Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three months ended March 31, 2015 and 2014
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars)
(Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Non-current assets:		
Investment properties (note 4)	$ 318,995	$ 311,480
Instalment notes receivable (note 5)	1,184	1,264
Deposits	326	287
Total non-current assets	320,505	313,031
Current assets:		
Tenant and other receivables (note 6)	1,815	1,337
Prepaid expenses and other assets (note 7)	1,159	821
Instalment notes receivable (note 5)	335	328
Restricted cash	264	264
Cash and cash equivalents	1,397	2,186
Total current assets	4,970	4,936
Total assets	$ 325,475	$ 317,967
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages and notes payable (note 8)	$ 184,857	$ 182,193
Derivative instrument (note 12)	807	199
Class B LP Units (note 10)	20,362	20,533
Total non-current liabilities	206,026	202,925
Current liabilities:		
Mortgages and notes payable (note 8)	5,298	5,097
Credit facilities (note 9)	4,530	1,473
Tenant rental deposits and prepayments	1,125	1,243
Accounts payable and accrued liabilities (note 11)	5,005	4,641
Derivative instrument (note 12)	459	228
Total current liabilities	16,417	12,682
Total liabilities	222,443	215,607
Unitholders' equity (note 13)	103,032	102,360
Total liabilities and unitholders' equity	$ 325,475	$ 317,967

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on May 8, 2015:

"William J. Biggar" Trustee

"Roland A. Cardy" Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

	2015	2014
Revenue	$ 8,890	$ 5,632
Expenses:		
Property operating	2,018	1,384
Realty taxes	1,440	1,016
Income before the undernoted	5,432	3,232
Other income (expenses):		
General and administration expenses	(505)	(518)
Finance costs (note 15)	(2,656)	(1,393)
Distributions on Class B LP Units	(508)	(384)
Fair value adjustment of Class B LP Units (note 10)	171	388
Fair value adjustment of investment properties (note 4)	1,069	3,869
Net income and comprehensive income	$ 3,003	$ 5,194

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

	Trust Unit capital (note 13(c))	Cumulative income (loss)	Total
Unitholders' equity, January 1, 2014	60,074	(5,763)	54,311
Changes during the period:			
Units issued, net of issue costs	17	–	17
Net income and comprehensive income for the period	–	5,194	5,194
Issue of units under unit option plan	46	–	46
Distributions	–	(1,450)	(1,450)
Issue of units under distribution reinvestment plan (note 13(e))	386	–	386
Unitholders' equity, March 31, 2014	$ 60,523	$ (2,019)	$ 58,504
Units issued and repurchased, net of issue costs	39,829	–	39,829
Net income and comprehensive income for the period	–	7,787	7,787
Issue of units under unit option plan	328	–	328
Distributions	–	(5,222)	(5,222)
Issue of units under distribution reinvestment plan (note 13(e))	1,134	–	1,134
Unitholders' equity, December 31, 2014	101,814	546	102,360
Units issued and repurchased, net of issue costs	(213)	–	(213)
Net income and comprehensive income for the year	–	3,003	3,003
Distributions	–	(2,511)	(2,511)
Issue of units under distribution reinvestment plan (note 13(e))	393	–	393
Unitholders' equity, March 31, 2015	$ 101,994	$ 1,038	$ 103,032

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2015 and 2014
(Unaudited)

