TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL RESULTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015

August 12, 2015

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 August 12, 2015, for the three and six months ended June 30, 2015 should be read in conjunction with the REIT's annual audited consolidated financial statements for the year ended December 31, 2014 and the condensed consolidated interim financial statements for the three and six months ended June 30, 2015 and 2014 and 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 in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Except as specifically required by applicable Canadian law, the REIT undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

NON-IFRS FINANCIAL MEASURES

Certain terms used in this MD&A such as Funds from Operations ("FFO"), Adjusted Funds from Operations ("AFFO"), Adjusted Funds from Operations Normalized ("AFFO Normalized"), Net Operating Income ("NOI"), indebtedness ("Indebtedness"), gross book value ("GBV"), 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, 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, AFFO Normalized, 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: (a) 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; and (b) 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.

AFFO Normalized is also an important performance measure, defined as AFFO adjusted for non-recurring items and other items as determined by the Trustees. AFFO and AFFO Normalized should not be interpreted as an indicator of cash generated from operating activities as neither considers changes in working capital. Management considers AFFO and AFFO Normalized to be important measures of the REIT's operating performance.

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

Indebtedness is defined in the REIT's 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 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 generated from operating activities including 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.

TABLE OF CONTENTS

BASIS OF PRESENTATION

The REIT's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2015 and 2014 have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of dollars, except for Unit and per Unit information.

Certain time periods used in the MD&A are used interchangeably such as three and six months ended June 30, 2015 ("Q2-2015") and ("YTD–2015") respectively, and three and six months ended June 30, 2014 ("Q2-2014") and ("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 is focused on acquiring and owning commercial rental properties across Canada and other jurisdictions where it identifies opportunities that are consistent with the REIT's portfolio profile and strategy.

The objectives of the REIT are to:

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

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

PORTFOLIO SUMMARY

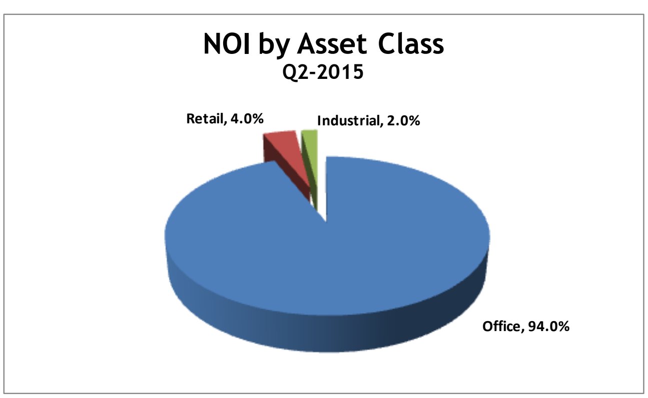
At June 30, 2015 the REIT's portfolio consisted of twenty one commercial properties totaling approximately 1,210,400 square feet of gross leasable area. Coronation Mall located in Duncan, British Columbia was disposed of on June 30, 2015, however the operating results for this property are included in the composition by asset class and geographic region charts below.

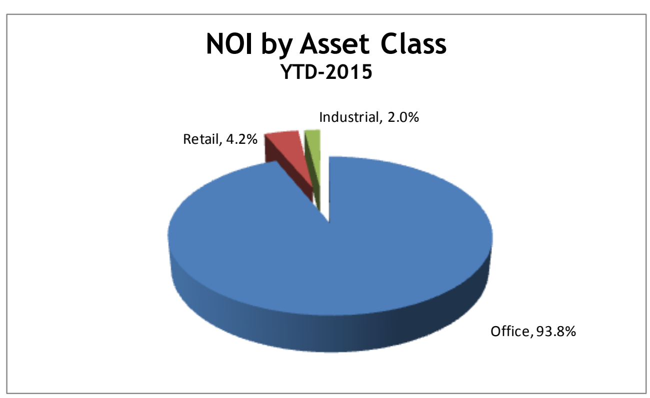
The following table highlights certain information about the REIT's properties as at June 30, 2015:

Property Name	City	Type	Occupancy	Average Remaining Lease Term [1]	Square Feet
Alberta					
Century Park	Calgary	Office	97.4%	3.4 years	75,700
St. Albert Trail	Edmonton	Office	100%	4.4 years	96,800
Ontario					
520 Exmouth Street	Sarnia	Office	100%	6.4 years	34,700
533 Exmouth Street	Sarnia	Office	100%	2.9 years	15,300
Arvin Avenue	Hamilton	Office	100%	4.0 years	7,000
Brock Road	Pickering	Office	100%	7.7 years	98,900
Carlingview Drive	Toronto	Office	100%	2.7 years	26,800
Crawford Drive	Peterborough	Office	100%	6.8 years	32,500
Dundas Street	London	Office	100%	3.3 years	20,200
Exeter Road	London	Office	76.8%	3.5 years	35,200
Hunter Street	Hamilton	Office	100%	3.1 years	24,400
Innovation Drive	Hamilton	Industrial	100%	8.4 years	45,900
Laurier Avenue	Ottawa	Office	100%	2.7 years	279,100
Maple Grove Road	Ottawa	Office	100%	2.2 years	107,200
Meg Drive	London	Office	100%	4.9 years	11,300
Oakes Avenue	Kirkland Lake	Office	100%	6.8 years	41,000
Queens Avenue	London	Office	100%	5.7 years	19,000
New Brunswick					
Belliveau Avenue	Shediac	Office	100%	6.6 years	42,100
King George Highway	Miramichi	Office	100%	5.3 years	73,200
King Street	Fredericton	Office	100%	6.7 years	85,100
Prospect Street	Fredericton	Office	100%	6.7 years	39,000
Average/Total			99.2%	4.4 years	1,210,400

