

Consolidated Financial Statements
(In Canadian dollars)

**TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT
TRUST**

Years ended December 31, 2015 and 2014



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Independent Auditor's Report

To the Unitholders of True North Commercial Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of True North Commercial Real Estate Investment Trust, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of unitholders' equity, income and comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of True North Commercial Real Estate Investment Trust as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

March 10, 2016
Toronto, Ontario

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

December 31, 2015 and 2014

	2015	2014
Assets		
Non-current assets:		
Investment properties (note 4)	\$ 342,150	\$ 311,480
Instalment notes receivable (note 5)	956	1,264
Deposits	341	287
Total non-current assets	343,447	313,031
Current assets:		
Tenant and other receivables (note 6)	1,439	1,337
Prepaid expenses and other assets (note 7)	1,210	821
Instalment notes receivable (note 5)	308	328
Restricted cash (note 8)	—	264
Cash and cash equivalents	610	2,186
Total current assets	3,567	4,936
Total assets	\$ 347,014	\$ 317,967

Liabilities and Unitholders' Equity

Non-current liabilities:		
Mortgages and notes payable (note 9)	\$ 193,355	\$ 182,193
Derivative instruments (note 13)	936	199
Class B LP Units (note 11)	21,962	20,533
Total non-current liabilities	216,253	202,925
Current liabilities:		
Mortgages and notes payable (note 9)	6,580	5,097
Credit facilities (note 10)	7,191	1,473
Tenant rental deposits and prepayments	1,550	1,243
Accounts payable and accrued liabilities (note 12)	4,190	4,641
Derivative instruments (note 13)	698	228
Total current liabilities	20,209	12,682
Total liabilities	236,462	215,607
Unitholders' equity (note 14)	110,552	102,360
Total liabilities and unitholders' equity	\$ 347,014	\$ 317,967

Subsequent events (note 22)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Trustees on March 10, 2016:

"William J. Biggar" _____ Director

"Roland A. Cardy" _____ Director

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Income and Comprehensive Income
(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

	2015	2014
Revenue	\$ 37,118	\$ 23,321
Expenses:		
Property operating	8,229	5,122
Realty taxes	5,945	4,157
Income before the undernoted	22,944	14,042
Other income (expenses):		
General and administration expenses	(1,806)	(1,641)
Finance costs (note 16)	(7,371)	(4,599)
Distributions on Class B LP Units (note 11)	(2,300)	(1,579)
Unrealized loss on change in fair value of derivative instruments (note 13)	(1,207)	(585)
Fair value adjustment of Class B LP Units (note 11)	3,630	500
Fair value adjustment of investment properties (note 4)	2,931	6,843
Loss on sale of investment property	(350)	–
Net income and comprehensive income	\$ 16,471	\$ 12,981

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity
(In thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

	Unit capital (note 14(c))	Cumulative income (loss)	Total
Unitholders' equity, January 1, 2014	\$ 60,074	\$ (5,763)	\$ 54,311
Changes during the year:			
Units issued and repurchased, net of issue costs	40,220	–	40,220
Net income and comprehensive income for the year	–	12,981	12,981
Distributions	–	(6,672)	(6,672)
Issue of units under Distribution Reinvestment Plan ("DRIP") (note 14(e))	1,520	–	1,520
Unitholders' equity, December 31, 2014	101,814	546	102,360
Changes during the year:			
Units issued and repurchased, net of issue costs	301	–	301
Net income and comprehensive income for the year	–	16,471	16,471
Distributions	–	(10,114)	(10,114)
Issue of units under DRIP (note 14(e))	1,534	–	1,534
Unitholders' equity, December 31, 2015	\$ 103,649	\$ 6,903	\$ 110,552

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2015 and 2014

	2015	2014
Operating activities:		
Net income for the year	\$ 16,471	\$ 12,981
Adjustments for financing activities included in income:		
Finance costs (note 16)	7,371	4,599
Unrealized loss on change in fair value of derivative instruments (note 13)	1,207	585
Distributions on Class B LP Units	2,300	1,579
Fair value adjustment of Class B LP Units (note 11)	(3,630)	(500)
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 4)	(2,931)	(6,843)
Loss on sale of investment property	350	–
Unit-based compensation expense	56	292
Change in other non-cash operating items	126	(151)
Change in non-cash operating working capital (note 17)	(607)	(586)
Cash provided by operating activities	20,713	11,956
Investing activities:		
Acquisitions (note 3)	(36,214)	(89,825)
Net proceeds from the disposition of investment properties (note 3)	5,916	–
Additions to investment properties (note 4)	(2,517)	(4,345)
Change in restricted cash (note 8)	264	57
Cash used in investing activities	(32,551)	(94,113)
Financing activities:		
Proceeds from (repayments) of credit facilities, net of costs	5,676	(24)
Proceeds from new mortgage financing, net of costs	28,328	55,953
Repayment of mortgage	(697)	–
Principal payments on mortgages	(5,401)	(3,011)
Principal payments on instalment notes receivable (note 5)	328	–
Finance costs paid	(8,521)	(4,949)
Proceeds from issuance of Units, net of costs	395	40,363
Units repurchased and cancelled under Normal Course Issuer Bid (“NCIB”) (note 14(c))	(542)	(322)
Cash distributions to unitholders	(9,304)	(5,499)
Cash provided by financing activities	10,262	82,511
Increase (decrease) in cash and cash equivalents	(1,576)	354
Cash and cash equivalents, beginning of year	2,186	1,832
Cash and cash equivalents, end of year	\$ 610	\$ 2,186
Supplemental cash flow information:		
Units issued under DRIP - unitholders	\$ 794	\$ 752
Units issued under DRIP - Class B LP Units	740	768
Mortgage assumed on sale of investment property	9,828	–
Issuance of Class B LP Units on acquisition of investment properties (note 11)	5,191	5,500
Units issued in exchange for Class B LP Units (note 11)	132	–

