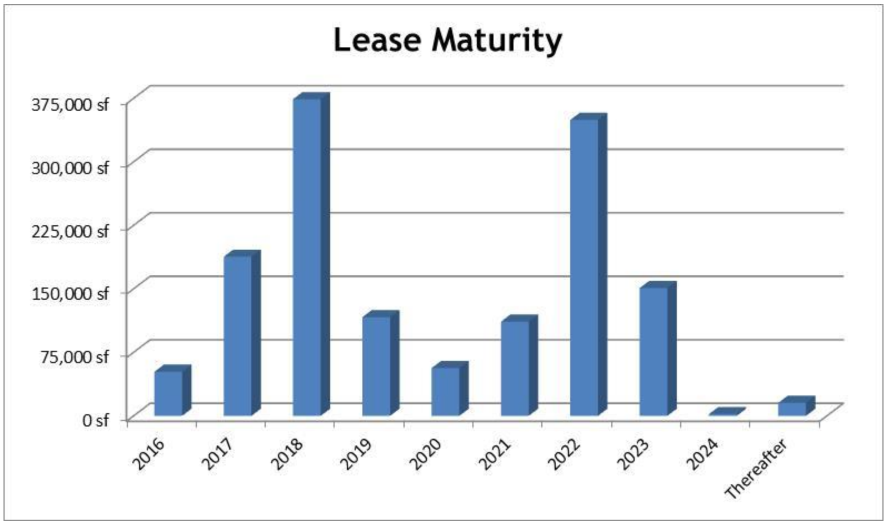
The percentage of revenue generated from tenants that are government institutions, credit-rated or other is as follows:



The tenant mix is based on expected annualized 2016 gross revenue.

LEASE ROLLOVER PROFILE

As at December 31, 2015 the lease rollover profile of the REIT is as follows:



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

Q4 AND 2015 HIGHLIGHTS

Q4 2015 HIGHLIGHTS

- Increased revenue $3,027 or 45% from Q4-2014 to $9,827
- Increased NOI $1,960 or 48% from Q4-2014 to $6,074
- Increased FFO to $0.17 per Unit or 6% from Q4-2014
- Increased AFFO and diluted AFFO to $0.17 per unit or 13% from Q4-2014, resulting in a Q4-2015 AFFO and diluted AFFO payout ratio of 88%
- Government and credit-rated tenants continue to represent 89% of revenue
- Indebtedness GBV Ratio improved to 59.53% at December 31, 2015 compared to 59.81% at September 30, 2015
- Weighted average fixed interest rate of 3.34% at December 31, 2015
- Paid distributions of $3,191 for Q4-2015
- Portfolio occupancy remained stable at 98.0% for December 31, 2015 compared to 98.3% at September 30, 2015

2015 HIGHLIGHTS

- Increased revenue $13,797 or 59% from 2014 to $37,118
- Increased NOI $8,902 or 63% from 2014 to $22,944
- Increased FFO to $0.67 per Unit or 12% from 2014
- Increased AFFO to $0.65 per Unit or 12% from 2014, resulting in a 2015 AFFO payout ratio of 91%
- Increased diluted AFFO to $0.65 per Unit or 14% from 2014, resulting in a 2015 diluted AFFO payout ratio of 92%
- Paid distributions of $12,414

ACQUISITIONS

The REIT acquired the following five properties during 2015, of which four were acquired in Q3-2015 and one in Q1-2015:

Property Name	Location	Acquisition Date	Property Type	Square Feet
845 Prospect Street	Fredericton, NB	March 25, 2015	Office	39,000
500 Beaverbrook Court	Fredericton, NB	July 29, 2015	Office	55,600
495 Prospect Street	Fredericton, NB	July 29, 2015	Office	85,000
414-422 York Street	Fredericton, NB	July 29, 2015	Office	33,000
470 York Street	Fredericton, NB	July 29, 2015	Office	60,100

The REIT acquired 845 Prospect Street on March 25, 2015 for an aggregate purchase price of $5,900 plus closing costs. 845 Prospect Street is a stand-alone, four-story office building with approximately 39,000 rentable square feet, and is 100% occupied by Stantec Inc., a credit rated tenant under a lease expiring in 2022.

On July 29, 2015, the REIT acquired Beaverbrook Court, 495 Prospect Street, 414-422 York Street and 470 York Street ("Kingswood Portfolio"). The purchase price and closing costs were funded through new first mortgages of $24,500, the issuance of 909,090 class B limited partnership units ("Class B LP Units") of True North Commercial Limited Partnership ("Partnership") at an agreed upon price of $6.60 per Class B LP Unit to the vendor for gross proceeds of $6,000, the issuance of 45,454 Units at an agreed upon price of $6.60 per Unit in a concurrent private placement with an entity controlled by the REIT's President and Chief Executive Officer ("CEO"), for gross proceeds of $300, and approximately $5,000 in cash from the proceeds of the disposition of Coronation Mall.

500 Beaverbrook Court is a five-story office building located in the midtown district of Fredericton with an approximate gross leasable area of 55,600 square feet, has approximately 160 onsite paved parking stalls and is 100% occupied. The major tenants at this property are the Federal Government of Canada and the Province of New Brunswick.

495 Prospect Street is a three-story office building located in the uptown business district of Fredericton with an approximate gross leasable area of 85,000 square feet and is 92.5% occupied. The major tenants at this property are Accenture Business Services for Utilities Inc. and AMEC Foster Wheeler Americas Limited.

414-422 York Street is a three-story office building located approximately six blocks from downtown Fredericton with an approximate gross leasable area of 33,000 square feet and is 78.0% occupied. The major tenant at this property is Accreon Inc.

470 York Street is a four-story office building located approximately six blocks from downtown Fredericton with an approximate gross leasable area of 60,100 square feet and is 92.1% occupied. The major tenant at this property is the Province of New Brunswick.

DISPOSITIONS

On June 30, 2015, the REIT sold its non-core Coronation Mall retail property located in Duncan, British Columbia for gross proceeds of approximately $17,000. The property was originally acquired in connection with the REIT's qualifying transaction in December, 2012 for approximately $14,600. The net proceeds from the sale of Coronation Mall were applied towards the purchase of the Kingswood Portfolio.

OTHER INITIATIVES

On December 2, 2015, the REIT announced the Toronto Stock Exchange ("TSX") had approved the REIT's renewal of its Normal Course Issuer Bid ("NCIB") for a further twelve months. Under the NCIB, the REIT has the ability to purchase for cancellation up to a maximum of 1,377,146 of its Units, representing 10% of the REIT's then public float of 13,771,465 Units through the facilities of the TSX. The NCIB commenced on December 8, 2015 and expires on December 7, 2016.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Revenue	$9,827	$6,800	$37,118	$23,321
NOI	$6,074	$4,114	$22,944	$14,042
Income and comprehensive income	$5,742	$740	$16,471	$12,981
FFO	$3,751	$2,436	$13,924	$8,104
FFO per Unit - basic [1]	$0.17	$0.16	$0.67	$0.60
FFO per Unit - diluted [1]	$0.17	$0.15	$0.67	$0.59
AFFO	$3,620	$2,368	$13,593	$7,817
AFFO per Unit - basic [1]	$0.17	$0.15	$0.65	$0.58
AFFO per Unit - diluted [1]	$0.17	$0.15	$0.65	$0.57
AFFO payout ratio - basic	88%	99%	91%	102%
AFFO payout ratio - diluted	88%	100%	92%	104%
Units outstanding for FFO and AFFO per Unit:				
Weighted average (000s) – basic [1]	21,476	15,677	20,821	13,471
Add: Unexercised unit options	79	131	113	175
Weighted average (000s) – diluted [1]	21,555	15,808	20,934	13,646

Notes:

(1) 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 any unexercised Unit options of the REIT ("Unit Options") in the money.