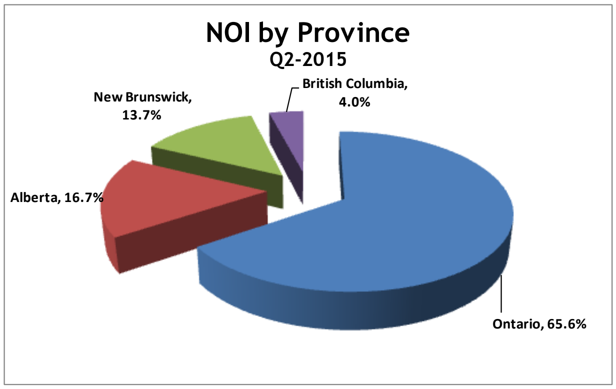
Notes:
(1) Weighted by expected annualized 2015 gross revenue.

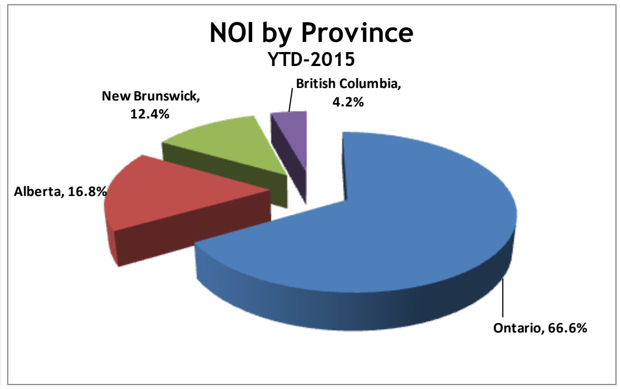
COMPOSITION BY ASSET CLASS





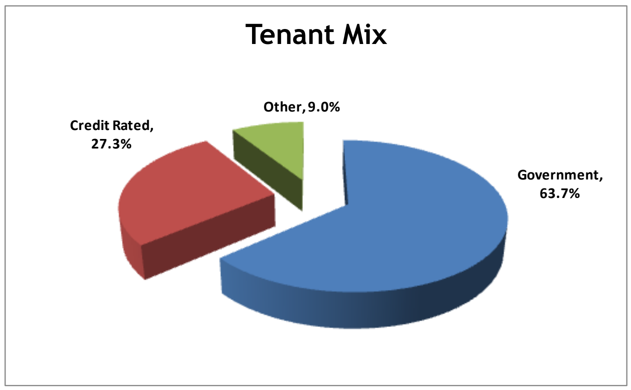
COMPOSITION BY GEOGRAPHIC REGION





TENANT MIX

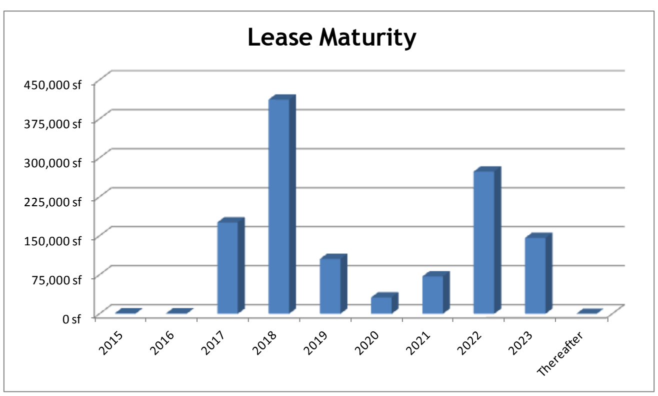
The percentage of revenue generated from tenants that are government institutions, credit-rated or other is as follows:



The tenant mix is based on expected annualized 2015 gross revenue.

LEASE ROLLOVER PROFILE

As at June 30, 2015 the lease rollover profile of the REIT is as follows:



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

Q2 AND YTD 2015 HIGHLIGHTS

Q2 2015 HIGHLIGHTS

- Increased portfolio occupancy to 99.2% at June 30, 2015 from 98.5% at March 31, 2015
- Government and credit-rated tenants represent 91% of revenue at Q2-2015
- Increased revenue $3,599 or 68% to $8,882 from Q2-2014
- Increased NOI $2,300 or 71% to $5,557 from Q2-2014
- FFO of $0.17 per Unit for Q2-2015 compared with $0.15 for Q2-2014
- AFFO and AFFO Normalized of $0.16 per Unit, resulting in a Q2-2015 AFFO payout ratio of 92%
- Improved indebtedness to GBV Ratio from 59.22% at December 31, 2014 to 58.18% at June 30, 2015
- Reduced weighted average fixed interest rate from 3.44% at December 31, 2014 to 3.39% at June 30, 2015
- 100% of 2015 and 2016 lease expiries already renewed
- Paid distributions of $3,025 for Q2-2015