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

Organization:

True North Commercial Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust amended and restated on May 22, 2014 ("DOT"), and governed by the laws of the Province of Ontario. The REIT incorporated True North Commercial General Partner Corp. ("TNCGP") on November 16, 2012 and, together with TNCGP, formed True North Commercial Limited Partnership ("TNCLP") on November 16, 2012.

The REIT is listed on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN. The registered office of the REIT is 1801 – 3300 Bloor St West, West Tower, Toronto, Ontario, Canada, M8X 2X2.

1. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

(b) Basis of presentation:

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

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

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

(c) Critical judgments and estimates:

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimate and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

1. Basis of preparation (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any applicable future period.

(i) Critical judgments in applying accounting policies:

The following are critical judgments management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) Accounting for acquisitions:

The REIT assesses whether an acquisition transaction is an asset acquisition or a business combination.

The REIT accounts for an acquisition as a business combination if the assets acquired and liabilities assumed constitute a business and the REIT obtains control of the business. When the cost of a business combination exceeds the fair value of the identifiable assets acquired or liabilities assumed, such excess is recognized as goodwill. Transaction-related costs are expensed as incurred.

If the acquisition does not meet the definition of a business combination, the REIT accounts for the acquisition as an asset acquisition. The investment property acquired is initially measured at the purchase price, including directly attributable costs. Subsequent to initial measurement, investment properties are carried at fair value.

(b) Income taxes:

Under current tax legislation, a real estate investment trust is not liable to pay Canadian income taxes provided its taxable income is fully distributed to unitholders during the year. The REIT is a real estate investment trust if it meets prescribed conditions under the *Income Tax Act* (Canada) relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REITs assets and revenue, and it has determined that it qualifies as a real estate investment trust.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

1. Basis of preparation (continued):

The REIT expects to qualify as a real estate investment trust under the *Income Tax Act* (Canada); however, should it no longer qualify it would not be able to flow-through its taxable income to unitholders and the REIT would, therefore, be subject to tax.

(ii) Key sources of estimation uncertainty:

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

(a) Valuation of investment property:

The estimates used when determining the fair value of an 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 an 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.

(b) Unit-based compensation:

The estimates used when determining the fair value of Unit-based compensation 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 to being half the life of the respective option contract 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 bond with terms consistent with the average expected Unit option holding period. Management determines the fair value internally, utilizing the aforementioned inputs, which are available in the forms of external market data and internal financial information.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

2. Significant accounting policies:

(a) Investment properties:

Investment properties are held to earn rental income, for capital appreciation or both, but not for sale in the ordinary course of business. All of the REIT's properties are investment properties.

On acquisition, investment properties are initially recorded at cost, including transaction costs. Subsequent to initial recognition, the REIT uses the fair value model to account for investment properties under International Accounting Standard ("IAS") 40, Investment Property. Under the fair value model, investment properties are recorded at fair value at the consolidated statements of financial position date. Related fair value gains and losses are recorded in profit or loss during the period in which they arise.

Investment properties under development are accounted for as an investment property. The cost of properties under development includes direct development costs and borrowing costs directly attributable to the development. Borrowing costs associated with direct expenditures on properties under development are capitalized. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The REIT considers practical completion to have occurred when the investment property is capable of operating in the manner intended by management. Generally this occurs upon completion of construction, receipt of all necessary material permits and commencement of a lease.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, unrestricted cash and short-term investments. As at December 31, 2015 and 2014, the REIT does not hold any short-term investments.

(c) Revenue recognition:

The REIT has retained substantially all of the risks and benefits of ownership of the investment properties and, therefore, accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. Generally, this occurs on the lease inception date or, where the REIT is required to make additions to the property in the form of tenant improvements which enhance the value of the property, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

A straight-line rent receivable, which is included in the carrying amount of investment properties, is recorded for the difference between the rental revenue recorded and the contractual amount received.

Revenue from investment properties includes all rental income earned from the property, including rental income and all other miscellaneous income paid by the tenants under the terms of their existing leases.

(d) Class B LP Units:

Class B LP Units are exchangeable into trust units of the REIT ("Units") at the option of the holder. The Units are puttable and, therefore, the Class B LP Units meet the definition of a financial liability under IAS 32, Financial Instruments - Presentation ("IAS 32"). Further, the Class B LP Units are designated as fair value through profit or loss financial liabilities and are measured at fair value at each reporting period with any changes in fair value recorded in profit or loss. The fair value of the Class B LP Units is based on the quoted market price of the Units. The distributions paid on the Class B LP Units are accounted for as finance costs.