The REIT significantly increased its portfolio with the addition of fourteen properties during the latter half of 2014 and the addition of five properties in 2015 resulting in increased quarterly and year to date revenue, NOI, FFO and AFFO.

Q4-2015 revenue increased $3,027 or 45% compared to Q4-2014. NOI increased $1,960 or 48% compared to Q4-2014. FFO per Unit increased 6% compared to Q4-2014. AFFO per Unit increased 13% compared to Q4-2014, with payout ratio decreasing to 88% from 99% in Q4-2014.

YTD-2015 revenue increased $13,797 or 59% compared to YTD-2014. NOI increased $8,902 or 63% compared to YTD-2014. FFO per Unit increased 12% compared to YTD-2014. AFFO per Unit increased 12% compared to YTD-2014, with the AFFO payout ratio decreasing to 91% from 102%.

QUARTERLY INFORMATION

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

	Q4-15	Q3-15	Q2-15	Q1-15	Q4-14	Q3-14	Q2-14	Q1-14
Revenue	$ 9,827	$ 9,519	$ 8,882	$ 8,890	$ 6,800	$ 5,606	$ 5,283	$ 5,632
Property operating costs	3,753	3,638	3,325	3,458	2,686	2,167	2,026	2,400
NOI	6,074	5,881	5,557	5,432	4,114	3,439	3,257	3,232
General and administration expenses	(418)	(444)	(439)	(505)	(262)	(289)	(572)	(518)
Finance costs	(1,897)	(1,837)	(1,820)	(1,817)	(1,385)	(1,138)	(1,064)	(1,012)
Distributions on Class B LP Units	(640)	(644)	(508)	(508)	(425)	(385)	(385)	(384)
Unrealized gain/(loss) on change in fair value of derivative instruments	126	(652)	158	(839)	(177)	55	(82)	(381)
Fair value adjustment of Class B LP Units	1,944	1,036	479	171	1,743	1,088	(2,719)	388
Fair value adjustment of investment properties	553	4,179	(2,870)	1,069	(2,868)	1,898	3,944	3,869
Loss on sale of investment property	-	-	(350)	-	-	-	-	-
Income and comprehensive income for the period	$ 5,742	$ 7,519	$ 207	$ 3,003	$ 740	$ 4,668	$ 2,379	$ 5,194
FFO per Unit - basic	$ 0.17	$ 0.17	$ 0.17	$ 0.16	$ 0.16	$ 0.15	$ 0.15	$ 0.14
AFFO per Unit - basic	$ 0.17	$ 0.17	$ 0.16	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.13
AFFO per Unit - diluted	$ 0.17	$ 0.17	$ 0.16	$ 0.15	$ 0.15	$ 0.14	$ 0.15	$ 0.13
AFFO payout ratio - basic	88%	88%	92%	97%	99%	103%	100%	109%
AFFO payout ratio - diluted	88%	88%	93%	98%	100%	104%	101%	111%
Number of investment properties	25	25	21	22	21	10	7	7

Revenue increased in Q4-2015 by $308 or 3% from Q3-2015. NOI increased in Q4-2015 by $193 or 3% compared to Q3-2015. Q4-2015 reflects a full quarter of operations for the Kingswood Portfolio when compared to Q3-2015. FFO per Unit and AFFO payout ratio remained constant quarter over quarter at $0.17 and 88% respectively.

ANALYSIS OF FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the three months and years ended December 31, 2015 and 2014 are summarized below.

	Three months ended December 31 2015	Three months ended December 31 2014	Year ended December 31 2015	Year ended December 31 2014
Revenue	$ 9,827	$ 6,800	$ 37,118	$ 23,321
Expenses:				
Property operating costs	2,195	1,543	8,229	5,122
Realty taxes	1,558	1,143	5,945	4,157
NOI	$ 6,074	$ 4,114	$ 22,944	$ 14,042
Other income (expenses):				
General and administration expenses	(418)	(262)	(1,806)	(1,641)
Finance costs	(1,897)	(1,385)	(7,371)	(4,599)
Distributions on Class B LP Units	(640)	(425)	(2,300)	(1,579)
Unrealized gain/(loss) on change in fair value of derivative instruments	126	(177)	(1,207)	(585)
Fair value adjustment of Class B LP Units	1,944	1,743	3,630	500
Fair value adjustment of investment properties	553	(2,868)	2,931	6,843
Loss on sale of investment property	-	-	(350)	-
Income and comprehensive income	$ 5,742	$ 740	$ 16,471	$ 12,981

PROPERTY OPERATIONS

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

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

Overall, for the periods Q4-2015 and YTD-2015 compared to Q4-2014 and YTD-2014, there was a significant increase in the number of Properties owned by the REIT, with five acquisitions in 2015 and fourteen acquisitions in December 2014, partially offset by the sale of Coronation Mall in June 2015. This has resulted in significant comparative increases in revenue, operating costs, realty taxes and NOI.

Revenue increased by 45% ($3,027) in Q4-2015 compared to Q4-2014, and increased by 59% ($13,797) in YTD-2015 compared to YTD-2014. Property operating costs increased by 42% ($652) in Q4-2015 compared to Q4-2014, and increased by 61% ($3,107) in YTD-2015 compared to YTD-2014. Realty taxes increased by 36% ($415) in Q4-2015 compared to Q4-2014, and increased by 43% ($1,788) in YTD-2015 compared to YTD-2014. NOI increased by 48% ($1,960) in Q4-2015 compared to Q4-2014, and increased by 63% ($8,902) in YTD-2015 compared to YTD-2014.

Occupancy for the property portfolio decreased slightly year over year from 98.5% to 98.0% due mainly to some minor vacancies in the Kingswood Portfolio acquired in 2015.

SAME PROPERTY ANALYSIS

Same property analysis for the three months ended December 31, 2015 and 2014 consists of nine properties and for the years ended December 31, 2015 and 2014 consists of six properties. Same property comparison does not include non-cash adjustments such as amortization of tenant inducements, straight-line rent and amortization of leasing commissions.

		Three months ended December 31			Year ended December 31
		2015	2014	2015	2014
Revenue		6,010	$ 6,172	$ 20,266	$ 20,420
Expenses:					
Property operating		1,192	1,418	4,405	4,726
Realty taxes		1,062	1,043	3,619	3,607
NOI	$	3,756	$ 3,711	$ 12,242	$ 12,087

Revenue decreased $162 from Q4-2014 mainly due to a reduction in recovery revenue which corresponds to the decrease in operating costs of $226 from Q4-2014. Property operating costs decreased due to lower utilities at certain Properties as a result of warmer weather and lower consumption. NOI increased $45 or 1.2% due to the above, increased capital expenditure recoveries at certain of the Properties and new tenancies at certain Properties.

Revenue decreased $154 from YTD-2014 also due to a reduction in recovery revenue which corresponds to the decrease in property operating costs of $321 from YTD-2014. Property operating costs decreased mainly due to lower repairs and maintenance at certain of the Properties. NOI increased $155 or 1.3% from YTD-2014 as a result of the above, rent step ups and new tenancies at certain Properties.

GENERAL AND ADMINISTRATION EXPENSES

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

General and administration expenses increased $156 in Q4-2015 compared to Q4–2014. This increase is mainly a result of increased asset management fees of $87 and professional fees of $61 due to the increased number of properties owned by the REIT. Q4-2015 expenses remained consistent with Q3-2015.

General and administration expenses increased $165 year over year due to an increase in asset management fees of $416 and professional fees of $145. This increase was offset by a reduction in Unit-based compensation expense of $237 and non-recurring due diligence costs of $175 relating to acquisitions the REIT is no longer pursuing.

FINANCE COSTS

The REIT's finance costs for the three months and years ended December 31, 2015 and 2014 are summarized below. Finance costs exclude both distributions and fair value adjustments on Class B LP Units.