YTD 2015 HIGHLIGHTS

- Increased revenue $6,857 or 63% to $17,772 from YTD-2014
- Increased NOI $4,500 or 69% to $10,989 from YTD-2014
- FFO of $0.32 per Unit for YTD-2015 compared with $0.30 for YTD-2014
- AFFO of $0.31 per Unit and AFFO Normalized of $0.32 per Unit, resulting in a YTD-2015 AFFO Normalized payout ratio of 94%
- Paid distributions of $6,044 for YTD-2015
- The REIT acquired the Prospect Street property on March 25, 2015 for an aggregate purchase price of $5,900 plus closing costs. Prospect Street is a stand-alone, four-storey 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

DISPOSITIONS

On June 30, 2015, the REIT sold its non-core Coronation Mall retail property located in Duncan, British Columbia for gross proceeds of $17,000. The property was originally acquired in connection with the REIT's qualifying transaction in December, 2012 for approximately $14,600 and is a retail shopping centre comprised of three buildings with approximately 51,600 square feet.

SUBSEQUENT EVENT

On July 29, 2015, the REIT completed the acquisition of four office properties in Fredericton, New Brunswick for an aggregate purchase price of approximately $35,000 plus closing costs. The purchase price was funded through new mortgages totalling $24,500, the issuance of 909,090 class B limited partnership units of True North Commercial Limited Partnership ("Class B LP Units") 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 CEO, Daniel Drimmer, for gross proceeds of $300, and approximately $5,000 in cash from the proceeds of the sale of Coronation Mall.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Revenue	$8,882	$5,283	$17,772	$10,915
NOI	$5,557	$3,257	$10,989	$6,489
Income and comprehensive income	$207	$2,379	$3,210	$7,573
FFO	$3,352	$1,899	$6,504	$3,649
FFO per Unit - basic (1)	$0.17	$0.15	$0.32	$0.30
FFO per Unit - diluted (1)	$0.16	$0.14	$0.30	$0.28
AFFO	$3,276	$1,841	$6,393	$3,492
AFFO per Unit - basic (1)	$0.16	$0.15	$0.31	$0.28
AFFO per Unit - diluted (1)	$0.15	$0.14	$0.30	$0.27
AFFO payout ratio - basic	92%	100%	95%	104%
AFFO - Normalized (2)	$3,290	$1,928	$6,423	$3,841
AFFO Normalized per Unit - basic (1)	$0.16	$0.16	$0.32	$0.31
AFFO Normalized per Unit - diluted (1)	$0.15	$0.15	$0.30	$0.29
AFFO Normalized payout ratio - basic	92%	95%	94%	95%
Units outstanding for FFO, AFFO and AFFO Normalized per Unit:				
Weighted average (000s) – basic (1)	20,297	12,394	20,351	12,368
Add: Unexercised unit options	1,154	720	1,135	720
Weighted average (000s) – diluted (1)	21,451	13,114	21,486	13,088

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.

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

The REIT significantly increased its portfolio with the addition of fourteen properties during the latter half of 2014 resulting in increased revenue, NOI, FFO and AFFO for Q2-2015. Q2-2015 revenue increased $3,599 or 68% compared to Q2-2014. NOI increased $2,300 or 71% compared to Q2-2014. FFO increased $1,453 or 77% compared to Q2-2014. AFFO increased $1,435 or 78% compared to Q2-2014. Q2-2015 AFFO Normalized payout ratio decreased to 92% from 95% for Q2-2014.

The increase in NOI for Q2-2015 is a result of the acquisitions completed in 2014 offset by a decrease in same property NOI of $51. Increased vacancy at Coronation Mall resulted in the majority of the decrease in same property NOI quarter over quarter and year to date.

YTD-2015 revenue increased $6,857 or 63% compared to YTD-2014. NOI increased $4,500 or 69% compared to YTD-2014. FFO increased $2,855 or 78% compared to YTD-2014. AFFO increased $2,901 or 83% compared to YTD-2014. YTD-2015 AFFO Normalized payout ratio decreased to 94% from 95% for YTD-2014.

QUARTERLY INFORMATION

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

	Q2-15	Q1-15	Q4-14	Q3-14	Q2-14	Q1-14	Q4-13	Q3-13
Revenue	$ 8,882	$ 8,890	$ 6,800	$ 5,606	$ 5,283	$ 5,632	$5,105	$4,881
Property operating costs	3,325	3,458	2,686	2,167	2,026	2,400	2,005	1,874
NOI	5,557	5,432	4,114	3,439	3,257	3,232	3,100	3,007
General and administration expenses	(439)	(505)	(262)	(289)	(572)	(518)	(603)	(400)
Finance costs	(1,662)	(2,656)	(1,562)	(1,083)	(1,146)	(1,393)	(1,140)	(1,038)
Distributions on Class B LP Units	(508)	(508)	(425)	(385)	(385)	(384)	(362)	(317)
Fair value adjustment of Class B LP Units	479	171	1,743	1,088	(2,719)	388	487	533
Fair value adjustment of investment properties	(2,870)	1,069	(2,868)	1,898	3,944	3,869	(8,361)	989
Loss on sale of investment property	(350)	-	-	-	-	-	-	-
Income (loss) and comprehensive income (loss) for the period	$ 207	$ 3,003	$ 740	$ 4,668	$ 2,379	$ 5,194	$(6,879)	$ 2,774
FFO per Unit - basic	$ 0.17	$ 0.16	$ 0.16	$ 0.15	$ 0.15	$ 0.14	$ 0.13	$ 0.16
AFFO Normalized per Unit - basic	$ 0.16	$ 0.15	$ 0.16	$ 0.15	$ 0.16	$ 0.16	$ 0.15	$ 0.16
AFFO Normalized payout ratio - basic	92%	96%	95%	98%	95%	94%	99%	91%
Number of investment properties	21	22	21	10	7	7	7	6