	2015	2014
Operating activities:		
Net income for the period	$ 3,003	$ 5,194
Adjustments for financing activities included in income:		
Finance costs (note 15)	2,656	1,393
Distributions on Class B LP Units	508	384
Fair value adjustment of Class B LP Units	(171)	(388)
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 4)	(1,069)	(3,869)
Unit-based compensation expense (note 13(d))	57	69
Straight-line rent adjustment	(18)	(65)
Amortization of leasing costs and tenant inducements	10	-
Change in non-cash operating working capital (note 16)	(752)	182
Cash provided by operating activities	4,224	2,900
Investing activities:		
Acquisitions (note 3)	(6,043)	-
Additions to investment properties (note 4)	(361)	(1,175)
Additions to property under development	-	(87)
Change in restricted cash	-	197
Cash used in investing activities	(6,404)	(1,065)
Financing activities:		
Proceeds from credit facilities, net of costs	3,026	242
Proceeds from new mortgage financing, net of costs	4,058	-
Principal payments on mortgages	(1,243)	(710)
Principal payments on instalment note receivable	73	-
Finance costs paid	(1,983)	(1,154)
Proceeds from issuance of Units, net of costs	(15)	38
Units repurchased and cancelled under normal course issuer bid	(223)	(56)
Cash distributions to unitholders	(2,302)	(1,257)
Cash provided (used in) by financing activities	1,391	(2,897)
Increase in cash and cash equivalents	(789)	(1,062)
Cash and cash equivalents, beginning of period	2,186	1,832
Cash and cash equivalents, end of period	$ 1,397	$ 770
Supplemental cash flow information:		
Units issued under distribution reinvestment plan - unitholders	$ 207	$ 189
Units issued under distribution reinvestment plan - Class B LP Units	186	197

See accompanying notes to condensed consolidated interim financial statements.

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 as most recently 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 condensed consolidated interim financial statements of the REIT have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions significant to an understanding of the changes in financial position and performance of the REIT since the last annual consolidated financial statements as at and for the year ended December 31, 2014. These condensed consolidated interim financial statements do not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The condensed consolidated interim financial statements were approved on behalf of the Board of Trustees on May 8, 2015.

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

(In thousands of Canadian dollars, except Unit and per Unit amounts)

1. Basis of preparation (continued):

These condensed consolidated interim 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:

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying accounting policies were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2014.

2. Significant accounting policies:

The accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its audited consolidated financial statements for the year ended December 31, 2014.

(a) Future accounting changes:

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

Standards	Effective date (annual period beginning on or after)
IFRS 15, Revenue from Contracts with Customers ("IFRS 15")	January 1, 2017
IFRS 9, Financial Instruments ("IFRS 9")	January 1, 2018

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, 2017, and is to be applied retrospectively. Early adoption is permitted.

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

(In thousands of Canadian dollars, except Unit and per Unit amounts)

2. Significant accounting policies (continued):

(ii) IFRS 9, Financial Instruments:

On July 24, 2014, the IASB issued IFRS 9, Financial Instruments ("IFRS 9 (2014)"). IFRS 9 (2014) 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.

3. Acquisitions:

All acquisitions completed during the three months ended March 31, 2015 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:

	845 Prospect Street
	March 25, 2015
Investment properties (including acquisition costs of $177)	$ 6,077
Other receivables	16
Accounts payable and accrued liabilities	(50)
Net assets acquired	$ 6,043
Consideration:	
Proceeds from Credit facilities	$ 1,974
Proceeds from new mortgage financing, net of financing costs of $61	4,069
	$ 6,043

(In thousands of Canadian dollars, except Unit and per Unit amounts)

4. Investment properties:

The following table summarizes the changes in investment properties for the three months ended March 31, 2015 and 2014:

	Investment properties	Properties under Development	Total
Balance, December 31, 2013	$ 179,626	$ 45	$ 179,671
Additions	1,175	87	1,262
Amortization of leasing costs, tenant inducements and straight line rents	65	-	65
Fair value adjustment	3,869	-	3,869
Balance, March 31, 2014	184,735	132	184,867
Acquisitions	120,372	-	120,372
Additions	1,978	1,105	3,083
Reclassification of properties under development	1,237	(1,237)	-
Amortization of leasing costs, tenant inducements and straight line rents	184	-	184
Fair value adjustment	2,974	-	2,974
Balance, December 31, 2014	311,480	-	311,480
Acquisitions	6,077	-	6,077
Additions	361	-	361
Amortization of leasing costs, tenant inducements and straight line rents	8	-	8
Fair value adjustment	1,069	-	1,069
Balance, March 31, 2015	$ 318,995	$ -	$ 318,995