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Interest on mortgages and notes payable	$ 1,765	$ 1,237	$ 6,873	$ 4,134
Other interest expense and standby fees	78	39	268	150
Amortization of mortgage premiums (discounts)	(32)	12	(131)	18
Amortization of financing costs	86	97	361	297
Total finance costs	$ 1,897	$ 1,385	$ 7,371	$ 4,599

Interest on mortgages payable of $1,765 in Q4-2015 increased $528 compared to Q4-2014 ($2,739 year over year), due to additional mortgage financing obtained in connection with the acquisitions of five properties completed in 2015 and fourteen properties acquired in the latter half of 2014.

Other interest expense and standby fees relate to costs incurred on the REIT's credit facilities. The quarterly and year to date increase is a function of the amount borrowed on the REIT's credit facilities. See "Credit Facilities".

DISTRIBUTIONS ON CLASS B LP UNITS

The REIT currently pays monthly distributions of $0.0495 per Class B LP Unit or $0.594 per Class B LP Unit on an annualized basis. Distributions declared were $640 for Q4-2015 ($2,300 – YTD-2015) compared to $425 for Q4-2014 ($1,579 – YTD - 2014). Increases in distributions quarter over quarter are a result of the issuance of 833,333 Class B LP Units in connection with the acquisition of certain Properties in Q4-2014 and 909,090 Class B LP Units on July 29, 2015 in connection with the acquisition of the Kingswood Portfolio.

UNREALIZED GAIN/(LOSS) ON CHANGE IN FAIR VALUE OF DERIVATIVE INSTRUMENTS

The REIT holds a number of interest rate swap agreements to effectively fix the interest rate on certain mortgages. These derivative instruments are measured at fair value at each reporting date and changes in the fair value are recognized as an unrealized gain or loss.

The notional principal amounts of the outstanding interest swap contracts at December 31, 2015 were $73,507 (December 31, 2014 – $46,514). Total unrealized loss on change in the fair value of the derivative instruments amounts to $1,207 in 2015 (2014 – $585).

FAIR VALUE ADJUSTMENT OF CLASS B LP UNITS

The fair value change in Class B LP Units represents the change in the trading price of the Units (given the Class B LP Units have economic and voting rights equivalent, in all material aspects, to the Units). Any resulting change in the fair value of the Class B LP Units is reported in the period such change occurs. The fair value adjustment of $1,944 for Q4-2015 ($3,630 – YTD–2015) is due to a an increase in the number of Class B LP Units issued, partially offset by a decrease in the trading price of the units from $6.00 at December 31, 2014 to $5.10 at December 31, 2015.

FAIR VALUE ADJUSTMENT OF INVESTMENT PROPERTIES

The REIT has selected the fair value method to account for real estate classified as investment property and records properties at their purchase price (less any purchase price adjustments) in the quarter of acquisition. Any changes in the fair value of investment properties are recognized as fair value 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 fair value gain on investment properties was $553 for Q4-2015 and $2,931 for YTD-2015, compared to a fair value loss of $2,868 for Q4-2014 and gain of $6,843 for YTD-2014. The size and mix of the portfolio in Q4-2015 and YTD-2015 is significantly different from the portfolio in Q4-2014 and YTD-2014. The fair value gain during the quarter was a result of changes in projected future cash flows, changes in capitalization rates and market rent assumptions on certain of the Properties.

The key valuation assumptions for the REIT's investment properties as at December 31, 2015 and 2014 are as follows:

	December 31 2015	December 31 2014
Terminal and direct capitalization rates - range	6.00% - 11.50%	6.00% - 11.02%
Terminal and direct capitalization rate - weighted average	7.12%	7.22%
Discount rates - range	7.00% - 12.00%	7.25% - 10.50%
Discount rate - weighted average	7.81%	7.85%

LOSS ON SALE OF INVESTMENT PROPERTY

The REIT disposed of Coronation Mall on June 30, 2015. Costs incurred on the sale were $350 and are recognized as a loss on sale of investment property.

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 is as follows:

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Income and comprehensive income	$ 5,742	$ 740	$ 16,471	$ 12,981
Add / (deduct):				
Unit based compensation expense	(40)	(36)	56	297
Fair value adjustment of investment properties	(553)	2,868	(2,931)	(6,843)
Fair value adjustment of Class B LP Units	(1,944)	(1,743)	(3,630)	(500)
Distributions on Class B LP Units	640	425	2,300	1,579
Unrealized loss (gain) on change in fair value of derivative instruments	(126)	177	1,207	585
Loss on sale of investment property	-	-	350	-
Amortization of leasing commissions and tenant inducements	32	5	101	5
FFO	$ 3,751	$ 2,436	$ 13,924	$ 8,104
FFO per Unit - basic (1)	$0.17	$0.16	$0.67	$0.60
FFO per Unit - diluted (1)	$0.17	$0.15	$0.67	$0.59
Weighted average Units outstanding:				
Basic - (000s) (1)	21,476	15,677	20,821	13,471
Add:				
Unexercised unit options	79	131	113	175
Diluted - (000s) (1)	21,555	15,808	20,934	13,646

Notes:

(1) 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 any unexercised Unit Options that are in the money.

FFO increased $1,315 or 54% compared to Q4-2014 ($5,820 or 72% compared to YTD-2014). FFO per Unit increased to $0.17 compared to $0.16 in Q4-2014 and increased to $0.67 compared to $0.60 for YTD-2014. The increase in quarterly and year to date FFO and FFO per Unit is primarily attributable to the five properties acquired in 2015 and the fourteen properties acquired in the latter half of 2014.

AFFO

Reconciliation of FFO to AFFO is as follows:

	Three months ended December 31 2015	2014	Year ended December 31 2015	2014
FFO	$ 3,751	$ 2,436	$ 13,924	$ 8,104
Add / (deduct):				
Non-cash compensation expense	26	30	106	106
Amortization of deferred financing costs	86	97	361	297
Amortization of mark to market mortgage adjustments	(32)	12	(131)	18
Instalment note receipts	87	13	355	13
Straight-line rent	(36)	(79)	(67)	(254)
Capital reserve [(1)]	(262)	(141)	(955)	(467)
AFFO	$ 3,620	$ 2,368	$ 13,593	$ 7,817
AFFO per Unit - basic [(2)]	$0.17	$0.15	$0.65	$0.58
AFFO per Unit - diluted [(2)]	$0.17	$0.15	$0.65	$0.57
Distributions declared	$ 3,191	$ 2,475	$ 12,414	$ 8,251
AFFO payout ratio - basic	88%	99%	91%	102%
AFFO payout ratio - diluted	88%	100%	92%	104%

Notes:

(1) Based on an estimate of $0.72 (2014 - $0.60) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

(2) 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 any unexercised Unit Options that are in the money.

The REIT has experienced strong growth in revenue, NOI, FFO and AFFO during Q4-2015 as well as YTD-2015 which is primarily attributable to the fourteen properties acquired in the latter half of 2014 and five properties acquired in 2015, which resulted in an improved AFFO payout ratio of 88%.

RECONCILIATION OF ADJUSTED CASH FLOW PROVIDED BY OPERATING ACTIVITIES TO AFFO

Adjusted cash flow provided by operating activities represents cash provided by operating activities less interest paid. The reconciliation of adjusted cash flow provided by operating activities to AFFO measures the amount available for distribution to Unitholders. See “Distributions”.