NOI increased in Q2-2015 by $125 or 2% compared to Q1-2015. The increase is mainly due to the acquisition of Prospect Street which was acquired on March 25, 2015. FFO increased to $0.17 in Q2-2015 compared to $0.16 in Q1-2015. AFFO Normalized payout ratio decreased to 92% in Q2-2015 compared to 96% in Q1-2015. The REIT's AFFO Normalized payout ratio has decreased when compared to Q1-2015 as certain operating costs such as snow removal and utilities are seasonal in nature and as such are higher in the winter months.

INDEBTEDNESS TO GBV

	June 30 2015	December 31 2014
GBV	$310,717	$319,618
Indebtedness	$180,785	$189,264
Indebtedness to GBV	58.18%	59.22%
Weighted average mortgage fixed interest rate (1)	3.39%	3.44%
Weighted average mortgage term to maturity	3.93 years	4.32 years

Notes:

(1) After giving effect to instalment note receipts, see "Instalment Notes Receivable".

For definitions on the above terms, see section "Non-IFRS Financial Measures" on page 3.

The REIT's Indebtedness to GBV Ratio as at June 30, 2015 decreased to 58.18% from 59.22% as at December 31, 2014.

ANALYSIS OF FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the three and six months ended June 30, 2015 and 2014 are summarized below.

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Revenue	$ 8,882	$ 5,283	$ 17,772	$ 10,915
Expenses:				
Property operating costs	1,883	1,076	3,901	2,460
Realty taxes	1,442	950	2,882	1,966
NOI	$ 5,557	$ 3,257	$ 10,989	$ 6,489
Other income (expenses):				
General and administration expenses	(439)	(572)	(944)	(1,090)
Finance costs	(1,662)	(1,146)	(4,318)	(2,539)
Distributions on Class B LP Units	(508)	(385)	(1,016)	(769)
Fair value adjustment of Class B LP Units	479	(2,719)	650	(2,331)
Fair value adjustment of investment properties	(2,870)	3,944	(1,801)	7,813
Loss on sale of investment property	(350)	-	(350)	-
Income and comprehensive income	$ 207	$ 2,379	$ 3,210	$ 7,573

PROPERTY OPERATIONS

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

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

Q2-2015 revenue increased $3,599 or 68% compared to Q2-2014. Q2-2015 operating costs increased $807 or 75% compared to Q2-2014. Property acquisitions completed in the latter half of 2014 account for the majority of the increase in revenue and operating costs.

Realty taxes increased $492 or 52% compared to Q2-2014. This is due to the addition of fourteen properties acquired in the latter half of 2014 as well as an increase in same store property tax expense of $43.

Occupancy for the property portfolio remained the same at 98.5% quarter over quarter. After the disposition of Coronation Mall on June 30, 2015, the REIT's occupancy increased to 99.2%.

SAME STORE PROPERTY ANALYSIS

Same store property analysis for the three and six months ended June 30, 2015 and 2014 consists of seven properties (including Coronation Mall).

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Revenue	$ 5,290	$ 5,283	$ 10,731	$ 10,915
Expenses:				
Property operating	1,092	1,077	2,360	2,458
Realty taxes	992	949	1,975	1,965
NOI	$ 3,206	$ 3,257	$ 6,396	$ 6,492

Q2-2015 NOI decreased $51 from Q2-2014 and $96 from YTD-2014 mainly as a result of a decrease in occupancy at Coronation Mall from 82.9% to 81.7%.

Property operating costs remained stable quarter over quarter and decreased $98 from YTD-2014 due to lower repairs and maintenance expenses incurred at certain of the REIT's properties. Realty taxes increased $43 from Q2-2014 and $10 from YTD-2014 due to increased assessed values at certain of the REIT's properties offset by a decrease in rates and assessed values at other 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 decreased $133 in Q2-2015 compared to Q2-2014. Unit based compensation decreased $251 due to a decrease in Unit price from $6.90 on June 30, 2014 compared to $5.81 on June 30, 2015. This decrease was offset by an increase in asset management fees of $112 due to the increased number of properties owned by the REIT in 2015. Other expenses remained stable.

General and administration expenses decreased $146 year over year due to a decrease in Unit based compensation of $267 and due diligence costs of $175 relating to acquisitions the REIT is no longer pursuing. This decrease was offset by an increase in asset management fees of $217 due to the increased number of properties owned by the REIT and an increase in audit and tax expenses of $77 due to annual compliance matters.

FINANCE COSTS

The REIT's finance costs for the three and six months ended June 30, 2015 and 2014 are summarized below. Finance costs exclude both the cash distributions and fair value adjustments related to the Class B LP Units.