(e) Unit capital:

The Units are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with IAS 32. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity. The Units meet the conditions of IAS 32 and are, therefore, classified and accounted for as equity.

(f) Unit repurchases:

If the REIT repurchases its own Units, those Units are deducted from unitholders' equity and the associated Units are cancelled. No gain or loss is recognized and the consideration paid, including any directly attributable incremental costs, is recognized in unitholders' equity.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

(g) Unit-based compensation:

The REIT has a Unit option plan, which provide holders with the right to receive Units, which are puttable. The REIT measures these amounts at fair value at the grant date, using the Black-Scholes option pricing model for options valuations. Compensation expense related to unit-based compensation is recognized over the vesting period. The amounts are fair valued at each reporting period and the change in fair value is recognized as an expense. Unit-based compensation are classified as liabilities within accounts payable and accrued liabilities.

(h) Income taxes:

The REIT qualifies as a mutual fund trust and real estate investment trust pursuant to the *Income Tax Act* (Canada). Under current tax legislation, a real estate investment trust is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided its taxable income is fully distributed to unitholders. The REIT intends to continue to qualify as a real estate investment trust and to make distributions not less than the amount necessary to ensure the REIT will not be liable to pay income taxes. Accordingly, no current or deferred income taxes have been recorded in these consolidated financial statements.

(i) 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 at 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 it is designated as FVTPL. A financial liability may be designated at 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,

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

permits the entire combined contract (asset or liability) to be designated at FVTPL. The Class B LP Units have been classified as financial liabilities at FVTPL. The REIT derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

	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

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception.

Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred.

Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

All derivative instruments, including embedded derivatives, are recorded in the consolidated financial statements at fair value, except for embedded derivatives exempted from derivative accounting treatment.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

(j) Future accounting changes:

A number of new standards have been issued but are not effective for the year ended December 31, 2015 and, accordingly, have not been applied in preparing these consolidated financial statements.

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

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

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

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

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

(ii) IFRS 9, Financial Instruments:

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

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

2. Significant accounting policies (continued):

(iii) IFRS 16, Leases:

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 remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019.

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

3. Acquisitions and dispositions:

The following acquisitions and dispositions were completed during the years ended December 31, 2015 and 2014. All acquisitions were accounted for as asset acquisitions.

The fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed based on their fair values at the date of acquisition as follows:

Year ended December 31, 2015:

	845 Prospect Street	Kingswood Portfolio (i)	Net assets acquired
	March 25, 2015	July 29, 2015	
Investment properties (including acquisition costs of \$817)	\$ 6,075	\$ 35,050	\$ 41,125
Other receivables	20	68	88
Prepaid expenses and other assets	–	303	303
Tenant rental deposits	–	(24)	(24)
Accounts payable and accrued liabilities	(50)	(37)	(87)
Net assets acquired	\$ 6,045	\$ 35,360	\$ 41,405
Consideration:			
Proceeds from private placement and cash on hand	\$ 1,975	\$ 5,895	\$ 7,870
Proceeds from new mortgage financing, net of financing costs of \$286	4,070	24,274	28,344
Issuance of Class B LP Units	–	5,191	5,191
	\$ 6,045	\$ 35,360	\$ 41,405

(i) Kingswood portfolio consists of 414-422 York Street, 470 York Street, 495 Prospect Street and 500 Beaverbrook Court properties located in Fredericton, New Brunswick. On December 16, 2015, an adjacent parcel of land to 495 Prospect Street, 965 Hanwell Road, was purchased for \$221.

The REIT disposed of the following property on June 30, 2015:

Property	Location	Disposition date	Type
361 Trans-Canada Highway	British Columbia	June 30, 2015	Retail

The proceeds from the disposition of the above property, net of costs and mortgage assumed were \$5,916. The assets and liabilities associated with the property have been derecognized.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

3. Acquisitions and dispositions (continued):

Year ended December 31, 2014:

	295 Belliveau Avenue July 31, 2014	63 Innovation Drive July 31, 2014	13140 St Albert Trail September 15, 2014	777 Brock Road December 18, 2014	Ontario Portfolio (a) December 19, 2014	Single Tenant Portfolio (b) December 19, 2014	Net assets acquired
Net assets acquired:							
Investment properties (including acquisition costs of \$3,235)	\$6,603	\$4,122	\$24,473	\$23,236	\$50,751	\$11,187	\$120,372
Present value of instalment note payments	-	-	-	-	1,592	-	1,592
Assumed mortgages, net of financing costs and premium	-	-	-	-	(18,755)	-	(18,755)
Restricted cash	-	-	284	-	-	-	284
Other receivables	8	38	36	37	37	72	228
Prepaid expenses and other assets	164	16	-	-	29	7	216
Tenant rental deposits	-	-	(394)	-	(8)	-	(402)
Accounts payable and accrued liabilities	(2)	(1)	(116)	(57)	(237)	(47)	(460)
Net assets acquired	\$6,773	\$4,175	\$24,283	\$23,216	\$33,409	\$11,219	\$103,075
Consideration:							
Proceeds from public offering, private placements and cash on hand	\$2,270	\$819	\$6,046	\$7,544	\$14,049	\$3,900	\$34,628
Proceeds from new mortgage financing, net of financing costs	4,503	2,763	18,237	15,672	7,459	7,319	55,953
Vendor take-back mortgages	-	593	-	-	3,501	-	4,094
Issuance of Class B LP Units	-	-	-	-	5,500	-	5,500
Promissory note	-	-	-	-	2,900	-	2,900
	\$6,773	\$4,175	\$24,283	\$23,216	\$33,409	\$11,219	\$103,075