	Three months ended December 31 2015	2014	Year ended December 31 2015	2014
Adjusted cash flow provided by operating activities	$ 3,747	$ 3,076	$ 13,752	$ 7,884
Non-cash compensation expense	3	5	14	13
Change in finance costs payable	(20)	(175)	(180)	(212)
Instalment note receipts	87	13	355	13
Capital reserve [(1)]	(262)	(141)	(955)	(467)
Change in non-cash operating working capital	65	(410)	607	586
AFFO	$ 3,620	$ 2,368	$ 13,593	$ 7,817

Notes:

(1) Based on an estimate of $0.72 (2014 - $0.60) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

AFFO of $3,620 exceeded distributions declared by $429 and distributions paid by $818 for Q4-2015. AFFO of $13,593 exceeded distributions declared by $1,179 and distributions paid by $2,713 for YTD-2015.

DISTRIBUTIONS

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

The Trustees determine the level of cash distributions based on the level of cash flow from operations before working capital changes, less actual and planned capital expenditures. In any given period, distributions may differ from cash provided by operating activities, primarily due to fluctuations in working capital. It is expected that normal fluctuations in working capital will be funded from the REIT's cash resources as described in "Liquidity and Capital Resources". In addition, the distributions declared include a component funded by the REIT's distribution reinvestment plan ("DRIP").

The following table shows the amount of distributions declared, including Class B LP distributions, non cash distributions under the DRIP and cash distributions paid by the REIT.

	Three months ended December 31	Year ended December 31		
	2015	2015	2014	2013
Distributions declared	$ 3,191	$ 12,414	$ 8,251	$ 6,506
Less: DRIP	(389)	(1,534)	(1,520)	(1,408)
Cash distributions paid	$ 2,802	$ 10,880	$ 6,731	$ 5,098

The following table provides a reconciliation of the REIT's cash flow and adjusted cash flow provided by operating activities to its declared and cash distributions:

	Three months ended December 31	Year ended December 31		
	2015	2015	2014	2013
Income and comprehensive income	$ 5,742	$ 16,471	$ 12,981	$ 13,340
Cash flow provided by operating activities	5,570	20,713	11,956	8,757
Less: Interest paid	(1,823)	(6,961)	(4,072)	(2,860)
Adjusted cash flow provided by operating activities	3,747	13,752	7,884	5,897
Declared basis:				
Excess of income and comprehensive income over distributions	2,551	4,057	4,730	6,834
Excess (shortfall) of adjusted cash flow provided by operating activities over declared distributions	556	1,338	(367)	(609)
Cash basis:				
Excess of income and comprehensive income over cash distributions	2,940	5,591	6,250	8,242
Excess of adjusted cash flow provided by operating activities over cash distributions	945	2,872	1,153	799

Income and comprehensive income and adjusted cash flow provided by operating activities exceeded distributions declared for the three months and year ended December 31, 2015. The REIT has not been required to fund distributions from alternate sources such as debt, mortgages and other financing instruments.

ANALYSIS OF FINANCIAL POSITION

INVESTMENT PROPERTIES

The following table summarizes changes in the REIT's investment properties for the years ended December 31, 2015 and 2014:

	Investment Properties	Properties Under Development	Total
Balance at December 31, 2013	$ 179,626	$ 45	$ 179,671
Acquisitions	120,372	-	120,372
Additions	3,153	1,192	4,345
Reclassification of properties under development	1,237	(1,237)	-
Amortization of leasing costs, tenant inducements and straight-line rent	249	-	249
Fair value adjustment	6,843	-	6,843
Balance at December 31, 2014	311,480	-	311,480
Acquisitions	41,125	-	41,125
Additions	2,517	-	2,517
Dispositions	(15,869)	-	(15,869)
Amortization of leasing costs, tenant inducements and straight-line rent	(34)	-	(34)
Fair value adjustment	2,931	-	2,931
Balance at December 31, 2015	**$ 342,150**	**$ -**	**$ 342,150**

ACQUISITIONS & DISPOSITIONS:

During 2015, the REIT acquired five properties and disposed of one property. On March 25, 2015, the REIT acquired 845 Prospect Street for an aggregate purchase price of $5,900 plus closing costs. On June 30, 2015, the REIT disposed of Coronation Mall which had a fair value of $15,869. On July 29, 2015, the REIT acquired the Kingswood Portfolio for an aggregate purchase price of $35,000 plus closing costs. The REIT funded its acquisitions from cash on hand, a private placement, and from the proceeds of new mortgage financing and the issuance of Class B LP Units. All acquisitions have been accounted for as asset acquisitions.

ADDITIONS:

Additions to investment properties for the year ended December 31, 2015 were $2,517 consisting of the following:

- Capital expenditures of $1,808 which relate to building enhancements at 340 Laurier Avenue West and 13140 St. Albert Trail; and
- Tenant inducements and leasing costs of $709, the majority of which relates to costs associated with the early renewal of a major tenant and leasing commissions for renewals of various tenants throughout the portfolio.

INSTALMENT NOTES RECEIVABLE

In connection with the acquisition of certain properties in December 2014, the vendors agreed to deliver non-interest bearing instalment notes of $2,028 with an initial present value of $1,592 pursuant to which such vendors will provide instalment payments in order for the REIT to achieve an effective interest rate of 3.3% per annum on certain assumed mortgages. These instalment notes mature on various dates between April 1, 2017 and April 1, 2027, co-terminously with the assumed mortgages.

The following tables summarize the principal receipts on instalment notes receivable for the year ended December 31, 2015:

Balance, December 31, 2014	$	1,592
Principal receipts on instalment notes receivable		(328)
Balance, December 31, 2015	$	1,264

The scheduled principal and imputed interest receipts on the instalment notes are as follows:

		Principal receipts		Imputed interest receipts
2016		308		32
2017		212		34
2018		151		37
2019		134		43
2020		117		47
Thereafter		342		232
	$	1,264	$	425

PREPAID EXPENSES AND OTHER ASSETS

At December 31, 2015, the REIT had $1,210 in prepaid expenses and other assets, compared to $821 at December 31, 2014. This is primarily due to an increase in prepaid realty taxes.

LIABILITIES

As at December 31, 2015, the overall leverage, as represented by the ratio of Indebtedness to GBV was 59.53 % compared to 59.22% at December 31, 2014. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT's Indebtedness to GBV Ratio as at December 31, 2015 and 2014.

		December 31, 2015		December 31, 2014
Total assets	$	347,014	$	317,967
Deferred financing costs		1,820		1,651
GBV	$	348,834	$	319,618
Mortgages and notes payable		199,935		187,290
Credit facilities (net of unamortized financing costs)		7,191		1,473
Unamortized financing costs and mark to market mortgage adjustments		541		501
Indebtedness	$	207,667	$	189,264
Indebtedness to GBV		59.53%		59.22%

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 the availability of financing, market conditions and the financial characteristics of each property. Per the DOT, at no time shall the REIT incur debt aggregating more than 20% of GBV at floating interest rates or having maturities less than one year (excluding debt with an original maturity of one year or more falling due in the next 12 months or variable rate debt for which the REIT has entered into interest rate swap agreements to fix the interest rate for a one year period or more).

Financing costs on mortgages and the REIT's credit facilities are netted against the related debt, and amortized on an effective interest basis over the expected life of the debt.

As at December 31, 2015, 3% (December 31, 2014 – 1%) of the REIT's debt was at floating rates.

MORTGAGES AND NOTES PAYABLE

The following table sets out, as at December 31, 2015, scheduled principal repayments and amounts maturing on the REIT's mortgages over each of the next five fiscal years:

	Scheduled principal payments	Debt maturing during the year	Total mortgages and notes payable	Scheduled interest payments	Percentage of total mortgages payable
2016	6,019	765	6,784	6,905	3.4%
2017	5,903	11,499	17,402	6,399	8.7%
2018	3,794	85,594	89,388	4,073	44.6%
2019	2,931	20,474	23,405	2,787	11.7%
2020	1,634	37,361	38,995	1,495	19.4%
Thereafter	3,338	21,155	24,493	2,369	12.2%
	$ 23,619	$ 176,848	200,467	$ 24,028	100.0%
Unamortized mark to market mortgage adjustments			569		
Unamortized financing costs			(1,101)		
			$ 199,935		

The mortgages carry a weighted average fixed interest rate of 3.34% (December 31, 2014 – 3.44%), after giving effect to the instalment notes receipts and a weighted average term to maturity of 3.57 years (December 31, 2014 – 4.32 years).