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Interest on mortgages and notes payable	$ 1,700	$ 940	$ 3,392	$ 1,887
Other interest expense and standby fees	74	53	119	71
Amortization of mark to market mortgage adjustments	(33)	-	(66)	-
Amortization of financing costs	79	71	192	118
Unrealized (gain) loss on change in fair value of derivative instruments	(158)	82	681	463
Total finance costs	$ 1,662	$ 1,146	$ 4,318	$ 2,539

Interest on mortgages payable of $1,700 ($3,392 – YTD-2015) increased $760 ($1,505 – YTD-2014) compared to Q2-2014 due to additional mortgage financing obtained in connection with the acquisition of fourteen properties completed in the latter half of 2014 and one property acquired in Q1-2015.

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".

The REIT holds a number of interest rate swaps 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.

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 $508 for Q2-2015 ($1,016-YTD-2015) compared to $385 for Q2-2014 ($769-YTD-2014). Increase in distributions quarter over quarter is a result of 833,333 Class B LP Units issued at the end of Q4-2014.

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 $479 for Q2-2015 ($650-YTD-2015) is due to a decrease in the trading price of the Units from $5.95 at March 31, 2015 ($6.00 at December 31, 2014) to $5.81 at June 30, 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.

In Q2-2015, the fair value loss on investment properties was $2,870 ($1,801–YTD-2015) compared to a gain of $3,944 ($7,813–YTD-2014) in Q2-2014. The size and mix of the portfolio at Q2-2015 is significantly different than the portfolio in Q2-2014. The disposition of Coronation Mall as well as capital expenditures incurred during the quarter contributed to the loss in Q2-2015. This was offset by a gain in certain of the REIT's properties due to changes in projected future cash flows.

The key valuation assumptions for the REIT's investment properties as at June 30, 2015 and 2014 are as follows:

	June 30 2015	June 30 2014
Terminal and direct capitalization rates - range	6.00% - 11.50%	6.34% - 11.60%
Terminal and direct capitalization rate - weighted average	7.18%	6.88%
Discount rates - range	7.00% - 12.00%	7.15% - 10.50%
Discount rate - weighted average	7.82%	7.46%

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 June 30		Six months ended June 30	
	2015	2014	2015	2014
Income and comprehensive income	$ 207	$ 2,379	$ 3,210	$ 7,573
Add / (deduct):				
Revaluation of unit options	27	278	59	326
Fair value adjustment of investment properties	2,870	(3,944)	1,801	(7,813)
Fair value adjustment of Class B LP Units	(479)	2,719	(650)	2,331
Distributions on Class B LP Units	508	385	1,016	769
Unrealized (gain) loss on change in fair value of derivative instruments	(158)	82	681	463
Loss on sale of investment property	350	-	350	-
Amortization of leasing commissions and tenant inducements	27	-	37	-
FFO	$ 3,352	$ 1,899	$ 6,504	$ 3,649
FFO per Unit - basic [(1)]	$0.17	$0.15	$0.32	$0.30
FFO per Unit - diluted [(1)]	$0.16	$0.14	$0.30	$0.28
Weighted average Units outstanding:				
Basic - (000s) [(1)]	20,297	12,394	20,351	12,368
Add:				
Unexercised unit options	1,154	720	1,135	720
Diluted - (000s) [(1)]	21,451	13,114	21,486	13,088

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.

FFO increased $1,453 or 77% compared to Q2-2014 ($2,855 or 78% compared to YTD-2014). FFO per Unit increased to $0.17 compared to $0.15 in Q2-2014 and increased to $0.32 compared to $0.30 for YTD-2014. The increase in quarterly and year to date FFO and FFO per Unit is due to the inclusion of the results from the acquisitions completed in the latter half of 2014.

AFFO AND AFFO – NORMALIZED

Reconciliation of FFO to AFFO and AFFO Normalized is as follows:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
FFO	$ 3,352	$ 1,899	$ 6,504	$ 3,649
Add / (deduct):				
Non-cash compensation expense	25	29	54	52
Amortization of deferred financing costs	78	71	192	118
Amortization of mark to market mortgage adjustments	(34)	-	(66)	-
Instalment note receipts	89	-	179	-
Straight-line rent	(8)	(53)	(26)	(118)
Capital reserve (1)	(226)	(105)	(444)	(209)
AFFO	$ 3,276	$ 1,841	$ 6,393	$ 3,492
AFFO per Unit - basic (2)	$0.16	$0.15	$0.31	$0.28
AFFO per Unit - diluted (2)	$0.15	$0.14	$0.30	$0.27
Distributions declared	$ 3,025	$ 1,842	$ 6,044	$ 3,676
AFFO payout ratio - basic	92%	100%	95%	104%
AFFO	$ 3,276	$ 1,841	$ 6,393	$ 3,492
Add / (Deduct):				
Due diligence acquisition costs	-	-	-	175
Rental income related to purchase price adjustments	14	87	30	174
AFFO - Normalized	$ 3,290	$ 1,928	$ 6,423	$ 3,841
AFFO Normalized per Unit - basic (2)	$0.16	$0.16	$0.32	$0.31
AFFO Normalized per Unit - diluted (2)	$0.15	$0.15	$0.30	$0.29
AFFO Normalized payout ratio - basic	92%	95%	94%	95%

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.

