Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three and six months ended June 30, 2015 and 2014
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	June 30, 2015	December 31, 2014
Assets		
Non-current assets:		
Investment properties (note 4)	$ 301,960	$ 311,480
Instalment notes receivable (note 5)	1,105	1,264
Deposits	351	287
Total non-current assets	303,416	313,031
Current assets:		
Tenant and other receivables (note 6)	1,665	1,337
Prepaid expenses and other assets (note 7)	1,322	821
Instalment notes receivable (note 5)	326	328
Restricted cash	266	264
Cash and cash equivalents	2,127	2,186
Total current assets	5,706	4,936
Total assets	$ 309,122	$ 317,967
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages and notes payable (note 8)	$ 173,292	$ 182,193
Derivative instrument (note 12)	631	199
Class B LP Units (note 10)	19,883	20,533
Total non-current liabilities	193,806	202,925
Current liabilities:		
Mortgages and notes payable (note 8)	5,090	5,097
Credit facilities (note 9)	1,984	1,473
Tenant rental deposits and prepayments	1,395	1,243
Accounts payable and accrued liabilities (note 11)	5,434	4,641
Derivative instrument (note 12)	477	228
Total current liabilities	14,380	12,682
Total liabilities	208,186	215,607
Unitholders' equity (note 13)	100,936	102,360
Total liabilities and unitholders' equity	$ 309,122	$ 317,967

Subsequent event (note 21)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on August 12, 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 and six months ended June 30, 2015 and 2014
(Unaudited)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Revenue	$ 8,882	$ 5,283	$ 17,772	$ 10,915
Expenses:				
Property operating	1,883	1,076	3,901	2,460
Realty taxes	1,442	950	2,882	1,966
Income before the undernoted	5,557	3,257	10,989	6,489
Other income (expenses):				
General and administration expenses	(439)	(572)	(944)	(1,090)
Finance costs (note 15)	(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 (note 10)	479	(2,719)	650	(2,331)
Fair value adjustment of investment properties (note 4)	(2,870)	3,944	(1,801)	7,813
Loss on sale of investment property	(350)	–	(350)	–
Net income and comprehensive income for the period	$ 207	$ 2,379	$ 3,210	$ 7,573

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)

Six months ended June 30, 2015 and 2014
(Unaudited)

	Trust Unit capital (note 13(c))	Retained earnings	Total
Unitholders' equity, January 1, 2014	$ 60,074	$ (5,763)	$ 54,311
Changes during the period:			
Units issued (repurchased), net of issue costs	(124)	–	(124)
Net income and comprehensive income for the period	–	7,573	7,573
Issue of units under unit option plan (note 13(d))	46	–	46
Distributions	–	(2,907)	(2,907)
Issue of units under DRIP (note 13(e))	764	–	764
Unitholders' equity, June 30, 2014	60,760	(1,097)	59,663
Units issued, net of issue costs	39,970	–	39,970
Net income and comprehensive income for the year	–	5,408	5,408
Issue of units under unit option plan (note 13(d))	328	–	328
Distributions	–	(3,765)	(3,765)
Issue of units under DRIP (note 13(e))	756	–	756
Unitholders' equity, December 31, 2014	101,814	546	102,360
Changes during the period:			
Units issued (repurchased), net of issue costs	(413)	–	(413)
Net income and comprehensive income for the period	–	3,210	3,210
Distributions	–	(5,028)	(5,028)
Issue of units under DRIP (note 13(e))	807	–	807
Unitholders' equity, June 30, 2015	$ 102,208	$ (1,272)	$ 100,936

