TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL RESULTS

FOR THE YEAR ENDED DECEMBER 31, 2014

March 11, 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 March 11, 2015, for the years ended December 31, 2014 and 2013 should be read in conjunction with the REIT's annual audited consolidated financial statements 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. 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 ("IASB"), do not have standardized meanings prescribed by IFRS and should not be compared to or construed as alternatives to profit/loss, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. FFO, AFFO, AFFO Normalized, NOI, Indebtedness, GBV and 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 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.

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BASIS OF PRESENTATION

The REIT's annual audited consolidated financial statements for the years ended December 31, 2014 and 2013 have been prepared in accordance with IFRS. The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of dollars, except for Unit and per Unit information.

Certain time periods used in the MD&A are used interchangeably such as three months ended December 31, 2014 ("Q4-2014"), year ended December 31, 2014 ("YTD–2014"), three months ended December 31, 2013 ("Q4-2013"), and year ended December 31, 2013 ("YTD–2013").

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;
- 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 focus on the security of cash flow, capital appreciation, increasing value through more efficient management of the acquired assets and growth of AFFO per Unit.

PORTFOLIO SUMMARY

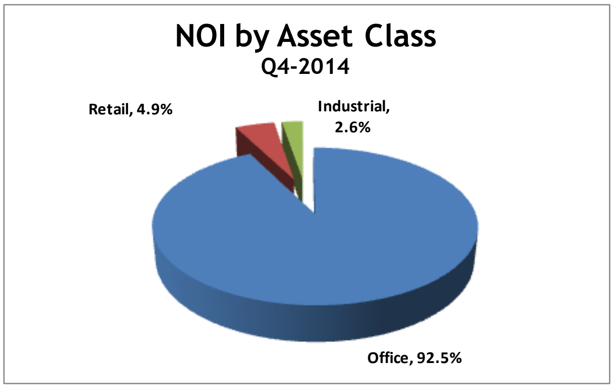
At December 31, 2014 the REIT's portfolio was comprised of twenty one commercial properties totaling approximately 1,223,000 square feet of gross leasable area. The following table highlights certain information about the REIT's properties as at December 31, 2014:

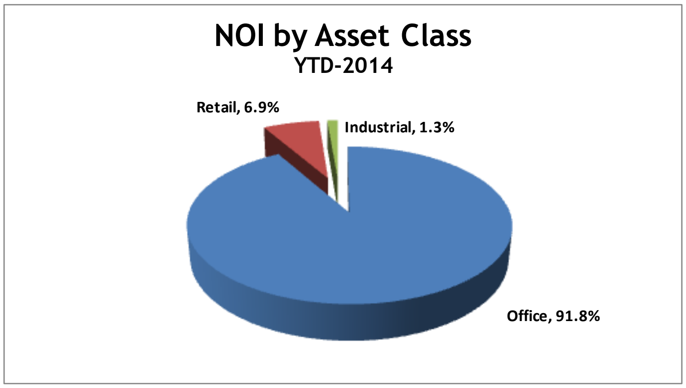
Property Name	City	Type	Occupancy	Average Remaining Lease Term [(1)]	Square Feet
British Columbia					
Coronation Mall	Duncan	Retail	83.7%	5.7 years	51,600
Alberta					
Century Park	Calgary	Office	97.4%	3.0 years	75,700
St. Albert Trail	Edmonton	Office	100%	4.9 years	96,800
Ontario					
520 Exmouth Street	Sarnia	Office	100%	6.9 years	34,700
533 Exmouth Street	Sarnia	Office	100%	3.4 years	15,300
Arvin Avenue	Hamilton	Office	100%	4.5 years	7,000
Brock Road	Pickering	Office	100%	8.2 years	98,900
Carlingview Drive	Toronto	Office	100%	3.1 years	26,800
Crawford Drive	Peterborough	Office	100%	7.3 years	32,500
Dundas Street	London	Office	100%	3.8 years	20,200
Exeter Road	London	Office	76.8%	4.0 years	35,200
Hunter Street	Hamilton	Office	100%	3.6 years	24,400
Innovation Drive	Hamilton	Industrial	100%	8.9 years	45,900
Laurier Avenue	Ottawa	Office	100%	3.2 years	279,100
Maple Grove Road	Ottawa	Office	100%	2.7 years	107,200
Meg Drive	London	Office	100%	5.4 years	11,300
Oakes Avenue	Kirkland Lake	Office	100%	7.3 years	41,000
Queens Avenue	London	Office	100%	6.2 years	19,000
New Brunswick					
Belliveau Avenue	Shediac	Office	100%	7.1 years	42,100
King Street	Fredericton	Office	100%	7.2 years	85,100
410 King George Highway	Miramichi	Office	100%	2.6 years	73,200
Average/Total			98.5%	4.7 years	1,223,000