CREDIT FACILITIES

The REIT has two floating rate revolving credit facilities with a Canadian chartered bank.

The $5,000 facility bears interest on cash advances above $1,000 at 212.5 basis points per annum over the floating banker's acceptance rate or under $1,000 at 100 basis points over prime rate, and matures on February 12, 2017. As at December 31, 2015, $5,000 (December 31, 2014 - $1,500) was drawn on this credit facility.

The $10,000 facility bears interest on cash advances above $1,000 at 250 basis points per annum over the floating banker's acceptance rate or under $1,000 at 150 basis points over prime rate, and also matures on February 12, 2017. As at December 31, 2015, $2,200 (December 31, 2014 – nil) was drawn on this credit facility. On January 8, 2016, the REIT increased the maximum available under this facility to $12,000.

Both credit facilities are secured by two of the REIT's properties.

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 Class B LP Units issued by True North Commercial Limited Partnership ("Partnership") to holders, together with the related special voting units, have economic and voting rights equivalent, in all material aspects, to Units. They are exchangeable at the option of the holder on a one-for-one basis (subject to anti-dilution adjustments) for the Units, under the terms of an exchange agreement between the REIT, Starlight, the Partnership and True North Commercial General Partner Corp. ("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.

As at December 31, 2015 there were 4,306,337 Class B LP Units issued valued at $21,962 compared to 3,422,247 Class B LP Units issued valued at $20,533 as at December 31, 2014. The change in value is due to the issuance of Class B LP Units in 2015, partially offset by the decrease in Unit price from $6.00 at December 31, 2014 to $5.10 at December 31, 2015.

The REIT has the following Class B LP Units outstanding as of March 10, 2016:

Balance, December 31, 2015	4,306,337
Issuance of Class B LP Units	-
Balance, March 10, 2016	4,306,337

CONTRACTUAL MATURITIES

The contractual maturities and repayment obligations of the REIT's financial liabilities excluding Class B LP Units as at December 31, 2015 are as follows:

	2016	2017	2018	2019	2020+	Total
Mortgages and notes payable	$ 6,784	$ 17,402	$ 89,388	$ 23,405	$ 63,488	$ 200,467
Interest	6,905	6,399	4,073	2,787	3,864	24,028
Credit facilities	7,200	-	-	-	-	7,200
Tenant rental deposits	1,550	-	-	-	-	1,550
Accounts payable and accrued liabilities	4,190	-	-	-	-	4,190
	$ 26,629	$ 23,801	$ 93,461	$ 26,192	$ 67,352	$ 237,435

UNITHOLDERS' EQUITY

OUTSTANDING UNITS

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units in the capital of the REIT.

The following table summarizes changes in the Unit capital of the REIT for the year ended December 31, 2015:

	Units		Amount
Balance, December 31, 2014	16,890,286	$	101,814
Issuance of Units	45,454		300
Issuance of Units under DRIP	275,197		1,534
Issuance of Units under the Trustee unit issuance plan	16,241		92
Issuance from unit options exercised	52,084		307
Issuance of Units from exchange of Class B LP Units	25,000		132
Units repurchased and cancelled under NCIB	(90,600)		(542)
Issuance and repurchase costs	-		12
Balance, December 31, 2015	17,213,662	$	103,649

The number of Units outstanding as of March 10, 2016 is as follows:

Balance, December 31, 2015	17,213,662
Issuance of Units under DRIP	83,566
Balance, March 10, 2016	17,297,228

NCIB

On December 2, 2015, the REIT announced the TSX had approved the REIT's renewal of the NCIB for a further twelve months. Under the NCIB, the REIT has the ability to purchase for cancellation up to a maximum of 1,377,146 of its Units, representing 10% of the REIT's public float of 13,771,465 Units through the facilities of the TSX. The NCIB commenced on December 8, 2015 and expires on December 7, 2016.

During 2015, 90,600 (December 31, 2014 – 52,700) Units were repurchased under the NCIB at a price ranging from $5.71 to $6.15 per Unit.

SHORT FORM BASE SHELF PROSPECTUS

Under the REIT's short form base shelf prospectus which expired on January 16, 2016, the REIT had the ability to offer and issue securities having an offer price of up to $200,000 in aggregate. As at December 31, 2015, 6,360,917 (December 31, 2014 – 6,360,917) Units were issued under the short from base shelf prospectus at a price ranging from of $6.15 to $6.55 per Unit for aggregate gross proceeds of approximately $39,888.

UNIT OPTIONS

The total number of Units reserved under the REIT's Unit-based compensation plan may not exceed 10% of the Units and Class B LP Units outstanding. Options outstanding at December 31, 2015 consist of the following:

Weighted average exercise price (1)	Unit Options Outstanding	Unit Options exercisable	Expiry Date
$1.60	79,167	79,167	August 27, 2017
7.48	100,000	100,000	December 14, 2017
7.66	427,500	284,992	February 12, 2018
6.15	495,000	-	January 8, 2020
$6.31	1,101,667	464,159	

(1) In actual dollars.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Cash provided by operating activities represents the primary source of liquidity to fund distributions, debt service, capital improvements, tenant inducements and leasing costs. The REIT's cash provided by operating activities is dependent upon the occupancy level of its investment properties, the rental rates on its leases, the collectability of rent from its tenants, and other factors. Material changes in these factors may adversely affect the REIT's net cash provided by operating activities and hence its liquidity. A more detailed discussion of these risks can be found under the "Risks and Uncertainties" section in the annual information form of the REIT dated March 10, 2016. Also see "Risks and Uncertainties".

The REIT expects to be able to meet all of its obligations, including distributions to Unitholders, and capital expenditure requirements as they become due and to provide for the future growth of the business. The REIT has a number of financing sources available to fulfill its commitments including: (i) cash provided by 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:

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Cash provided by operating activities	$ 5,570	$ 4,177	$ 20,713	$ 11,956
Cash used in investing activities	(634)	(56,351)	(32,551)	(94,113)
Cash provided (used) by financing activities	(4,849)	53,339	10,262	82,511
Increase (decrease) in cash and cash equivalents	87	1,165	(1,576)	354
Cash and cash equivalents, beginning of period	523	1,021	2,186	1,832
Cash and cash equivalents, end of period	$ 610	$ 2,186	$ 610	$ 2,186

Overall, for the periods Q4-2015 and YTD-2015 compared to Q4-2014 and YTD-2014, cash provided by operating activities, used in investing activities and provided (used) by financing activities were impacted by acquisition activity and the number of Properties owned throughout the year by the REIT in 2015 consisting of five acquisitions in 2015 and fourteen acquisitions in the latter half of 2014.

Cash provided by operating activities increased in Q4-2015 compared to Q4-2014 and YTD-2015 compared to YTD-2014, primarily due to increased operating income resulting from the higher number of Properties owned throughout the year in 2015 .

Cash used in investing activities decreased significantly in Q4-2015 compared to Q4-2014 and YTD-2015 compared to YTD-2014. The significantly higher cash used in 2014 primarily related to the acquisition of fourteen properties in 2014 compared to five in 2015, which was also offset by net proceeds from the sale of Coronation Mall in Q2-2015.

Cash provided by financing activities decreased significantly in Q4-2015 (cash used) compared to Q4-2014 and YTD-2015 compared to YTD-2014. The significantly higher cash provided in 2014 related to mortgage and other financing for the significantly higher number of acquisitions compared to 2015. Partially offsetting cash provided by financing activities were payments for distributions and finance costs, which were higher in 2015 compared to 2014.