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 and six months ended June 30, 2015 and 2014
(Unaudited)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Operating activities:				
Net income for the period	$ 207	$ 2,379	$ 3,210	$ 7,573
Adjustments for financing activities included in income:				
Finance costs (note 15)	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
Adjustments for items not involving cash:				
Fair value adjustment of investment properties (note 4)	2,870	(3,944)	1,801	(7,813)
Loss on sale of investment property	350	–	350	–
Unit-based compensation expense (note 13(d))	27	274	59	322
Change in other non-cash operating items	41	(24)	58	(68)
Change in non-cash operating working capital (note 16)	469	(1,922)	(283)	(1,740)
Cash provided by operating activities	5,655	1,013	9,879	3,913
Investing activities:				
Acquisitions (note 3)	–	–	(6,043)	–
Net proceeds from the disposition of investment properties (note 3)	5,916	–	5,916	–
Additions to investment properties (note 4)	(1,723)	(450)	(2,084)	(1,625)
Additions to property under development	–	(211)	–	(298)
Change in restricted cash	(2)	144	(2)	341
Cash provided by (used in) investing activities	4,191	(517)	(2,213)	(1,582)
Financing activities:				
Proceeds from (repayment) of credit facilities, net of costs	(2,550)	2,779	476	3,021
Proceeds from new mortgage financing, net of costs	–	–	4,058	–
Repayment of mortgage	(697)	–	(697)	–
Principal payments on mortgages	(1,342)	(714)	(2,585)	(1,424)
Principal payments on instalment note receivable	88	–	161	–
Finance costs paid	(2,107)	(1,253)	(4,090)	(2,407)
Proceeds from issuance of Units, net of costs	(8)	10	(23)	48
Units repurchased and cancelled under normal course issuer bid	(214)	(179)	(437)	(235)
Cash distributions to unitholders	(2,286)	(1,207)	(4,588)	(2,464)
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
Supplemental cash flow information:				
Units issued under DRIP - unitholders	$ 228	$ 182	$ 435	$ 371
Units issued under DRIP – Class B LP units	186	196	372	393
Mortgages assumed on sale of investment property	9,828	–	9,828	–

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 understand 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 August 12, 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.

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(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 six months ended June 30, 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, 2018
IFRS 9, Financial Instruments	January 1, 2018

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

2. Significant accounting policies (continued):

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

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

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

(ii) IFRS 9, Financial Instruments:

On July 24, 2014, the 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.

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

3. Acquisitions and dispositions:

All acquisitions completed during the six months ended June 30, 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

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

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

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

(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 six months ended June 30, 2015 and 2014:

	Investment properties	Properties under Development	Total
Balance, 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, 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, December 31, 2014	311,480	–	311,480
Acquisitions	6,077	–	6,077
Additions	2,084	–	2,084
Dispositions	(15,869)	–	(15,869)
Amortization of leasing costs, tenant inducements and straight line rents	(11)	–	(11)
Fair value adjustment	(1,801)	–	(1,801)
Balance, June 30, 2015	$ 301,960	$ –	$ 301,960

(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:

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

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:

	June 30, 2015	June 30, 2014
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$(7,793)	$ (4,349)
25-basis points decrease	8,487	4,704
Weighted average discount rate:		
25-basis points increase	(7,670)	(2,879)
25-basis points decrease	8,224	2,946

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 to allow the REIT to achieve an effective interest rate of 3.3% per annum on certain assumed mortgages. These instalment notes mature on various dates between April 1, 2017 and April 1, 2027, co-terminously with the assumed mortgages.

(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 June 30, 2015 and December 31, 2014.

	June 30, 2015	December 31, 2014
Current	$ 326	$ 328
Non-current	1,105	1,264
Balance	$ 1,431	$ 1,592

6. Tenant and other receivables:

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

	June 30, 2015	December 31, 2014
Tenant receivables and charge backs	$ 1,620	$1,243
Other receivables	45	94
	$ 1,665	$1,337

As at June 30, 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:

	June 30, 2015	December 31, 2014
Prepaid expenses	$ 1,141	$ 794
Pre-acquisition costs	181	27
	$ 1,322	$ 821

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

8. Mortgages and notes payable:

As at June 30, 2015, the REIT had $178,785 (December 31, 2014 - $187,764) of principal balances of mortgages and notes payable outstanding. 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 note receipts, and a weighted average term to maturity of 3.93 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 vendor take-back mortgages are secured by second charges on the respective properties.

As at June 30, 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	$ 2,597	$ –	$ 2,597	$ 3,177
2016	5,341	765	6,106	6,199
2017	5,206	11,499	16,705	5,684
2018	3,076	85,594	88,670	3,401
2019	2,190	20,474	22,664	2,136
Thereafter	4,530	37,513	42,043	3,435
Face value	$ 22,940	$ 155,845	$ 178,785	$ 24,032
Unamortized mark to market mortgage adjustments (2014 - $700)			634	
Unamortized financing costs (2014 - ($1,174))			(1,037)	
Total mortgage and notes payable			$ 178,382	

(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:

	June 30, 2015	December 31, 2014
Current:		
Mortgages and notes payable	$ 5,243	$ 5,240
Unamortized mark to market mortgage adjustments	128	131
Unamortized financing cost	(281)	(274)
	5,090	5,097
Non-current:		
Mortgages and notes payable	173,542	182,524
Unamortized mark to market mortgage adjustments	506	569
Unamortized financing cost	(756)	(900)
	173,292	182,193
	$ 178,382	$ 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:

	June 30, 2015	December 31, 2014
Credit Facilities	$ 2,000	$1,500
Unamortized financing cost	(16)	(27)
	$ 1,984	$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 the exchange agreement and have economic and voting rights equivalent, in all material respects, to Units.