Notes:

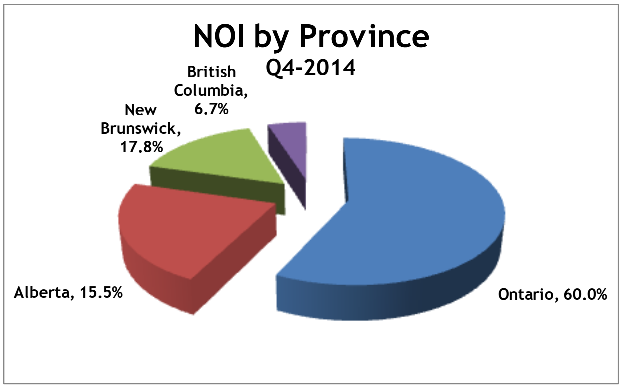
(1) Weighted by expected annualized 2015 gross revenue.

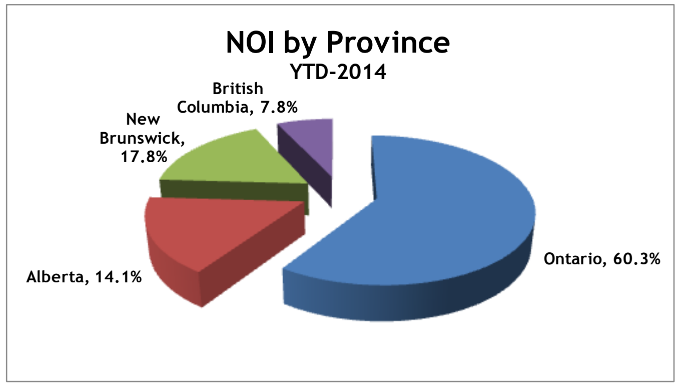
COMPOSITION BY ASSET CLASS





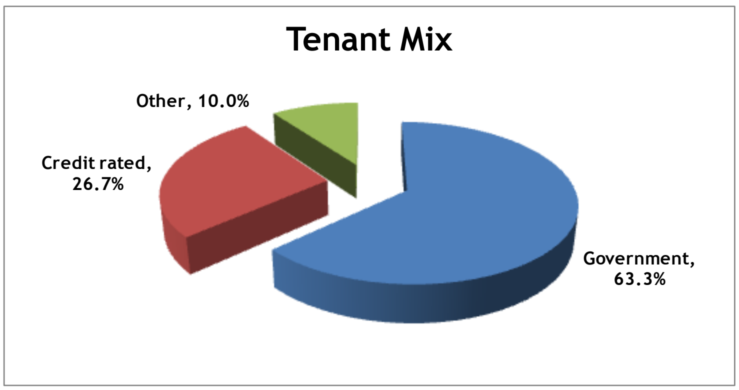
COMPOSITION BY GEOGRAPHIC REGION





TENANT MIX

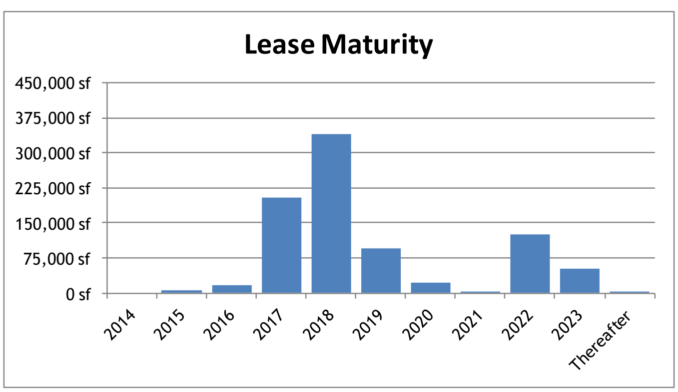
The percentage of revenue generated from tenants that are government institutions, credit-rated or other is as follows:



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

LEASE ROLLOVER PROFILE

As at December 31, 2014 the lease rollover profile of the REIT is as follows:



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

Q4 AND YEAR-END HIGHLIGHTS

Q4 HIGHLIGHTS

- Increased revenue $1,695 or 33% to $6,800 from Q4-2013
- Increased NOI $1,014 or 33% to $4,114 from Q4-2013
- AFFO of $0.15 per Unit and AFFO Normalized of $0.16 per Unit, resulting in a Q4-2014 AFFO Normalized payout ratio of 95%
- Indebtedness to GBV Ratio improved from 59.40% at December 31, 2013 to 59.22% at December 31, 2014
- Industry-leading portfolio occupancy at December 31, 2014 of 98.5%

YEAR-END HIGHLIGHTS

- Increased revenue $6,075 or 35% to $23,321 from YTD-2013
- Increased NOI $3,264 or 30% to $14,042 from YTD-2013
- AFFO of $0.58 per Unit and AFFO Normalized of $0.62 per Unit, resulting in a YTD-2014 AFFO Normalized payout ratio of 96%
- Paid distributions for YTD-2014 and YTD-2013 of $8,251 and $6,506, respectively.

2014 ACQUISITIONS

The REIT acquired fourteen commercial properties during 2014, eleven of which were acquired in Q4-2014.

The following eleven properties were acquired in Q4-2014 for an aggregate purchase price of $83,449 plus closing costs.

Property Name	Acquisition Date	Location	Property Type	Square Feet		Purchase Price
Brock Road	December 18, 2014	ON	Office	98,900	$	22,600
Ontario Portfolio (1)	December 19, 2014	ON	Office	197,900	$	50,049
Single Tenant Portfolio (2)	December 19, 2014	ON	Office	42,700	$	10,800
				339,500	$	83,449

(1) Ontario Portfolio includes Crawford Drive, Oakes Avenue, Dundas Street, Exeter Road, Queens Avenue, 520 Exmouth Street and 529 Exmouth Street properties.

(2) Single Tenant Portfolio includes Hunter Street, Meg Drive and Arvin Avenue properties.

In connection with the acquisition of the Brock Road, Ontario and Single tenant portfolios, the REIT issued:

- 4,440,000 Units at a price of $6.15 per Unit for aggregate gross proceeds of $27,306.
- 151,515 Units pursuant to a private placement to an entity controlled by the REIT's CEO, Daniel Drimmer, at a price of $6.60 per Unit for aggregate gross proceeds of $1,000.
- 833,333 class B limited partnership units of True North Commercial Limited Partnership ("Partnership) ("Class B LP Units") at $6.60 per Class B LP Unit for aggregate proceeds of $5,500.

The net proceeds from the above Unit and Class B LP Units issuances were applied towards the purchase of the properties acquired in Q4-2014.

Details of other acquisitions during 2014 are as follows:

Property Name	Acquisition Date	Location	Property Type	Square Feet	Purchase Price	
Belliveau Avenue	July 31, 2014	Shediac, NB	Office	42,100	$	6,500
Innovation Drive	July 31, 2014	Hamilton, ON	Industrial	45,900	$	4,000
St. Albert Trail	September 15, 2014	Edmonton, AB	Office	96,800	$	24,500

As part of the acquisition of Belliveau Avenue and Innovation Drive, the REIT issued:

- 378,787 Units pursuant to a private placement to an entity controlled by the REIT's CEO, Daniel Drimmer, at a price of $6.60 per Unit for aggregate gross proceeds of $2,500.

The net proceeds from the private placement were applied towards the purchase of the Belliveau Avenue and Innovation Drive properties.