CAPITAL RESOURCES

The REIT's portfolio requires ongoing capital expenditures, tenant inducements and leasing expenditures. Leasing expenditures include the cost of tenant allowances, commissions and leasehold improvements incurred in connection with the leasing of vacant space and the renewal or replacement of current tenants. The REIT plans to continue to invest capital in all its properties throughout 2016 and beyond. Expenditures are expected to be funded through cash flow provided by operations and available credit facilities. For the three months and year ended December 31, 2015, the REIT invested $417 and $2,517 (December 31, 2014 - $1,017 and $4,345) respectively, in capital and leasing expenditures.

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 enhancements which at December 31, 2015 and December 31, 2014 were $nil and $562, respectively.

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Starlight is considered a related party to the REIT as Starlight is controlled by the President, CEO and chairman of the Board of the REIT, who is also a significant Unitholder.

ARRANGEMENTS WITH STARLIGHT

Pursuant to the asset management agreement dated December 14, 2012 ("Asset Management Agreement"), Starlight provides advisory, asset management and administrative services to the REIT. The REIT is administered and operated by the 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) An incentive fee is payable by the REIT for each fiscal year equal to 15% of the REIT's FFO per Unit in excess of FFO per Unit for fiscal 2013 plus 50% of the annual increase in the weighted average consumer price index (or other similar metric, as determined by the Trustees) of the jurisdictions in which the Properties are located.

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

In addition, the REIT is required to reimburse Starlight for all reasonable 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 months and year ended December 31, 2015 and 2014:

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Asset management fees	$ 289	$ 202	$ 1,096	$ 680
Acquisition fees	-	788	409	1,138
Other expenses	14	-	29	-
Total	$ 303	$ 990	$ 1,534	$ 1,818

Of these amounts, $104 (December 31, 2014 - $77) is included in accounts payable and accrued liabilities at December 31, 2015. No incentive fees or capital expenditure fees were charged for the three months and years ended December 31, 2015 or 2014.

OTHER:

On July 29, 2015, the REIT issued 45,454 Units for cash of $300 in a private placement to an entity controlled by the REIT's President and CEO.

On July 31, 2014, the REIT acquired 295 Belliveau Avenue from an entity controlled by the REIT's President and CEO and contemporaneously issued 378,787 Units pursuant to a private placement to the same entity at a price of $6.60 per Unit for aggregate gross proceeds of $2,500.

On December 18, 2014, the REIT issued 151,515 Units pursuant to a private placement to an entity controlled by the REIT's President and CEO at a price of $6.60 per Unit for aggregate gross proceeds of $1,000.

RISKS AND UNCERTAINTIES

RISKS RELATED TO THE REAL ESTATE INDUSTRY:

REAL PROPERTY OWNERSHIP AND TENANT RISKS

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of such properties. The properties generate revenue through rental payments made by the tenants thereof. The ability to rent vacant space in properties will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors.

If a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be re-leased on economically favourable terms, the properties may not generate revenues sufficient to meet operating expenses, including debt service payments and capital expenditures.

Upon the expiry of any lease, there can be no assurance the lease will be renewed or the tenant will be replaced. The terms of any subsequent lease may be less favourable to the REIT than those of an existing lease. Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the properties or revenues to be derived from them. There can be no assurance that, upon the expiry or termination of existing leases, the average occupancy rates and revenues will be higher than historical occupancy rates and revenues, and it may take a significant amount of time for market rents to be recognized by the REIT due to internal and external limitations on its ability to charge these new market based rents in the short term.

Fluctuations in Capitalization Rates

As interest rates fluctuate in the lending market, generally so too do capitalization rates which affect the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, fair value gains and losses during a reporting period can occur due to the increase or decrease of these capitalization rates.

Environmental Matters

The REIT is subject to various requirements (including federal, provincial and municipal laws, as applicable,) relating to environmental matters. Such requirements provide that the REIT could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under its properties, including lead-based paint, asbestos, polychlorinated biphenyls, petroleum-based fuels, mercury, volatile organic compounds, underground storage tanks, pesticides and other miscellaneous materials. Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such materials.

Additional liability may be incurred by the REIT with respect to the release of such substances from the REIT's properties to properties owned by third parties, including properties adjacent to the REIT's properties or with respect to the exposure of persons to regulated substances. The failure to remove or otherwise address such substances may materially adversely affect the REIT's ability to sell a Property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against the REIT.

It is the REIT's operating policy to obtain or be entitled to rely on an environmental site assessment prior to acquiring a property. Where an environmental site assessment warrants further investigation, it is the REIT's operating policy to conduct further environmental assessments. Although such environmental assessments provide the REIT with some level of assurance about the condition of the properties, the REIT may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which the REIT may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on the REIT business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. Environmental laws and other requirements can change and the REIT may become subject to more stringent environmental laws and other requirements in the future. Compliance with more stringent environmental requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

Competition

The real estate business is competitive. Numerous developers, managers and owners of properties compete with the REIT in seeking tenants. The existence of competing developers, managers and owners and competition for the REIT's tenants could have an impact on the REIT's ability to lease space in the properties and on the rents charged.

The REIT is subject to competition for suitable real property investments with individuals, corporations and institutions (both Canadian and foreign) and other real estate investment trusts which are presently seeking, or which may seek in the future, real property investments similar to those targeted by the REIT. A number of these investors may have greater financial resources than those of the REIT, or operate without the investment or operating restrictions of the REIT. An increase in the availability of the investment funds, and an increase in interest in real property investments, may tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

The REIT seeks to locate and complete property purchases that are accretive to AFFO per Unit. There is a risk that continuing increased competition for real property acquisitions may increase purchase prices to levels that are not accretive.

ILLIQUIDITY OF REAL ESTATE INVESTMENTS

Real estate investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for, and the perceived desirability of, such investments. Such illiquidity may limit the REIT's ability to promptly adjust its portfolio in response to changing economic or other conditions. If the REIT were required to quickly liquidate its properties, the proceeds might be significantly less than the aggregate carrying value of its properties or less than what could be expected to be realized under normal circumstances. In addition, by concentrating on commercial rental properties, the REIT is exposed to the adverse effects on that segment of the real estate market.

INTEREST RATE RISK

The REIT may be subject to higher interest rates in the future, given the current economic climate. The REIT may also be unable to renew its maturing debt either with an existing or a new lender, and if it's able to renew its maturing debt, significantly lower loan-to-value ratios may be used. The REIT will seek to manage this risk by negotiating fixed interest rates where possible. At no time will the REIT incur debt aggregating more than 20% of gross book value of the REIT (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) at floating interest rates or having maturities less than one year.

UNINSURED LOSSES

The DOT requires that the REIT obtain and maintain at all times insurance coverage in respect of its potential liabilities and the accidental loss of value of its assets from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or under-insured loss occur, the REIT could lose its investment in, and anticipated profits and cash flows from, the affected property, but the REIT would continue to be obliged to repay any recourse mortgage indebtedness on such property. There can be no assurance that a claim in excess of the insurance coverage or claims not covered by insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against the REIT not covered by, or in excess of, the insurance coverage could have a material adverse effect on the REIT's business, financial condition or results of operations and distributions.

RISK RELATED TO INSURANCE RENEWALS

Certain events could make it more difficult and expensive to obtain property and casualty insurance, including coverage for terrorism. The REIT's current insurance policies expires annually and the REIT may encounter difficulty in obtaining or renewing property or casualty insurance on its Properties at the same levels of coverage and under similar terms. Such insurance may be more limited and, for catastrophic risks (for example, earthquake, hurricane, flood and terrorism), may not be generally available to fully cover potential losses. Even if the REIT is able to renew its policies at levels and with limitations consistent with its current policies, the REIT cannot be sure that it will be able to obtain such insurance at premium rates that are commercially reasonable. If the REIT were unable to obtain adequate insurance on the Properties for certain risks, it could cause the REIT to be in default under specific covenants on certain of its indebtedness or other contractual commitments it has that require the REIT to maintain adequate insurance on its properties to protect against the risk of loss. If this were to occur or if the REIT were unable to obtain adequate insurance and the Properties experienced damages that would otherwise have been covered by insurance, it could adversely affect the REIT's financial condition and the operations of the Properties.