(In thousands of Canadian dollars, except Unit and per Unit amounts)

4. Investment properties (continued):

The REIT determined the fair value of investment properties based upon a combination of the discounted cash flow method and the direct capitalization method, which are generally accepted appraisal methodologies. The key valuation assumptions for the REIT's investment properties are set out in the following table:

	March 31, 2015	March 31, 2014
Terminal and direct capitalization rates - range	6.00% to 11.50%	6.34% to 11.60%
Terminal and direct capitalization rate - weighted average	7.14%	6.98%
Discount rates - range	7.00% to 12.00%	7.15% to 10.50%
Discount rate - weighted average	7.78%	7.47%

The fair values of the REIT's investment properties are sensitive to changes in the key valuation assumptions. Changes in the terminal and direct 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:

	March 31, 2015	March 31, 2014
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (8,271)	$ (4,222)
25-basis points decrease	8,612	4,579
Weighted average discount rate:		
25-basis points increase	(8,295)	(2,796)
25-basis points decrease	8,781	2,861

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 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.

(In thousands of Canadian dollars, except Unit and per Unit amounts)

5. Instalment notes receivable (continued):

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

	March 31, 2015	December 31, 2014
Current	$ 335	$ 328
Non-current	1,184	1,264
Balance	$ 1,519	$ 1,592

6. Tenant and other receivables:

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

	March 31, 2015	December 31, 2014
Tenant receivables and charge backs	$ 1,751	$1,243
Other receivables	64	94
	$ 1,815	$1,337

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

7. Prepaid expenses and other assets:

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

	March 31, 2015	December 31, 2014
Prepaid expenses	$ 1,131	$ 794
Pre-acquisition costs	28	27
	$ 1,159	$ 821

(In thousands of Canadian dollars, except Unit and per Unit amounts)

8. Mortgages and notes payable:

As at March 31, 2015, the REIT had $190,651 (December 31, 2014 - $187,764) of principal balance of mortgages and notes payable outstanding. The mortgages and notes carry a weighted average fixed interest rate of 3.42% (December 31, 2014 - 3.44%) after giving effect to the instalment note receipts, and a weighted average term to maturity of 4.09 years (December 31, 2014 – 4.32 years). All interest rates are fixed for the term of the respective mortgages except for two of the REIT's mortgages that have utilized interest rate swaps to fix their floating interest rates (note 12). The mortgages are secured by first charges on the respective properties and the vendors take-back mortgages are secured by second charge on the respective properties.

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

	Scheduled principal payments	Debt maturing during the period	Total mortgages and notes payable	Scheduled interest payments
2015– remainder of year	$ 4,072	$ –	$ 4,072	$ 5,088
2016	5,665	765	6,430	6,603
2017	5,514	21,248	26,762	6,043
2018	3,076	85,594	88,670	3,401
2019	2,190	20,474	22,664	2,136
Thereafter	4,530	37,523	42,053	3,442
Face value	$ 25,047	$ 165,604	$ 190,651	$ 26,713
Unamortized mark to market mortgage adjustments (2014 - $700)			668	
Unamortized financing costs (2014 - ($1,174))			(1,164)	
Total mortgage and notes payable			$ 190,155	

(In thousands of Canadian dollars, except Unit and per Unit amounts)

8. Mortgages and notes payable (continued):

The following table provides a breakdown of current and non-current portions of mortgages and notes payable:

	March 31, 2015	December 31, 2014
Current:		
Mortgages and notes payable	$ 5,468	$ 5,240
Unamortized mark to market mortgage adjustments	130	131
Unamortized financing cost	(300)	(274)
	5,298	5,097
Non-current:		
Mortgages and notes payable	185,183	182,524
Unamortized mark to market mortgage adjustments	538	569
Unamortized financing cost	(864)	(900)
	184,857	182,193
	$ 190,155	$ 187,290