As part of the acquisition of St. Albert Trail, the REIT issued:

- 1,920,917 Units at a price of $6.55 per Unit for aggregate gross proceeds of $12,582.

The net proceeds from the offering were applied towards the purchase of St. Albert Trail on September 15, 2014 and to repay a portion of the REIT's credit facilities.

OTHER INITIATIVES

In addition to its existing $5,000 floating rate credit facility, the REIT secured a second $10,000 floating rate revolving credit facility on March 31, 2014. On January 15, 2015, both credit facilities were renewed at better terms for a further two years, maturing on February 12, 2017.

Construction of a 2,600 square foot development at Coronation Mall was completed at the end of Q3-2014. The stand alone building is fully leased and occupied by Burger King for a fifteen year term.

On December 3, 2014, the TSX approved the renewal of the REIT's Normal Course Issuer Bid ("NCIB") for a further twelve months. For the year ended December 31, 2014, 52,700 Units were repurchased under the NCIB.

In Q4-2014, the REIT successfully completed the early renewal of its 2015 lease renewals.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ending December 31		Year ended December 31	
	2014	2013	2014	2013
Revenue	$6,800	$5,105	$23,321	$17,246
NOI	$4,114	$3,100	$14,042	$10,778
Income and comprehensive income	$740	($6,879)	$12,981	$13,340
FFO	$2,436	$1,586	$8,104	$5,864
FFO per Unit - basic (1)	$0.16	$0.13	$0.60	$0.56
FFO per Unit - diluted (1)	$0.15	$0.13	$0.57	$0.52
AFFO	$2,368	$1,558	$7,817	$5,140
AFFO per Unit - basic (1)	$0.15	$0.13	$0.58	$0.49
AFFO per Unit - diluted (1)	$0.14	$0.12	$0.55	$0.46
AFFO payout ratio - basic	99%	114%	102%	122%
AFFO - Normalized (2)	$2,451	$1,787	$8,336	$6,337
AFFO Normalized per Unit - basic (1)	$0.16	$0.15	$0.62	$0.60
AFFO Normalized per Unit - diluted (1)	$0.15	$0.14	$0.59	$0.56
AFFO Normalized payout ratio - basic	95%	99%	96%	99%
Units outstanding for FFO, AFFO and AFFO Normalized per Unit:				
Weighted average (000s) – basic (1)	15,677	11,840	13,471	10,511
Add: Unexercised unit options and warrants	659	759	703	729
Weighted average (000s) – diluted (1)	16,336	12,599	14,174	11,240

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 and Warrants.

(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 during 2014 resulting in increased revenue, NOI, FFO and AFFO. Q4-2014 revenue increased $1,695 or 33% compared to Q4-2013. NOI increased $1,014 or 33% compared to Q4-2013. FFO increased $851 or 54% compared to Q4-2013. AFFO increased $810 or 52% compared to Q4-2013. Q4-2014 AFFO Normalized payout ratio decreased to 95% from 99% in Q4-2013. YTD-2014 AFFO Normalized payout ratio also decreased to 96% from 99% for YTD-2013.

Q4-2014 same property NOI remained stable when compared to Q4-2013. YTD-2014 same property NOI decreased when compared to YTD-2013 due to a decrease in occupancy from 96.9% at the end of Q4-2013 to 83.7% at the end of Q4-2014 for Coronation Mall. In Q4-2014 the increased vacancy at Coronation Mall was offset by improved operating results from the remaining same store properties.

FFO and AFFO per Unit results have experienced a temporary impact due to the timing of the issuance of the Units associated with the public offering, private placement and the closing of the acquisitions during Q4-2014. Full operational benefit from the most recent acquisitions will be reflected in the REIT's results commencing in first quarter of 2015.