The following table summarizes the changes in Class B LP Units for the six months ended June 30, 2015 and 2014:

	Class B LP Units	Amount
Outstanding, December 31, 2013	2,588,914	$ 15,533
Fair value adjustment	–	2,331
Outstanding, June 30, 2014	2,588,914	17,864
Issuance of Class B LP Units	833,333	5,500
Fair value adjustment	–	(2,831)
Outstanding, December 31, 2014	3,422,247	20,533
Fair value adjustment	–	(650)
Outstanding, June 30, 2015	3,422,247	$ 19,883

During the three and six months ended June 30, 2015, the distributions on Class B LP Units were $508 and $1,016, respectively.

11. Accounts payable and accrued liabilities:

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

	June 30, 2015	December 31, 2014
Accounts payable and accrued liabilities	$ 3,431	$ 2,767
Finance costs payable	678	612
Distributions payable	840	836
Unit based compensation liability	485	426
	$ 5,434	$ 4,641

12. Derivative instruments:

The REIT has entered into a number of interest rate swaps to limit its interest rate exposure from floating to fixed during the term of the mortgage on certain properties. The interest rate swaps will expire co-terminously upon maturity of the corresponding mortgages.

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.

(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 six months ended June 30, 2015 and 2014:

	Units	Amount
Balance, December 31, 2013	9,711,344	$ 60,074
Issue of Units under distribution reinvestment plan	129,468	764
Issue of Units under the non-executive trustee unit issuance plan	10,994	68
Issue of Units from warrants exercised	8,185	48
Issue of Units from options exercised	8,333	46
Units repurchased and cancelled under normal course issuer bid	(39,500)	(235)
Issuance costs	–	(5)
Balance, June 30, 2014	9,828,824	60,760
Units issued for cash	6,891,219	43,388
Issue of Units under the non-executive trustee unit issuance plan	7,588	47
Issue of Units under distribution reinvestment plan	120,054	756
Issue of Units from warrants exercised	3,718	26
Issue of Units from options exercised	52,083	328
Units repurchased and cancelled under normal course issuer bid	(13,200)	(87)
Issuance costs	–	(3,404)
Balance, December 31, 2014	16,890,286	101,814
Issue of Units under the non-executive trustee unit issuance plan	7,807	47
Issue of Units under distribution reinvestment plan	139,813	807
Units repurchased and cancelled under normal course issuer bid	(72,800)	(437)
Issuance costs	–	(23)
Balance, June 30, 2015	16,965,106	$ 102,208

(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

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

13. Unitholders' equity (continued):

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 six months ended June 30, 2015 and 2014, the number of Unit options outstanding were 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, June 30, 2014	710,834	6.07	3.48	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, June 30, 2015	1,153,751	$6.31	3.37	401,653

For the six months ended June 30, 2015 and 2014, the amount of Unit option compensation liability included in accounts payable and accrued liabilities is as follows:

Balance, December 31, 2013	$	411
Unit options exercised		(32)
Fair value adjustment		322
Balance, June 30, 2014	$	701
Balance, December 31, 2014	$	426
Unit options granted		13
Fair value adjustment		46
Balance, June 30, 2015	$	485

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

13. Unitholders' equity (continued):

For the six months ended June 30, 2015 and 2014, compensation expense was $59 and $322, respectively and is included in general and administrative expenses. The expense was determined using the Black-Scholes option pricing model with the following assumptions:

	June 30, 2015	June 30, 2014
Average expected Unit option holding period	2.0 years	2.06 years
Average expected volatility rate	20 %	20 %
Average dividend yield	10.22 %	8.61 %
Average risk-free interest rate	0.51 %	1.28 %

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.

(e) Distribution 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 the REIT will not be liable to pay income tax under Part I of the *Tax Act (Canada)* for any year.

For the six months ended June 30, 2015 and 2014, the REIT declared distributions of $6,044 and $3,676, respectively.