CREDIT RISK AND TENANT CONCENTRATION

The REIT is exposed to risk as tenants may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties across several asset classes. As well, management seeks to acquire properties with strong tenant covenants in place. The REIT's portfolio includes over 80 tenant leases with a weighted-average term to maturity of approximately 3.9 years. Approximately 89% of the REIT's portfolio was occupied by government and other credit-rated entities based on expected annualized 2016 gross revenue.

RISKS RELATED TO THE REIT AND ITS BUSINESS:

ACQUISITIONS

The REIT's strategy includes growth through identifying suitable acquisition opportunities, pursuing such opportunities, completing acquisitions and effectively operating and leasing such properties. There can be no assurance as to the pace of growth through property acquisitions or that the REIT will be able to acquire assets on an accretive basis.

Acquisitions of properties by the REIT are subject to the normal commercial risks and satisfaction of closing conditions that may include, among other things, lender approval, *Competition Act* (Canada) approval, receipt of estoppel certificates and obtaining title insurance. Such acquisitions may not be completed or, if completed, may not be on terms that are exactly the same as initially negotiated.

ACCESS TO CAPITAL AND FINANCING RISK

The real estate industry is highly capital intensive. The REIT requires access to capital to maintain its properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There can be no assurance the REIT will have access to sufficient capital or access to capital on terms favourable to the REIT for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. Further, the REIT may not be able to borrow funds due to the limitations set forth in the DOT.

In addition, financial markets have experienced a sharp increase in volatility during recent years. The underlying market conditions may continue or become worse and unexpected volatility and illiquidity in financial markets may inhibit the REIT's access to long-term financing in the Canadian capital market. As a result, it is possible financing which the REIT may require in order to grow and expand its operations, upon the expiry of the term of financing, upon refinancing of any particular Property may not be available or, if it is available, may not be available on favourable terms to the REIT.

The REIT is subject to the risks associated with debt financing, including the risk the mortgages and banking facilities secured by the properties will not be able to be refinanced or the terms of such refinancing will not be as favourable as the terms of existing indebtedness due to, for instance, higher interest rates. To the extent the REIT utilizes variable rate debt, such debt will result in fluctuations in the REIT's cost of borrowing as interest rates change.

As at December 31, 2015, 3% (December 31, 2014 – 1%) of the REIT's debt was at floating rates.

POTENTIAL CONFLICTS OF INTEREST WITH TRUSTEES

Certain of our Trustees and executive officers are also Trustees, directors and/or officers of other entities, or are otherwise engaged, and may continue to be engaged, in activities that may put them in conflict with the REIT's business strategy. Accordingly, these individuals may not devote all of their time and attention to the REIT. Consequently, these positions could create, or appear to create, conflicts of interest with respect to matters involving the REIT. Pursuant to the DOT, all decisions to be made by the Trustees which involve the REIT are required to be made in accordance with the Trustee's duties and obligations to act honestly and in good faith with a view to the best interests of the REIT and the Unitholders. In addition, the Trustees and officers of the REIT are required to declare their interests in, and such Trustees and officers of the REIT are required to refrain from voting on, any matter in which they may have a conflict of interest. However, there can be no assurance that the provisions in the DOT will adequately address potential conflicts of interest or that such actual or potential conflicts of interest will be resolved in the REIT's favour.

Starlight acts as the asset manager for the REIT and also provides management services to other public and private companies. As asset manager for other entities and on its own behalf, Starlight may pursue other business opportunities, including, but not limited to, real estate and development business opportunities outside of the REIT. These multiple responsibilities to public entities and other businesses could create competition for the time and efforts of Starlight which materially adversely affect our cash flows, operating results and financial condition.

LITIGATION RISKS

In the normal course of the REIT's operations, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the REIT. Even if the REIT prevails in any such legal proceeding, the proceedings could be costly and time-consuming and would divert the attention of management and key personnel from the REIT's business operations.

TAXATION MATTERS

Management of the REIT believes the REIT currently qualifies as a mutual fund trust and a real estate investment trust for income tax purposes. If the REIT were not to so qualify, the consequences could be material and adverse.

The Income Tax Act ("Tax Act") contains rules, which tax certain publicly traded or listed trusts in a manner similar to corporations and taxes certain distributions from such trusts as taxable dividends from a taxable Canadian corporation. Distributions paid by a specified investment flow-through trust ("SIFT") as returns of capital will generally not be subject to the tax.

The SIFT Rules are not applicable to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue.

Unless the REIT qualifies for the REIT Exception, the SIFT Rules could impact the level of cash distributions which would otherwise be made by the REIT and the taxation of such distributions to Unitholders. “REIT Exception” means the exclusion from the definition of “SIFT trust” in the Tax Act, for a trust qualifying as a “real estate investment trust” as defined in subsection 122.1(1) of the Tax Act (including any proposed amendments contained in the Tax Proposals). Management of the REIT has determined that the REIT is not subject to the SIFT tax as it meets the REIT Exception for 2015.

If the REIT were to no longer qualify for the REIT Exception, it would not be able to flow through its taxable income to Unitholders and the REIT would therefore be subject to tax. The REIT Exception is applied on an annual basis. As such, it will not be possible to determine if the REIT will satisfy the conditions of the REIT Exception for 2016 or any subsequent year until the end of the particular year.

SIGNIFICANT OWNERSHIP BY STARLIGHT

As of the date hereof, Daniel Drimmer and his Affiliates held an approximate 19.5% effective interest in the REIT through ownership of Units and Class B LP Units (excluding unexercised Options). For so long as Starlight maintains a significant effective interest in the REIT, Starlight benefits from certain contractual rights regarding the REIT and Starlight has the ability to exercise influence with respect to the affairs of the REIT and significantly affect the outcome of Unitholder votes, including the ability to prevent certain fundamental transactions, and may discourage transactions involving a change of control of the REIT, including transactions in which an investor might otherwise receive a premium for its Units over the then current market price. The Units may also be less liquid and worth less than they would if Starlight did not have the ability to influence matters affecting the REIT.

Pursuant to the Exchange Agreement, each Class B LP Unit is exchangeable at the option of the holder for one Unit of the REIT (subject to customary anti-dilution adjustments). If Starlight exchanges Class B LP Units for Units and sells Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also produce such effect.

DEPENDENCE ON STARLIGHT

The REIT is dependent upon Starlight for operational and administrative services relating to the REIT’s business. Should Starlight terminate the Asset Management Agreement, the REIT may be required to engage the services of an external asset manager. The REIT may be unable to engage an asset manager on acceptable terms, in which case the REIT’s operations and cash available for distribution may be adversely affected.

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 financial statements for external purposes in accordance with IFRS.

Because of the inherent limitations in all control systems, including well-designed and operated systems, no control system can provide complete assurance that 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 the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors.

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.

RISKS RELATED TO THE UNITS:

VOLATILE MARKET PRICE FOR THE REIT'S SECURITIES

The market price for the REIT's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the REIT's control, including the following: (a) actual or anticipated fluctuations in the REIT's financial performance and future prospects; (b) recommendations by securities research analysts; (c) changes in the economic performance or market valuations of other issuers that investors deem comparable to the REIT; (d) addition or departure of the REIT's executive officers; (e) release or expiration of lock-up or other transfer restrictions on outstanding Units or Class B LP Units; (f) sales or perceived sales of additional Units; (g) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the REIT or its competitors; (h) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the REIT's industry or target markets; (i) liquidity of the REIT's securities; (j) prevailing interest rates; (k) the market price of other REIT securities; (l) a decrease in the amount of distributions declared and paid by the REIT; and (m) general economic conditions.