QUARTERLY INFORMATION

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

	Q4-14 (1)	Q3-14 (2)	Q2-14	Q1-14	Q4-13 (3)	Q3-13	Q2-13	Q1-13 (4)
Revenue	$ 6,800	$ 5,606	$ 5,283	$ 5,632	$5,105	$4,881	$4,774	$ 2,486
Property operating costs	2,686	2,167	2,026	2,400	2,005	1,874	1,786	803
NOI	4,114	3,439	3,257	3,232	3,100	3,007	2,988	1,683
General and administration expenses	(262)	(289)	(572)	(518)	(603)	(400)	(610)	(398)
Finance costs	(1,562)	(1,083)	(1,146)	(1,393)	(1,140)	(1,038)	220	(1,159)
Distributions on Class B LP Units	(425)	(385)	(385)	(384)	(362)	(317)	(317)	(375)
Fair value adjustment of Class B LP Units	1,743	1,088	(2,719)	388	487	533	2,241	214
Fair value adjustment of investment properties	(2,868)	1,898	3,944	3,869	(8,361)	989	16,349	(3,391)
Income (loss) and comprehensive income (loss) for the period	$ 740	$ 4,668	$ 2,379	$ 5,194	$(6,879)	$ 2,774	$20,871	$(3,426)
FFO per Unit - basic	$ 0.16	$ 0.15	$ 0.15	$ 0.14	$ 0.13	$ 0.16	$ 0.14	$ 0.13
AFFO Normalized per Unit - basic	$ 0.16	$ 0.15	$ 0.16	$ 0.16	$ 0.15	$ 0.16	$ 0.15	$ 0.13
AFFO Normalized payout ratio - basic	95%	98%	95%	94%	99%	91%	97%	110%

Notes:

(1) The REIT acquired eleven properties during Q4-2014.

(2) The REIT acquired three properties during Q3-2014.

(3) The REIT acquired one property during Q4-2013.

(4) The REIT acquired five properties during Q1-2013.

Revenue increased in Q4-2014 by $1,194 or 21% from Q3-2014. NOI increased in Q4-2014 by $675 or 20% compared to Q3-2014. The REIT has actively acquired properties during the latter half of Q3-2014 and Q4-2014 resulting in increased revenue and NOI from Q3-2014.

	December 31 2014	December 31 2013
GBV	$319,618	$184,890
Indebtedness	$189,264	$109,818
Indebtedness to GBV	59.22%	59.40%
Weighted average mortgage fixed interest rate (1)	3.44%	3.53%
Weighted average mortgage term to maturity	4.32 years	4.21 years

Notes:

(1) After giving effect to instalment note receipts.

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

The REIT's Indebtedness to GBV Ratio as at December 31, 2014 decreased to 59.22% from 59.40% as at December 31, 2013.

ANALYSIS OF FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the three months and years ended December 31, 2014 and 2013 are summarized below.

	Three months ending December 31		Year ended December 31	
	2014	2013	2014	2013
Revenue	$ 6,800	$ 5,105	$ 23,321	$ 17,246
Expenses:				
Property operating costs	1,543	1,186	5,122	3,702
Realty taxes	1,143	819	4,157	2,766
	2,686	2,005	9,279	6,468
NOI	$ 4,114	$ 3,100	$ 14,042	$ 10,778
General and administration expenses	(262)	(603)	(1,641)	(2,011)
Finance costs	(1,562)	(1,140)	(5,184)	(3,117)
Distributions on Class B LP Units	(425)	(362)	(1,579)	(1,371)
Fair value adjustment of Class B LP Units	1,743	487	500	3,475
Fair value adjustment of investment properties	(2,868)	(8,361)	6,843	5,586
Income (loss) and comprehensive income (loss)	$ 740	$ (6,879)	$ 12,981	$ 13,340

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.

The REIT accounts for rent step-ups and free rent periods by straight-lining the incremental increases and free rent periods over the entire non-cancelable lease term. In Q4-2014, straight-line rent adjustments of $79 (YTD-2014 - $254) were recognized compared to $25 in Q4-2013 (YTD-2013 - $714).

Q4-2014 revenue increased $1,695 or 33% compared to Q4-2013 results (YTD-2014 - $6,075 or 35%). Property acquisitions completed in the latter half of 2014 account for the majority of the increase both in quarterly and year to date revenue. Revenue from same store properties contributed an increase of approximately $200 for Q4-2014 due to increased recoveries from certain tenants as a result of higher operating and realty taxes at certain of the REIT's properties.