The REIT has experienced strong growth in revenue, NOI, FFO and AFFO during Q2-2015 which is primarily attributable to the fourteen properties acquired in the latter half of 2014 which resulted in an improved AFFO and AFFO Normalized payout ratio of 92%.

AFFO Normalized increased $1,362 or 71% compared to Q2-2014, and reflects the add back of the following to AFFO:

- Rental income recognized as purchase price adjustments under IFRS upon acquisition of $14 in Q2-2015 and $87 in Q2-2014. The rental income relates to rent free periods for various tenants for which the REIT received funds as part of the acquisition.

AFFO Normalized increased $2,582 or 67% compared to YTD-2014, and reflects the addition of the following to AFFO:

- Rental income recognized as purchase price adjustments under IFRS upon acquisition of $30 in YTD-2015 and $174 in YTD-2014; and
- Due diligence acquisition costs of $nil for YTD-2015 and $175 for YTD-2014.

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 June 30		Six months ended June 30	
	2015	2014	2015	2014
Adjusted cash flow provided by operating activities	$ 3,870	$ 14	$ 6,434	$ 1,947
Non-cash compensation expense	3	4	7	6
Change in finance costs payable	9	6	(66)	8
Instalment note receipts	89	-	179	-
Capital reserve (1)	(226)	(105)	(444)	(209)
Change in non-cash operating working capital (2)	(469)	1,922	283	1,740
AFFO	$ 3,276	$ 1,841	$ 6,393	$ 3,492

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) Represents the change in deposits, tenant and other receivables, prepaid expenses and other assets, tenant rental deposits and prepayments and accounts payable and accrued liabilities.

AFFO of $3,276 exceeded distributions declared by $251 and distributions paid by $665 for Q2-2015. AFFO of $6,393 exceeded distributions declared by $349 and distributions paid by $1,156 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 distribution reinvestment plan ("DRIP").

The following table shows the amount of distribution declared, non cash distributions under the DRIP and cash distributions paid by the REIT.

	Three months ended June 30 2015	Six months ended June 30 2015	Year ended December 31 2014	Year ended December 31 2013
Distributions declared	$ 3,025	$ 6,044	$ 8,251	$ 6,506
Less: DRIP	(414)	(807)	(1,520)	(1,408)
Cash distributions paid	$ 2,611	$ 5,237	$ 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 June 30 2015	Six months ended June 30 2015	Year ended December 31 2014	Year ended December 31 2013
Income and comprehensive income	$ 207	$ 3,210	$ 12,981	$ 13,340
Cash flow provided by operating activities	5,655	9,879	11,956	8,757
Less: Interest paid	(1,785)	(3,445)	(4,072)	(2,860)
Adjusted cash flow provided by operating activities	3,870	6,434	7,884	5,897
Declared basis:				
Excess (shortfall) of income and comprehensive income over distributions	(2,818)	(2,834)	4,730	6,834
Excess (shortfall) of adjusted cash flow from operating activities over distributions	845	390	(367)	(609)
Cash basis:				
Excess (shortfall) of income and comprehensive income over cash distributions	(2,404)	(2,027)	6,250	8,242
Excess (shortfall) of adjusted cash flow from operating activities over cash distributions	1,259	1,197	1,153	799

The current shortfall in net income and comprehensive income over distributions declared is primarily due to the impact of non-cash fair value losses of investment properties and Class B LP Units. Adjusted cash flow provided by operating activities has exceeded distributions declared for the three and six months ended June 30, 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 three and six months ended June 30, 2015 and 2014:

	Investment Properties	Properties Under Development	Total
Balance at December 31, 2013	$ 179,626	$ 45	$ 179,671
Additions	1,625	298	1,923
Amortization of leasing costs, tenant inducements and straight-line rents	118	-	118
Fair value adjustment	7,813	-	7,813
Balance at June 30, 2014	189,182	343	189,525
Acquisitions	120,372	-	120,372
Additions	1,528	894	2,422
Reclassification of properties under development	1,237	(1,237)	-
Amortization of leasing costs, tenant inducements and straight-line rents	131	-	131
Fair value adjustment	(970)	-	(970)
Balance at December 31, 2014	311,480	-	311,480
Acquisitions	6,077	-	6,077
Dispositions	(15,869)	-	(15,869)
Additions	2,084	-	2,084
Amortization of leasing costs, tenant inducements and straight-line rents	(11)	-	(11)
Fair value adjustment	(1,801)	-	(1,801)
Balance at June 30, 2015	**$ 301,960**	**$ -**	**$ 301,960**

ACQUISITIONS & DISPOSITIONS:

On March 25, 2015, the REIT acquired 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.

ADDITIONS:

Additions to investment properties for the six months ended June 30, 2015 were $2,084 consisting of the following:

- Capital expenditures of $1,546 of which $759 relates to building enhancements and leasehold improvements at Laurier Avenue and $686 relates to building enhancements at St. Albert Trail; and
- Tenant inducements and leasing costs of $538 which include costs associated with the early renewal of a major tenant that was to expire in 2016.