9. Credit facilities:

The REIT has a credit agreement with a Canadian chartered bank for a $5,000 and $10,000 floating rate revolving credit facility (the "Credit facilities"). The Credit facilities are secured by the King George Highway and Laurier Avenue 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:

	March 31, 2015	December 31, 2014
Credit facilities	$ 4,550	$1,500
Unamortized financing cost	(20)	(27)
	$ 4,530	$1,473

(In thousands of Canadian dollars, except Unit and per Unit amounts)

10. Class B LP Units:

The Class B LP Units are indirectly exchangeable on a one-for-one basis for trust units of the REIT ("Units") at the option of the holder, under the terms of an 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 three months ended March 31, 2015 and 2014:

	Class B LP Units	Amount
Outstanding, December 31, 2013	2,588,914	$ 15,533
Fair value adjustment	–	(388)
Outstanding, March 31, 2014	2,588,914	15,145
Issuance of Class B LP Units	833,333	5,500
Fair value adjustment	–	(112)
Outstanding, December 31, 2014	3,422,247	20,533
Fair value adjustment	–	(171)
Outstanding, March 31, 2015	3,422,247	$ 20,362

During the three months ended March 31, 2015 and 2014, the distributions on Class B LP Units were $508 and $384, respectively.

11. Accounts payable and accrued liabilities:

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

	March 31, 2015	December 31, 2014
Accounts payable and accrued liabilities	$ 3,021	$ 2,767
Finance costs payable	688	612
Distributions payable	838	836
Unit based compensation liability	458	426
	$ 5,005	$ 4,641

12. Derivative instrument:

The REIT entered into an interest rate swap on February 12, 2013 to limit its interest rate exposure from floating to fixed during the term of the mortgage on the Laurier Avenue property with a principal amount of $46,184 at March 31, 2015 (December 31, 2014 - $46,514). The interest rate swap will expire co-terminously upon maturity of the mortgage on March 1, 2018. The resulting annual fixed interest rate for this mortgage is 3.388%.

Total unrealized loss on change in fair value of derivative instrument amounted to $800 at March 31, 2015 (March 31, 2014 – unrealized loss of $381) and is included in finance costs (note 15).

The REIT entered into an interest rate swap on March 25, 2015 to limit its interest rate exposure from floating to fixed during the term of the mortgage on the Prospect Street property with a principal amount of $4,130 at March 31, 2015 (December 31, 2014 - $nil). The interest rate swap will expire co-terminously upon maturity of the mortgage on March 1, 2020. The resulting annual fixed interest rate for this mortgage is 2.690%.

Total unrealized loss on change in fair value of derivative instrument amounted to $39 at March 31, 2015 (March 31, 2014 – $nil) and is included in finance costs (note 15).

13. 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 have the right to require the REIT to redeem their Units on demand. The Units have no par value.

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

(b) Special Voting Units:

The DOT and the exchange agreement among the REIT, 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.

(In thousands of Canadian dollars, except Unit and per Unit amounts)

13. Unitholders' equity (continued):

(c) Units outstanding:

The following table summarizes the changes in Units for the three months ended March 31, 2015 and 2014:

	Units	Amount
Balance, December 31, 2013	9,711,344	$ 60,074
Issue of Units under distribution reinvestment plan	66,989	386
Issue of Units under the non-executive trustee unit issuance plan	7,358	43
Issue of Units from warrants exercised	5,600	32
Issue of Units from options exercised	8,333	46
Units repurchased and cancelled under normal course issuer bid	(9,500)	(56)
Issuance costs	–	(2)
Balance, March 31, 2014	9,790,124	60,523
Units issued for cash	6,891,219	43,388
Issue of Units under the non-executive trustee unit issuance plan	11,224	72
Issue of Units under distribution reinvestment plan	182,533	1,134
Issue of Units from warrants exercised	6,303	42
Issue of Units from options exercised	52,083	328
Units repurchased and cancelled under normal course issuer bid	(43,200)	(266)
Issuance costs	–	(3,407)
Balance, December 31, 2014	16,890,286	101,814
Issue of Units under the non-executive trustee unit issuance plan	4,094	25
Issue of Units under distribution reinvestment plan	67,645	393
Units repurchased and cancelled under normal course issuer bid	(37,200)	(223)
Issuance costs	–	(15)
Balance, March 31, 2015	16,924,825	$ 101,994