(a) Ontario portfolio consists of 1161 Crawford Drive, 8 Oakes Avenue, 197-199 Dundas Street, 417 Exeter Road, 534 Queens Avenue, 520 Exmouth Street and 529-533 Exmouth Street properties.

(b) Single tenant portfolio consists of 135 Hunter Street East, 78-79 Meg Drive and 251 Arvin Avenue properties.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

4. Investment properties:

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

	Investment properties	Properties under Development	Total
Balance, 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 rents	249	–	249
Fair value adjustment	6,843	–	6,843
Balance, 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 rents	(34)	–	(34)
Fair value adjustment	2,931	–	2,931
Balance, December 31, 2015	\$ 342,150	\$ –	\$ 342,150

The REIT determined the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and the direct capitalization method, both of which are generally accepted appraisal methodologies. The REIT used the midpoint of this range for all investment properties. The key valuation assumptions for the REIT's investment properties are set out in the following table:

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

4. Investment properties (continued):

The fair values of the REIT's investment properties are sensitive to changes in the key valuation assumptions. Changes in the terminal capitalization rates and discount rates would result in a change to the fair value of the REIT's investment properties as set out in the following table:

	2015	2014
Weighted average terminal and direct capitalization rate:		
25-basis points increase	\$ (10,172)	\$ (9,704)
25-basis points decrease	8,821	10,245
Weighted average discount rate:		
25-basis points increase	(10,075)	(9,663)
25-basis points decrease	8,587	10,137

5. Instalment notes receivable:

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

The scheduled principal and imputed interest instalment receipts at December 31, 2015 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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

5. Instalment notes receivable (continued):

The following table provides a breakdown of the current and non-current portions of the instalment notes receivable at December 31, 2015 and 2014:

	2015	2014
Current	\$ 308	\$ 328
Non-current	956	1,264
Balance	\$ 1,264	\$ 1,592

6. Tenant and other receivables:

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

	2015	2014
Tenant receivables	\$ 1,273	\$1,243
Other receivables	166	94
	\$ 1,439	\$1,337

As at December 31, 2015 and 2014, there is no impairment of tenant and other receivables.

The REIT holds no collateral in respect of tenant and other receivables. Future minimum rental commitments on non-cancellable tenant operating leases are as follows:

Within one year	\$ 23,672
Later than one year and not longer than five years	59,547
Thereafter	14,308
	\$ 97,527

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Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

7. Prepaid expenses and other assets:

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

	2015	2014
Prepaid expenses	\$ 1,210	\$ 794
Pre-acquisition costs	–	27
	\$ 1,210	\$ 821

8. Restricted cash:

The following table presents details of restricted cash:

	2015	2014
Deposits in trust	\$ –	\$ 264

9. Mortgages and notes payable:

As at December 31, 2015, the REIT had \$200,467 (December 31, 2014 - \$187,764) of principal balances of mortgages and notes payable outstanding. The mortgages and notes payable carry a weighted average fixed interest rate of 3.34% (December 31, 2014 - 3.44%) after giving effect to the instalment note receipts, and a weighted average term to maturity of 3.57 years (December 31, 2014 – 4.32 years). All interest rates are fixed for the term of the respective mortgages except for six (December 31, 2014 – one) of the REIT's mortgages that have utilized interest rate swaps to fix their floating interest rates (note 13). The mortgages are secured by first charges on the respective properties and the vendor take-back mortgages are secured by second charges on the respective properties.

As part of the purchase of the 63 Innovation Drive property on July 31, 2014, the REIT obtained financing of \$750, with an initial present value of \$593, as an interest-only vendor take-back mortgage with an annual stated fixed rate of 3.0%, maturing on April 30, 2019 (or later in certain circumstances), and secured by a second charge on the 63 Innovation Drive property.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2015 and 2014

9. Mortgages and notes payable (continued):

As part of the purchase of the Ontario Portfolio on December 19, 2014, the REIT obtained financing from vendors in the amount of \$4,100, with an initial present value of \$3,501, interest-only vendor take-back mortgages, with an annual stated fixed rate of 3.0%, secured by a second charge on the respective properties and maturing on dates ranging from April 1, 2017 to October 1, 2021 co-terminously with the assumed mortgages on the respective properties. Additional financing of \$2,900 was obtained from vendors in the form of an unsecured interest-only promissory note, which bears interest at an annual stated fixed rate of 3.0%, unsecured and maturing on April 1, 2017.