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 a present value of $1,592 pursuant to which such vendors will provide instalment payments to the REIT 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 instalment notes receivable and principal receipts for the six months ended June 30, 2015:

Balance, December 31, 2014	$	1,592
Principal receipts on instalment notes receivable		(161)
Balance, June 30, 2015	$	1,431

PREPAID EXPENSES AND OTHER ASSETS

At June 30, 2015, the REIT had $1,322 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 June 30, 2015, the overall leverage, as represented by the ratio of Indebtedness to GBV was 58.18% 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 June 30, 2015 and December 31, 2014.

		June 30 2015		December 31 2014
Total assets	$	309,122	$	317,967
Deferred financing costs		1,595		1,651
GBV	$	310,717	$	319,618
Mortgages and notes payable		178,382		187,290
Credit facilities (net of unamortized financing costs)		1,984		1,473
Unamortized financing costs and mark to market mortgage adjustments		419		501
Indebtedness	$	180,785	$	189,264
Indebtedness to GBV		58.18%		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 June 30, 2015, 1% (December 31, 2014 – 1%) of the REIT's debt was at floating rates.

MORTGAGES AND NOTES PAYABLE

The following table sets out, as at June 30, 2015, scheduled principal repayments and amounts maturing on the REIT's mortgages and notes 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
2015-remainder of year	$ 2,597	$ -	$ 2,597	$ 3,177	1.50%
2016	5,341	765	6,106	6,199	3.40%
2017	5,206	11,499	16,705	5,684	9.30%
2018	3,076	85,594	88,670	3,401	49.60%
2019	2,190	20,474	22,664	2,136	12.70%
Thereafter	4,530	37,513	42,043	3,435	23.50%
	$ 22,940	$ 155,845	178,785	$ 24,032	100.00%
Unamortized mark to market mortgage adjustments			634		
Unamortized financing costs			(1,037)		
			$ 178,382		

The mortgages and notes carry a weighted average fixed interest rate of 3.39% (December 31, 2014 – 3.44%), after giving effect to the instalment notes receivable. The weighted average term to maturity is 3.93 years (December 31, 2014 – 4.32 years).

CREDIT FACILITIES

On January 15, 2015, the REIT renewed its credit agreement with a Canadian chartered bank with respect to its $5,000 floating rate revolving credit facility. This 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 June 30, 2015, $2,000 (December 31, 2014 - $1,500) was drawn on the credit facility.

On January 15, 2015, the REIT also renewed its $10,000 floating rate revolving credit facility. This facility bears interest on cash advances above $1,500 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 June 30, 2015, nil (December 31, 2014 – nil) was drawn on this credit facility.

Both credit facilities are secured by King George Highway and Laurier Avenue.

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 Units, under the terms of an exchange agreement between True North Commercial General Partner Corp., the REIT and the Partnership.

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 June 30, 2015 and December 31, 2014 there were 3,422,247 Class B LP Units issued. The Class B LP Units were valued at $19,883 at Q2-2015 compared to $20,533 at Q4-2014 due to the decrease in the Unit price from $6.00 at Q4-2014 to $5.81 at Q2-2015.

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 six months ended June 30, 2015:

	Units	Amount
Balance, December 31, 2014	16,890,286	101,814
Issuance of Units under DRIP	139,813	807
Issuance of Units under the non-executive trustee Unit issuance plan	7,807	47
Units repurchased and cancelled under normal course issuer bid	(72,800)	(437)
Issuance costs	-	(23)
Balance, June 30, 2015	16,965,106	$ 102,208

The number of Units outstanding as of August 12, 2015 is as follows:

	Units
Balance, June 30, 2015	16,965,106
Issuance of Units	45,454
Issuance of Units under DRIP	19,374
Units repurchased and cancelled under normal course issuer bid	(12,000)
Balance, August 12, 2015	17,017,934

In addition, the REIT has the following Class B LP Units outstanding as of August 12, 2015:

	Units
Balance, June 30, 2015	3,422,247
Issuance of Class B LP Units	909,090
Balance, August 12, 2015	4,331,337

Class B LP Units are indirectly exchangeable on a one-for-one basis for Units at the option of the holder. See "Class B LP Units".

NORMAL COURSE ISSUER BID ("NCIB")

On December 3, 2014, the REIT renewed its NCIB for a further twelve months. The REIT has the ability to purchase for cancellation up to a maximum of 969,026 of its Units, representing 10% of the REIT's public float of 9,690,264 Units through the facilities of the TSX. YTD-2015, 72,800 (December 31, 2014 – 52,700) Units had been repurchased under the NCIB at a price ranging from $5.90 to $6.15 per Unit.

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 June 30, 2015 consist of the following:

Weighted average exercise price (1)	Unit Options Outstanding	Unit Options exercisable	Expiry Date
$1.60	131,251	49,999	August 27, 2017
7.48	100,000	66,662	December 14, 2017
7.66	427,500	284,992	February 12, 2018
6.15	495,000	-	January 8, 2020
$6.31	1,153,751	401,653	

(1) In actual dollars.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Cash flow from operating activities represents the primary source of liquidity to fund distributions, debt service, capital improvements, tenant inducements and leasing costs. The REIT's cash flow from operating activities is dependent upon the occupancy level of its investment properties, the rental rates on its leases, the collectability of rent from its tenants, and other factors. Material changes in these factors may adversely affect the REIT's cash flow from operating activities and hence its liquidity. A more detailed discussion of these risks can be found under the "Risks and Uncertainties" section in the annual information form of the REIT ("AIF") dated March 11, 2015. 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 flow from operating activities; (ii) mortgage debt secured by investment properties; (iii) credit facilities; and (iv) issuances of debt and equity.