Financial markets have, in recent years, experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such issuers. Accordingly, the market price of the REIT's securities may decline even if the REIT's financial performance, underlying asset values, or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the REIT's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the REIT's securities by those institutions. There can be no assurance that continuing fluctuations in price and volume will not occur.

RETURN ON INVESTMENT ON UNITS NOT GUARANTEED

The Units are equity securities of the REIT and are not traditional fixed income securities. A fundamental characteristic that distinguishes the Units from traditional fixed income securities is that the REIT does not have a fixed obligation to make payments to holders of Units and does not promise to return the initial purchase price of a Unit on a certain date in the future. The REIT has the ability to reduce or suspend distributions to holders of Units if circumstances warrant. The ability of the REIT to make cash distributions to holders of Units, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT and its subsidiaries, and will be subject to various factors including financial performance, obligations under applicable credit facilities, fluctuations in working capital and capital expenditure requirements. There can be no assurance regarding the amount of income to be generated by the properties. The market value of the Units will deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, unlike interest payments or an interest-bearing debt security, the REIT's cash distributions to holders of Units are composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax returns to holders of Units. Therefore, the rate of return over a defined period for a holder of Units may not be comparable to the rate of return on a fixed income security that provides a "return on capital" over the same period.

DISTRIBUTIONS

At certain times, the REIT has paid distributions to Unitholders which have exceeded adjusted cash flow from operating activities. At the election of Unitholders, the REIT has historically made non-cash distributions under the DRIP which has reduced the amount of cash required to fund the REIT's distributions. As a result, the REIT has not funded distributions from alternate sources such as debt, mortgages or other financing instruments and has not been required to amend any material contracts.

There can be no assurance in the future the REIT will continue to fund distributions entirely from adjusted cash from operating activities and no assurance Unitholders will continue to elect to receive distributions under the DRIP. In such an event, the REIT may be required to fund its distributions from sources other than operations such as debt, mortgages or other financing instruments, or amend material contracts. In addition, non-cash distributions, such as the issuance of Units under the DRIP, have the effect of increasing the number of Units outstanding which may cause cash distributions to increase over time assuming stable per Unit cash distribution levels.

DILUTION OF UNITS

The REIT is authorized to issue an unlimited number of Units. The REIT may, in its sole discretion, issue additional Units or convertible securities exchangeable into Units from time to time subject to the rules of any applicable stock exchange on which the Units are then listed. The issuance of any additional Units may have a dilutive effect on the interests of holders of Units.

UNITHOLDER LIABILITY

The DOT provides that no holders of Units will be subject to any liability whatsoever to any person in connection with a holding of Units. In addition, legislation has been enacted in the Province of Ontario and certain other provinces that is intended to provide holders of Units in those provinces with limited liability. However, there remains a risk, which is considered by the REIT to be remote in the circumstances, that a holder of Units could be held personally liable for the obligations of the REIT to the extent that claims are not satisfied out of the assets of the REIT. The affairs of the REIT are conducted in a manner to seek to minimize such risk wherever possible.

NATURE OF INVESTMENT IN UNITS

The Units represent a fractional interest in the REIT and do not represent a direct investment in the REIT's assets and should not be viewed by investors as direct securities of the REIT's assets. A holder of a Unit does not hold a share of a body corporate. Holders of Units, in such capacity, do not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions against the REIT. The rights of holders of Units are based primarily on the DOT. There is no statute governing the affairs of the REIT equivalent to the Canada Business Corporations Act, which sets out the rights and entitlements of shareholders of corporations in various circumstances. As well, the REIT may not be a recognized entity under certain existing insolvency legislation such as the

Bankruptcy and Insolvency Act (Canada) and the *Companies Creditors' Arrangement Act* (Canada) and thus the treatment of holders of Units upon an insolvency is uncertain.

USE OF ESTIMATES

The preparation of the REIT's consolidated 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 audited consolidated financial statements.

The estimates used in determining the recorded amount for assets and liabilities in the audited consolidated 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 the Units. 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 IAS 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:		
Instalment notes receivable	Loans and receivables	Amortized cost
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	Loans and receivables	Amortized cost
Financial liabilities:		
Mortgages and notes payable	Other liabilities	Amortized cost
Class B LP Units	FVTPL	Fair value
Credit facilities	Other liabilities	Amortized cost
Tenant rental deposits and prepayments	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Derivative instrument	FVTPL	Fair value

The fair values of the REIT's instalment notes receivable, deposits, tenant and other receivables, restricted cash and cash and cash equivalents, as well as the revolving credit facilities, 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 $208,100 at December 31, 2015 (December 31, 2014 - $191,200).

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

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

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

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

The following are new standards, amendments to standards and interpretations that have been issued but not yet effective for the year ended December 31, 2015 and, accordingly, have not been applied in preparing the consolidated financial statements.

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

IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS (“IFRS 15”):

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

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

IFRS 9, FINANCIAL INSTRUMENTS ("IFRS 9"):

On July 24, 2014, the IASB issued IFRS 9. IFRS 9 was issued as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets and liabilities. This amendment completes the IASB’s financial instruments project and the standard is effective for reporting periods beginning on or after January 1, 2018, with early adoption permitted. The REIT is currently assessing the impact of the new standard on its consolidated financial statements.

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

IFRS 16, LEASES ("IFRS 16"):

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

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

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 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 year ended December 31, 2015.

The CEO and CFO evaluated the design and effectiveness of the REIT's internal controls over financial reporting (as defined in NI 52-109) and concluded that the design and effectiveness of internal controls over financial reporting continue to be appropriate and were effective for the year ended December 31, 2015.

SUBSEQUENT EVENTS

On January 8, 2016, the REIT increased the amount available on the REIT's second revolving credit facility from $10,000 to $12,000.

On January 8, 2016, the REIT repaid a vendor take-back mortgage on 410 King George Highway with an annual fixed rate of 2%, in the amount of $765.

OUTLOOK

On January 20, 2016 the Bank of Canada ("BOC") chose to maintain their target for the overnight rate at 0.5%, as expected. The BOC cited diverging market expectations for maintaining the rate, specifically balancing the disinflationary pressures of low consumer energy prices and residual economic slack against the inflationary pressures of a low Canadian dollar on imported goods.

The BOC reported a reduced growth forecast to start 2016 and a longer than expected return to above-potential growth, likely by the second quarter of 2016. The Consumer Price Index is expected to remain below the BOC's target range at 1.0%, growing through 2016 to 1.75% -2.0% by 2017. Economists expect Real gross domestic product for 2015 to be 1.2%, below expectations of 2.1% this time last year, yet improving to 2.2% for 2016 and 2.7% in 2017, providing positive lift to the office sector.

The commercial real estate market is witnessing a cyclical shift out of unsecured debenture financing coupled with above average commercial mortgage-backed security maturities in 2016, which should drive demand for traditional financing from 'balance-sheet' lenders. While the REIT does not have any mortgage maturities in the near term, stable, historic low interest rates will positively impact future acquisitions as well as the cost of borrowing on the REIT's floating rate credit facilities.

It is expected that after the weak operating performance in the commercial real estate sector in 2015, investors will seek stable yields from proven operators with A+ credit-rated tenancies who will be insulated from economic fluctuations due to the composition of tenant base as well as the geographic diversification of portfolio.

The REIT remains focused on improving revenue and NOI through active portfolio management, maintaining strong tenant relationships and utilizing leasing optimization tactics. Management believes that by carefully managing these operational elements, there will be a number of opportunities to improve cash flow and overall portfolio value.

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

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

Dated: March 10, 2016
Toronto, Ontario, Canada