As at December 31, 2015, mortgages and notes are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2016	\$ 6,019	\$ 765	\$ 6,784	\$ 6,905
2017	5,903	11,499	17,402	6,399
2018	3,794	85,594	89,388	4,073
2019	2,931	20,474	23,405	2,787
2020	1,634	37,361	38,995	1,495
Thereafter	3,338	21,155	24,493	2,369
Face value	<u>\$ 23,619</u>	<u>\$ 176,848</u>	\$ 200,467	<u>\$ 24,028</u>
Unamortized mark to market mortgage adjustments (2014 - \$700)			569	
Unamortized financing costs (2014 - (\$1,174))			(1,101)	
Total mortgages payable			\$ 199,935	

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

9. Mortgages and notes payable (continued):

As at December 31, 2014, mortgages and notes are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2015	\$ 5,247	\$ –	\$ 5,247	\$ 6,647
2016	5,547	765	6,312	6,494
2017	5,392	21,248	26,640	5,938
2018	2,950	85,594	88,544	3,300
2019	2,061	20,474	22,535	2,039
Thereafter	4,486	34,000	38,486	3,410
Face value	<u>\$ 25,683</u>	<u>\$ 162,081</u>	\$ 187,764	<u>\$ 27,828</u>
Unamortized mark to market mortgage adjustments (2013 - \$nil)			700	
Unamortized financing costs (2013 - \$729)			(1,174)	
Total mortgages payable			\$ 187,290	

The following table provides a breakdown of current and non-current portions of mortgages payable as at December 31, 2015 and 2014:

	2015	2014
Current:		
Mortgages payable	\$ 6,784	\$ 5,240
Unamortized mark to market mortgage adjustments	123	131
Unamortized financing cost	(327)	(274)
	6,580	5,097
Non-current:		
Mortgages payable	193,683	182,524
Unamortized mark to market mortgage adjustments	446	569
Unamortized financing cost	(774)	(900)
	193,355	182,193
	<u>\$ 199,935</u>	<u>\$ 187,290</u>

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Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

10. Credit facilities:

The REIT has a credit agreement with a Canadian chartered bank for a \$5,000 (December 31, 2014 - \$5,000) and \$10,000 (December 31, 2014 - \$10,000) floating rate revolving credit facility (the "Credit Facilities"). The Credit Facilities are secured by two properties and mature on February 12, 2017.

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

The following table provides a breakdown of the Credit Facilities:

	2015	2014
Credit Facilities	\$ 7,200	\$ 1,500
Unamortized financing cost	(9)	(27)
	\$ 7,191	\$ 1,473

11. Class B LP Units:

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

The following table summarizes the changes in Class B LP Units for the years ended December 31, 2015 and 2014:

	Class B LP Units	Amount
Outstanding, January 1, 2014	2,588,914	\$ 15,533
Issuance of Class B LP Units	833,333	5,500
Fair value adjustment	–	(500)
Outstanding, December 31, 2014	3,422,247	20,533
Issuance of Class B LP Units	909,090	5,191
Class B LP Units exchanged to Units at fair value	(25,000)	(132)
Fair value adjustment	–	(3,630)
Outstanding, December 31, 2015	4,306,337	\$ 21,962

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Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

11. Class B LP Units (continued):

On July 29, 2015, 909,090 Class B LP Units were issued as part of the consideration paid for the Kingswood Portfolio (Note 3).

On December 19, 2014, 833,333 Class B LP Units were issued as part of the consideration paid for the Ontario Portfolio (Note 3).

During the years ended December 31, 2015 and 2014, the distributions on Class B LP Units were \$2,300 and \$1,579, respectively, and have been recognized in the consolidated statements of income and comprehensive income.

12. Accounts payable and accrued liabilities:

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

	2015	2014
Accounts payable and accrued liabilities	\$ 2,289	\$ 2,767
Finance costs payable	792	612
Distributions payable	852	836
Unit based compensation liability	257	426
	\$ 4,190	\$ 4,641

13. Derivative instruments:

The REIT has entered into various interest rate swaps to limit its interest rate exposure from floating to fixed for the terms of mortgages on certain properties. The interest rate swaps expire co-terminously upon the maturity of the corresponding mortgages.

The notional principal amounts of the outstanding interest swap contracts at 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).

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Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

14. Unitholders' equity:

(a) Units:

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units ("Special Voting Units"). Each Unit confers the right to one vote at any meeting of unitholders and to participate pro rata in all distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. The unitholders of the REIT have the right to require the REIT to redeem their Units on demand. The Units have no par value. The Redemption Price will be paid in accordance with the conditions provided for in the DOT.

Units are redeemable at any time, in whole or in part, on demand by the unitholders. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall be surrendered and the unitholders shall be entitled to receive a price per Unit equal to the lesser of:

- (i) 90% of the "market price" of the Units on the Exchange (as defined in the DOT) or market on which the Units are listed or quoted for trading during the ten consecutive trading days ending immediately prior to the date on which the Units were surrendered for redemption; and
- (ii) 100% of the "closing market price" on the Exchange or market on which the Units are listed or quoted for trading on the redemption date.

The total amount payable by the REIT, in respect of any Units surrendered for redemption during any calendar month, shall not exceed \$50 unless waived at the discretion of the board of trustees of the REIT ("Trustees") and be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the Redemption Price payable in respect of Units surrendered for redemption exceeds \$50 in any given month, such excess will be redeemed for cash, and by a distribution in specie of assets held by the REIT on a *pro rata* basis.