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

For the six months ended June 30, 2015, the REIT issued 139,813 Units under the DRIP for a stated value of $807.

For the six months ended June 30, 2014, the REIT issued 129,468 Units under the DRIP for a stated value of $764.

14. Transactions with related parties:

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

(a) Pursuant to an asset management agreement (the “Asset Management Agreement”), entered into with Starlight on December 14, 2012, Starlight is to perform asset management services for a base annual management fee calculated and payable on a monthly basis in arrears on the first day of each month equal to 0.35% of the sum of: (i) the historical purchase price of the properties; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties from the effective date.

(b) Pursuant to the Asset Management Agreement, Starlight is entitled to receive an acquisition fee in respect of properties announced to be acquired, directly or indirectly, by the REIT as a result of such properties having been presented to the REIT by Starlight calculated as follows:

(i) 1.0% of the purchase price of a property, on the first $100,000 of properties acquired in each fiscal year;

(ii) 0.75% of the purchase price of a property, on the next $100,000 of properties acquired in each fiscal year; and

(iii) 0.50% of the purchase price on properties in excess of $200,000 of properties acquired in each fiscal year.

(c) 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.

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

14. Transactions with related parties (continued):

(d) Pursuant to the Asset Management Agreement, Starlight is entitled to a capital expenditure fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of $1,000, excluding work done on behalf of tenants or any maintenance capital expenditures.

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

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Asset management fees	$ 268	$ 156	$ 527	$ 310
Acquisition fees	–	–	59	–

At June 30, 2015, $90 (December 31, 2014 - $77) is included in accounts payable and accrued liabilities.

No incentive fees or capital expenditure fees were charged for the six months ended June 30, 2015 and 2014.

(e) Key management compensation:

For the six months ended June 30, 2015 and 2014, the aggregate compensation for key management personnel was as follows:

	June 30, 2015	June 30, 2014
Short-term employee compensation	$ 238	$ 292
Unit-based compensation	53	79

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

15. Finance costs:

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

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 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
	$ 1,662	$ 1,146	$ 4,318	$ 2,539

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three and six months ended June 30, 2015 and 2014 is as follows:

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Deposits	$ (11)	$ 2	$ (50)	$ 3
Tenant and other receivables	133	7	(329)	333
Prepaid expenses and other assets	(332)	(709)	(670)	(926)
Tenant rental deposits and prepayments	270	149	152	(225)
Accounts payable and accrued liabilities	409	(1,371)	614	(925)
	$ 469	$ (1,922)	$ (283)	$ (1,740)

17. Commitments and contingencies:

At June 30, 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 June 30, 2015.

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.

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

20. Risk management and fair values (continued):

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

As at June 30, 2015 and December 31, 2014, the REIT's interest-bearing financial instruments were:

	Carrying value	
	June 30, 2015	December 31, 2014
Fixed-rate instruments:		
Mortgages and notes payable	$ 178,785	$ 187,067
Variable-rate instruments not subject to interest rate swaps:		
Mortgages and notes payable	$ –	$ 697
Credit Facilities	2,000	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).

An increase (decrease) of 100 basis points in interest rates at June 30, 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.

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

20. Risk management and fair values (continued):

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits, and geographically diversifying its portfolio. The REIT reviews outstanding receivables on a monthly 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:

	June 30, 2015	December 31, 2014
0 to 30 days	$ 308	$ 161
31 to 90 days	1	47
Over 90 days	915	59
Total	$ 1,224	$ 267

As at June 30, 2015, the Federal Government of Canada provides 50% (December 31, 2014 – 50%) of the REIT's rental revenue.

(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:

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

20. Risk management and fair values (continued):

June 30, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 301,960	$ 301,960
	$ –	$ –	$ 301,960	$ 301,960
Liabilities:				
Class B LP Units	$ 19,883	$ –	$ –	$ 19,883
Unit options	–	–	485	485
Derivative instruments	–	1,108	–	1,108
	$ 19,883	$ 1,108	$ 485	$ 21,476

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	–	–	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:

(i) 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.

20. Risk management and fair values (continued):

(ii) 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 of Units as a practical measure for fair value measurement of its Class B LP Units.

(iii) 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).

(iv) 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.

21. Subsequent event:

On July 29, 2015, the REIT completed the acquisition of four commercial properties for an aggregate purchase price of approximately $35,000 plus closing costs. The purchase price was funded through new mortgages of $24,500, the issuance of 909,090 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 disposition of Coronation Mall (see Note 3).