CASH FLOW

The following table details the changes in cash and cash equivalents:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Cash provided by operating activities	$ 5,655	$ 1,013	$ 9,879	$ 3,913
Cash provided by (used) in investing activities	4,191	(517)	(2,213)	(1,582)
Cash used in financing activities	(9,116)	(564)	(7,725)	(3,461)
Increase (decrease) in cash and cash equivalents	730	(68)	(59)	(1,130)
Cash and cash equivalents, beginning of period	1,397	770	2,186	1,832
Cash and cash equivalents, end of period	$ 2,127	$ 702	$ 2,127	$ 702

In Q2-2015, the REIT generated $5,655 of cash flow from operating activities compared to $1,013 in Q2-2014 an increase of $4,642. Cash provided by investing activities in Q2-2015 of $4,191 relates primarily to the sale of Coronation Mall which provided net proceeds of $5,916. This was offset by capital expenditures and tenant inducements spent in the quarter of $1,723.

Cash provided by operating activities for YTD-2015 of $9,879 compared to $3,913 for YTD-2014 is mainly a result of increased operating income from the acquisitions acquired during the latter half of 2014. Cash of $6,043 was used in Q1-2015 to acquire Prospect Street resulting in overall cash used in investing activities of $2,213 for YTD-2015.

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 2015 and beyond. Expenditures are expected to be funded through cash flow generated by operations and the REIT's credit facilities. For the six months ended June 30, 2015 and 2014, the REIT invested $2,084 and $1,923, 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.

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

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

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

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

The following table presents the costs incurred for the three and six months ended June 30, 2015 and 2014:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Asset management fees	$ 268	$ 156	$ 527	$ 310
Acquisition fees	-	-	59	-
Total	$ 268	$ 156	$ 586	$ 310

Of these amounts, $90 (December 31, 2014 - $77) is included in accounts payable and accrued liabilities at June 30, 2015. No incentive fees or capital expenditure fees were charged for the six months ended June 30, 2015 and 2014.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the securities of the REIT and in the activities of the REIT. Risks and uncertainties are disclosed in the REIT's annual MD&A dated March 11, 2015 for the year ended December 31, 2014 and in the AIF of the REIT dated March 11, 2015. The annual MD&A and AIF are available on SEDAR at www.sedar.com. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

Management is not aware of any significant changes in risks and uncertainties since March 11, 2015.

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 unaudited condensed consolidated interim financial statements.

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

INVESTMENT PROPERTIES

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

UNIT OPTION PLAN

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

FINANCIAL INSTRUMENTS

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

Financial liabilities are classified as FVTPL when the financial liability is either classified as held-for-trading or designated as FVTPL. A financial liability may be designated as FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and 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
Unit Option Plan	FVTPL	Fair value
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 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 and notes 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. 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

A summary of the significant accounting policies are described in Note 2 of the audited consolidated financial statements for the year ended December 31, 2014. Any changes in accounting policies from December 31, 2014 are described in Note 2 to the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2015 and 2014. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at each financial statement date, and revenues and expenses for the periods indicated. Actual results could differ from those estimates.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

The CEO and CFO of the REIT evaluated the effectiveness of the REIT's disclosure controls and procedures (as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") and concluded that the design and operation of the REIT's disclosure controls and procedures were effective for the three and six months ended June 30, 2015.

The CEO and CFO of the REIT evaluated the design and effectiveness of the REIT's internal controls over financial reporting (as defined in NI 52-109) and concluded that the design and effectiveness of internal controls over financial reporting continue to be appropriate and were effective for the three and six months ended June 30, 2015.

OUTLOOK

The Canadian economy continued to struggle during the second quarter of 2015 and expectations that conditions would improve did not materialize. In addition, oil prices are now expected to remain low for the near and medium term and capital expenditures in the energy sector will decline by as much as 30% in 2015. After a volatile start to 2015, consensus is that the worst is behind us and while growth estimates for 2015 have been downgraded fairly significantly during the first half of 2015, the resurgence in the US economy and the anticipated boost to exports from a lower Canadian dollar should pave the way to better growth numbers in the second half of the year and in 2016.

With a further rate cut of 25bps by the Bank of Canada on July 15, 2015, and expectations that interest rates will remain low for the foreseeable future, REIT's should continue to benefit as the lower cost of borrowing should have a positive impact on cash flow and investors will continue to seek out higher yielding investments. While the REIT does not have any mortgage maturities in the near term, lower interest rates will positively impact future acquisitions as well as the cost of borrowing on the REIT's floating rate credit facilities.

Commercial property capitalization rates continue to remain stable and management anticipates that despite the impact of the decline in oil prices and its impact on the Canadian economy overall real estate fundamentals will remain stable throughout the remainder of 2015.

Management remains focused on improving revenue and NOI through active portfolio management, maintaining strong tenant relationships and utilizing leasing optimization tactics. 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 ww.sedar.com.

Dated: August 12, 2015

Toronto, Ontario, Canada