The Trustees have discretion in respect to the timing and amounts of distributions.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

14. Unitholders' equity (continued):

(b) Special Voting Units:

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

(c) Units outstanding:

The following table summarizes the changes in Units for the years ended December 31, 2015 and 2014:

	Units	Amount
Balance, December 31, 2013	9,711,344	\$ 60,074
Units issued for cash	6,891,219	43,388
Issue of Units under DRIP	249,522	1,520
Issue of Units under the Trustee unit issuance plan	18,582	115
Issue of Units from warrants exercised	11,903	74
Issue of Units from options exercised	60,416	374
Units repurchased and cancelled under NCIB	(52,700)	(322)
Issuance and repurchase costs	–	(3,409)
Balance, December 31, 2014	16,890,286	101,814
Units issued for cash	45,454	300
Issue of Units under DRIP	275,197	1,534
Issue of Units under the Trustee unit issuance plan	16,241	92
Issue of Units from options exercised	52,084	307
Issue of Units from exchange of Class B LP Units	25,000	132
Units repurchased and cancelled under NCIB	(90,600)	(542)
Issuance and repurchase costs	–	12
Balance, December 31, 2015	17,213,662	\$ 103,649

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Notes to Consolidated Financial Statements (continued)
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14. Unitholders' equity (continued):

On July 29, 2015, the REIT issued 45,454 Units for cash of \$300 in a private placement to an entity under the same common ownership as Starlight (note 15).

On July 31, 2014, the REIT issued 378,787 Units for cash of \$2,500 in a private placement to an entity under the same common ownership as Starlight (note 15).

On August 27, 2014, the REIT completed a public offering and issued 1,920,917 Units for cash of \$12,582.

On December 18, 2014, the REIT completed a public offering and issued 4,440,000 Units for cash of \$27,306. Concurrent with the public offering, the REIT issued 151,515 Units for cash of \$1,000 in a private placement to an entity under the same common ownership as Starlight (note 15).

(d) Unit-based compensation plan:

The REIT has adopted a Unit-based compensation plan (the "Plan"). Under the terms of the Plan, the Trustees may, from time to time, at their discretion, and in accordance with TSX requirements, grant certain Trustees and officers of the REIT, employees of Starlight and consultants to the REIT, non-transferable options to purchase Units, exercisable for a period of up to five years from the date of grant. These options vest over a three-year period beginning one year from the date of grant. The total number of Units reserved under the Plan may not exceed 10% of the Units and Class B LP Units outstanding.

For the years ended December 31, 2015 and 2014, the number of Unit options outstanding changed as follows:

	Number of Unit options	Weighted Average exercise price	Weighted Average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2013	719,167	\$ 6.02	3.97	62,500
Unit options exercised	(60,416)	1.60	–	–
Outstanding, December 31, 2014	658,751	6.43	3.00	259,157
Unit options granted	495,000	6.15	4.02	–
Unit options exercised	(52,084)	1.60	–	–
Outstanding, December 31, 2015	1,101,667	\$ 6.53	2.93	464,159

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2015 and 2014

14. Unitholders' equity (continued):

On January 8, 2015, the REIT granted 495,000 Unit options at an exercise price of \$6.15 per Unit option, expiring on January 8, 2020. These Unit options vest equally over a three-year period beginning one year from the date of grant.

On August 28, 2015, 52,084 Unit options were exercised at an exercise price of \$1.60. Upon exercise of these Unit options, \$307 was recorded in Unit capital. Included in this amount is \$225 which represents the fair value amount of the unit-based compensation liability settled upon issuance of the Units.

The following table summarizes for the years ended December 31, 2015 and 2014, the amount of Unit option compensation liability included in accounts payable and accrued liabilities:

Balance, December 31, 2013	\$	411
Unit options exercised		(277)
Fair value adjustment		292
Balance, December 31, 2014	\$	426
Unit options granted		13
Unit options exercised		(225)
Fair value adjustment		43
Balance, December 31, 2015	\$	257

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

	2015	2014
Average expected Unit option life	1.70 years	1.59 years
Average expected volatility rate	18.65%	20%
Average dividend yield	11.65%	9.90%
Average risk-free interest rate	0.49%	1.02%

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

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Notes to Consolidated Financial Statements (continued)
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14. Unitholders' equity (continued):

(e) DRIP

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

For the years ended December 31, 2015 and 2014, the REIT declared distributions of \$10,114 and \$6,672, respectively.

The REIT adopted the DRIP on January 1, 2013. Unitholders can elect to reinvest cash distributions into additional Units at a 3% discount to the weighted average closing price of the Units on the TSX for the five trading days immediately preceding the applicable date of distribution.

For the years ended December 31, 2015 and 2014, the REIT issued 275,197 and 249,522 Units under the DRIP for a stated value of \$1,534 and \$1,520 respectively.

(f) NCIB:

On December 2, 2015, the REIT announced the TSX had approved the REIT's notice of its intention to renew its NCIB for a further twelve months. Under the renewal of 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.