(In thousands of Canadian dollars, except Unit and per Unit amounts)

13. Unitholders' equity (continued):

(d) Unit-based compensation plan:

The REIT has adopted a Unit-based compensation plan (the "Plan") effective December 14, 2012, and as amended and restated as of June 18, 2013. Under the terms of the Plan, 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 three months ended March 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	(8,333)	1.60	-	-
Outstanding, March 31, 2014	710,834	6.07	3.73	196,667
Unit options exercised	(52,083)	1.60	-	-
Outstanding, December 31, 2014	658,751	6.43	3.00	259,157
Unit options granted	495,000	6.15	-	-
Outstanding, March 31, 2015	1,153,751	$ 6.31	3.62	401,653

(In thousands of Canadian dollars, except Unit and per Unit amounts)

13. Unitholders' equity (continued):

For the three months ended March 31, 2015 and 2014, the amount of Unit option compensation liability included in accounts payable and accrued liabilities changed as follows:

Balance, December 31, 2013	$ 411
Unit options exercised	(32)
Fair value adjustment	48
Balance, March 31, 2014	427
Balance, December 31, 2014	426
Unit options granted	13
Fair value adjustment	19
Balance, March 31, 2015	458

For the three months ended March 31, 2015 and 2014, compensation expense was $32 and $48, respectively and is included in general and administrative expenses. The expense was determined using the Black-Scholes option pricing model with the following assumptions:

	March 31, 2015	March 31, 2014
Average expected Unit option holding period	2.18 years	2.31 years
Average expected volatility rate	20%	20%
Average dividend yield	9.98%	10.15%
Average risk-free interest rate	0.52%	1.36%

Expected volatilities are based on the historical volatility of the Units and comparable companies. 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.

13. Unitholders' equity (continued):

(e) Distributions and Dividend Reinvestment Plan ("DRIP"):

Under the DOT, the total amount of income of the REIT to be distributed to unitholders 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 that the REIT will not be liable to pay income tax under Part I of the Tax Act for any year.

For the three months ended March 31, 2015 and 2014, the REIT declared $2,511 and $1,450, respectively, of distributions.

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 three months ended March 31, 2015, the REIT issued 67,645 Units under the DRIP for a stated value of $393.

For the three months ended March 31, 2014, the REIT issued 66,989 Units under the DRIP for a stated value of $386.

14. Transactions with related parties:

Except as disclosed elsewhere in the condensed consolidated interim financial statements, the following are related party transactions:

The REIT has engaged Starlight to perform certain services, as outlined below. 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.

(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.

(In thousands of Canadian dollars, except Unit and per Unit amounts)

14. Transactions with related parties (continued):

(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) From and after January 1, 2013, 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 the FFO per Unit hurdle rate determined by the Trustees by June 30, 2013 for the 2013 fiscal year with reference to such parameters and information as the Trustees deem prudent, including without limitation, the 2013 business plan of the REIT, and for fiscal years from and after January 1, 2014, an amount equal to the REIT's 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.

(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.

The following table presents the costs incurred for the three months ended March 31, 2015 and 2014:

	March 31, 2015	March 31, 2014
Asset management fees	$ 259	$ 154
Acquisition fees	59	-

(In thousands of Canadian dollars, except Unit and per Unit amounts)

14. Transactions with related parties (continued):

Of these amounts, $90 (December 31, 2014 - $77) is included in accounts payable and accrued liabilities.

No incentive fees or capital expenditure fees were charged for the three months ended March 31, 2015 and 2014.