(g) Short form base shelf prospectus:

On December 16, 2013, the REIT filed a short form base shelf prospectus allowing the REIT to offer and issue the following securities: (i) units; (ii) unsecured debt securities; (iii) subscription receipts exchangeable for units and/or other securities of the REIT; (iv) warrants exercisable to acquire units and/or other securities of the REIT; and (v) securities comprised of more than one of units, debt securities, subscription receipts and/or warrants offered together as a unit, or any combination thereof having an offer price of up to \$200,000 in aggregate (or the equivalent thereof, at the date of issue, in any other currency or currencies, as the case may be) at any time during the 25-month period that the short form base shelf prospectus (including any amendments) remains valid.

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2015 and 2014

14. Unitholders' equity (continued):

As at December 31, 2015, 6,360,917 (December 31, 2014 – 6,360,917) Units were issued under the short form base shelf prospectus.

15. Transactions with related parties:

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

- (a) Pursuant to an asset management agreement (the "Asset Management Agreement"), entered into with Starlight on December 14, 2012, Starlight is to perform asset management services for a base annual management fee calculated and payable on a monthly basis in arrears on the first day of each month equal to 0.35% of the sum of: (i) the historical purchase price of the properties; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties from the effective date.
- (b) Pursuant to the Asset Management Agreement, Starlight is entitled to receive an acquisition fee in respect of properties announced to be acquired, directly or indirectly, by the REIT as a result of such properties having been presented to the REIT by Starlight calculated as follows:
 - (i) 1.0% of the purchase price of a property, on the first \$100,000 of properties acquired in each fiscal year;
 - (ii) 0.75% of the purchase price of a property, on the next \$100,000 of properties acquired in each fiscal year; and
 - (iii) 0.50% of the purchase price on properties in excess of \$200,000 of properties acquired in each fiscal year.
- (c) An incentive fee is payable by the REIT for each fiscal year equal to 15% of the REIT's funds from operations ("FFO") per Unit in excess of FFO per Unit for fiscal 2013 plus 50% of the 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.

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Years ended December 31, 2015 and 2014

15. Transactions with related parties (continued):

- (d) Pursuant to the Asset Management Agreement, Starlight is entitled to a capital expenditure fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of \$1,000, excluding work done on behalf of tenants or any maintenance capital expenditures.
- (e) The REIT reimburses Starlight for all reasonable and necessary actual out-of-pocket costs and expenses incurred by Starlight in connection with the performance of the services described in the Asset Management Agreement, including capital expenditures, or such other services which the REIT and Starlight agree in writing are to be provided from time to time by Starlight.

The following table presents the costs incurred for the years ended December 31, 2015 and 2014:

	2015	2014
Asset management fees	\$1,096	\$ 680
Acquisition fees	409	1,138
Other expenses	29	-

Of these amounts at December 31, 2015, \$104 (December 31, 2014 - \$77) is included in accounts payable and accrued liabilities.

No incentive fees were earned or capital expenditure fees charged for the years ended December 31, 2015 and 2014.

(f) Key management compensation:

Short-term compensation includes salaries, bonuses and other short-term benefits. It also includes short-term compensation paid by Starlight (pursuant to the Asset Management Agreement) to key REIT management personnel for the years ended December 31, 2015 and 2014 of \$385 and \$375, respectively.

Aggregate compensation for key management personnel was as follows:

	2015	2014
Short-term compensation	\$ 596	\$ 586
Unit-based compensation	20	112

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2015 and 2014

16. Finance costs:

The following table presents the financing costs incurred for the years ended December 31, 2015 and 2014:

	2015	2014
Interest on mortgages and notes payable	\$ 6,873	\$ 4,134
Other interest expense and standby fees	268	150
Amortization of mortgage premiums (discounts)	(131)	18
Amortization of financing costs	361	297
	<u>\$ 7,371</u>	<u>\$ 4,599</u>

17. Change in non-cash operating working capital:

The change in non-cash operating working capital for the years ended December 31, 2015 and 2014:

	2015	2014
Deposits	\$ (40)	\$ 2
Tenant and other receivables	(31)	511
Prepaid expenses and other assets	(255)	(351)
Tenant rental deposits and prepayments	283	27
Accounts payable and accrued liabilities	(564)	(775)
	<u>\$ (607)</u>	<u>\$ (586)</u>

18. Commitments and contingencies:

At December 31, 2015, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

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19. Segmented disclosure:

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

20. Capital management:

The REIT defines its capital as the aggregate of unitholders' equity, Class B LP Units, mortgages and notes payable and the credit facilities. The REIT is free to determine the appropriate level of capital in context with its cash flow requirements, overall business risks and potential business opportunities. As a result of this, the REIT will make adjustments to its capital based on its investment strategies and changes to economic conditions.

The REIT's primary objectives when managing capital are to maximize Unit value through the ongoing active management of the REIT's assets and the acquisition of additional properties, which are leased to creditworthy tenants, as opportunities arise.

The REIT's strategy is also driven by policies, as set out in the DOT, as well as requirements from certain lenders.

The requirements of the REIT's operating policies, as outlined in the DOT, include requirements that the REIT will not:

- (a) incur or assume indebtedness if, after giving effect to the incurrence or assumption of the indebtedness, the total indebtedness of the REIT would be more than 75% of the Gross Book Value as defined; and
- (b) incur indebtedness aggregating more than 20% of Gross Book Value at floating interest rates or having maturities of less than one year.