(e) Key management compensation:

For the three months ended March 31, 2015 and 2014, the aggregate compensation for key management personnel was as follows:

	March 31, 2015	March 31, 2014
Short-term employee compensation	$ 122	$ 141
Unit-based compensation	30	68

15. Finance costs:

The following table presents the financing costs incurred for the three months ended March 31, 2015 and 2014:

	March 31, 2015	March 31, 2014
Interest on mortgages payable	$ 1,692	$ 947
Other interest expense and standby fees	45	18
Amortization of mark to market mortgage adjustments	(33)	-
Amortization of financing costs	113	47
	1,817	1,012
Unrealized loss on change in fair value of derivative instrument (note 12)	839	381
	$ 2,656	$ 1,393

(In thousands of Canadian dollars, except Unit and per Unit amounts)

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three months ended March 31, 2015 and 2014 is as follows:

	March 31, 2015	March 31, 2014
Deposits	$ (39)	$ 1
Tenant and other receivables	(462)	326
Prepaid expenses and other assets	(338)	(217)
Tenant rental deposits and prepayments	(118)	(374)
Accounts payable and accrued liabilities	205	446
	$ (752)	$ 182

17. Commitments and contingencies:

The REIT has entered into commitments for building renovations at its Laurier Avenue property. The commitments as at March 31, 2015 and 2014 were $219 and $nil, respectively.

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

18. 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.

19. Capital management:

The REIT’s capital management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2014.

The REIT was in compliance with all financial covenants as at March 31, 2015.

(In thousands of Canadian dollars, except Unit and per Unit amounts)

20. 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 March 31, 2015 and December 31, 2014, the REIT's interest-bearing financial instruments were:

	Carrying value	
	March 31, 2015	December 31, 2014
Fixed-rate instruments:		
Mortgages and notes payable	$ 189,954	$ 187,067
Variable-rate instruments:		
Mortgages and notes payable	697	697
Credit facilities	$ 4,550	$ 1,500

The REIT is exposed to interest rate risk on its floating-rate debt on its Laurier Avenue and Prospect Street properties which was mitigated by entering into interest rate swaps (note 12). The REIT is also exposed to interest rate risk on its construction financing of $697 relating to its Coronation Mall property.

(In thousands of Canadian dollars, except Unit and per Unit amounts)

20. Risk management and fair values (continued):

An increase (decrease) of 100 basis points in interest rates at March 31, 2015 for the variable-rate financial instruments would have increased (decreased) net income for the period by $3 (on a pre-tax basis).

(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 month-to-month basis to ensure a reasonable allowance is provided for all uncollectible amounts.

An aging of billed trade receivables, including billed trade receivables past due but not impaired is as follows:

	March 31, 2015	December 31, 2014
0 to 30 days	$ 909	$ 161
31 to 90 days	279	47
Over 90 days	54	59
Total	$ 1,242	$ 267

As at March 31, 2015, The Federal Government of Canada provides 51% (December 31, 2014 – 50%) of the REIT’s rental revenue.

(In thousands of Canadian dollars, except Unit and per Unit amounts)

20. Risk management and fair values (continued):

(b) Fair values:

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 at fair value on the condensed consolidated interim statements of financial position:

March 31, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 318,995	$ 318,995
	$ –	$ –	$ 318,995	$ 318,995
Liabilities:				
Class B LP Units	$ 20,362	$ –	$ –	$ 20,362
Unit options	–	–	458	458
Derivative instruments	–	1,266	–	1,266
	$ 20,362	$ 1,266	$ 458	$ 22,086

(In thousands of Canadian dollars, except Unit and per Unit amounts)

20. Risk management and fair values (continued):

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 311,480	$ 311,480
	$ –	$ –	$ 311,480	$ 311,480
Liabilities:				
Class B LP Units	$ 20,533	$ –	$ –	$ 20,533
Unit options and warrants	–	–	426	426
Derivative instrument	–	427	–	427
	$ 20,533	$ 427	$ 426	$ 21,386

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) 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.

(c) 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 13(d).

20. Risk management and fair values (continued):

(d) 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.