The REIT was in compliance with the above requirements as at December 31, 2015 and 2014.

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Years ended December 31, 2015 and 2014

21. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

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

As at December 31, 2015 and 2014, the REIT's interest-bearing financial instruments were:

	Carrying value	
	2015	2014
Fixed-rate instruments:		
Mortgages and notes payable	\$ 200,467	\$ 187,067
Variable-rate instruments:		
Mortgages payable	\$ –	\$ 697
Credit facilities	7,200	1,500

The REIT is exposed to interest rate risk on its floating-rate debt on certain of its properties which was mitigated by entering into interest rate swaps (Note 13).

An increase (decrease) of 100 basis points in interest rates at December 31, 2015 for the variable-rate financial instruments would have increased (decreased) net income for the period by \$5 (2014 - \$24).

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

21. Risk management and fair values (continued):

(ii) Credit risk:

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

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

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

An aging of trade receivables, including trade receivables past due but not impaired can be shown as follows:

	2015	2014
0 to 30 days	\$ 34	\$ 161
31 to 90 days	23	47
Over 90 days	632	59
Total	\$ 689	\$ 267

For the year ended December 31, 2015, the Federal Government of Canada provides 49% (2014 – 50%) of the REIT's rental revenue.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

21. Risk management and fair values (continued):

(iii) Liquidity risk:

The REIT is subject to liquidity risk whereby it may not be able to refinance or pay its debt obligations when they become due.

The REIT's debt obligations excluding Class B LP Units are due as follows:

	Total	2016	2017	2018	2019	2020	Thereafter
Mortgages and notes payable (note 9)	\$ 200,467	\$ 6,784	\$ 17,402	\$ 89,388	\$ 23,405	\$ 38,995	\$ 24,493
Credit facilities (note 10)	7,200	7,200	–	–	–	–	–
Tenant rental deposits	1,550	1,550	–	–	–	–	–
Accounts payable and accrued liabilities (note 12)	4,190	4,190	–	–	–	–	–
	\$ 213,407	\$ 19,724	\$ 17,402	\$ 89,388	\$ 23,405	\$ 38,995	\$ 24,493

Management's strategy to managing liquidity risk is to ensure, to the extent possible, it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities. To mitigate the risk associated with the refinancing of maturing debt, the REIT staggers the maturity dates of its mortgage portfolio over a number of years. In addition, the REIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its ongoing operational and capital commitments and future growth in its business.

(iv) Market risk:

Market risk is the risk that changes in market prices, such as interest rates and equity prices, will affect the REIT's financial instruments. All of the REIT's investment property activities are focused on commercial properties located in Canada. All of the REIT's operations are denominated in Canadian dollars, resulting in no direct foreign exchange risk.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

21. Risk management and fair values (continued):

(b) Fair values:

The fair values of the REIT's financial assets and financial liabilities, except as noted below, approximate their carrying values due to their short-term nature.

The REIT uses various methods in estimating the fair values recognized in the consolidated financial statements. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

The tables below presents the REIT's assets and liabilities measured or disclosed at fair value on the consolidated statements of financial position as at December 31, 2015 and 2014:

2015	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ –	\$ –	\$ 342,150	\$ 342,150
Instalment notes receivable	–	1,534	–	1,534
	\$ –	\$ 1,534	\$ 342,150	\$ 343,684
Liabilities:				
Mortgages and notes payable	\$ –	\$ 208,100	\$ –	\$ 208,100
Class B LP Units	21,962	–	–	21,962
Derivative instrument, net	–	1,634	–	1,634
	\$ 21,962	\$ 209,734	\$ –	\$ 231,696

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

21. Risk management and fair values (continued):

2014	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ –	\$ –	\$ 311,480	\$ 311,480
Instalment notes receivable	–	1,592	–	1,592
	\$ –	\$ 1,592	\$ 311,480	\$ 313,072
Liabilities:				
Mortgages and notes payable	\$ –	\$ 191,200	\$ –	\$ 191,200
Class B LP Units	20,533	–	–	20,533
Derivative instrument, net	–	427	–	427
	\$ 20,533	\$ 191,627	\$ –	\$ 212,160

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

(a) Investment properties:

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

(b) Instalment notes receivable:

The fair value of instalment notes receivable is estimated based on the present value of future receipts, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying instalment note, plus an estimated credit spread at the reporting date for a comparable financial instrument. The estimated fair value of instalment notes receivable at December 31, 2015 is approximately \$1,534 (December 31, 2014 - \$1,592).

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Years ended December 31, 2015 and 2014

21. Risk management and fair values (continued):

(c) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account 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 at December 31, 2015 is approximately \$208,100 (December 31, 2014 - \$191,200).

(d) Class B LP Units:

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

(e) Unit option liabilities:

Unit options granted are carried at fair value, estimated using the Black-Scholes option pricing model for option valuation using level 3 inputs as described in note 14(d).

(f) Derivative instruments:

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

22. Subsequent events:

On January 8, 2016, the REIT increased the second revolving credit facility from \$10,000 to \$12,000.

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