Property operating costs include costs relating to building maintenance, heating, ventilation and air-conditioning, elevator, insurance, utilities, management fees and other operational costs. Q4-2014 operating costs increased $357 or 30% compared to Q4-2013 results (YTD-2014 - $1,420 or 38%). Property acquisitions completed in the latter half of 2014 account for the majority of the increase in quarterly and year to date operating costs. Operating costs incurred by same store properties contributed an increase of approximately $76 for the quarter.

Realty taxes increased $324 or 40% compared to Q4-2013 (YTD-2014 - $1,391 or 50%). This is due to an overall increase in realty taxes as a result of higher property assessment values in 2014 for certain of the REIT's properties as well as the addition of fourteen properties acquired in the latter half of 2014.

Occupancy for the property portfolio decreased slightly year over year to 98.5% and reflects the acquisition of the eleven properties in December 2014 which had an average occupancy of 97.6%.

SAME PROPERTY ANALYSIS

Same property operations analysis highlights differences due to changes in occupancy, rental rates and property expenses.

Year ended same property analysis represents the operations of one property, Coronation Mall, which was acquired on December 14, 2012.

	Three months ending December 31		Year ended December 31	
	2014	2013	2014	2013
Revenue	$ 5,026	$ 4,824	$ 1,474	$ 1,558
Expenses:				
Property operating	1,262	1,131	200	180
Realty taxes	836	760	301	276
	2,098	1,891	501	456
NOI	$ 2,928	$ 2,933	$ 973	$ 1,102

Revenue increased $202 from Q4-2013 to Q4-2014 due to the increase in amount of expenses recoverable from tenants. Property operating costs increased $131 from Q4-2013 to Q4-2014 due to increased utilities and repairs and maintenance at certain of the REIT's properties.

The Q4-2014 increase in realty taxes of $76 quarter over quarter is a result of higher assessed values at certain of the REIT's properties.

Year to date NOI decreased $129 from YTD-2013 due to a decrease in occupancy from 96.9% at the end of Q4-2013 to 83.7% at the end of Q4-2014 for Coronation Mall.

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 Investments Ltd. ("Starlight"). See "Related Party Transactions and Arrangements – Arrangements with Starlight".

General and administration expenses in Q4-2014 were $262 compared to $603 in Q4–2013. Q4-2014 expenses remained consistent with Q3-2014.

YTD-2014 general and administration expenses were $1,641 compared to $2,011 for YTD-2013 and are significantly lower due to reduced audit and legal fees. In addition, due diligence costs of $171 relating to acquisitions the REIT is no longer pursuing were incurred in Q4-2013.

FINANCE COSTS

The REIT's finance costs for the three months and years ended December 31, 2014 and 2013 are summarized below. Finance costs exclude both distributions and fair value adjustments on the Class B LP Units.

	Three months ending December 31		Year ended December 31	
	2014	2013	2014	2013
Interest on mortgages payable	$ 1,237	$ 906	$ 4,134	3,101
Other interest expense and standby fees	39	13	150	22
Amortization of mortgage discount	12	-	18	-
Amortization of financing costs	97	45	297	153
	1,385	964	4,599	3,276
Unrealized loss/(gain) on change in fair value of derivative instrument	177	176	585	(159)
Total finance costs	$ 1,562	$ 1,140	$ 5,184	$ 3,117

Interest on mortgages payable of $1,237 in Q4-2014 increased $331 compared to Q4-2013 ($1,033 year over year), due to additional mortgage financing obtained in connection with the acquisitions of the fourteen properties completed in the latter half of 2014.

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

The REIT entered into an interest rate swap agreement on the Laurier Property resulting in a mortgage that has an effective annual fixed interest rate of 3.39%. This derivative instrument is measured at fair value at each reporting date. 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 $425 for Q4-2014 (YTD-2014 - $1,579) compared to $362 for Q4-2013 (YTD-2013 - $1,371).

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 trading price of the Units was $6.00 at December 31, 2014 and 2013. The fair value change of $500 for YTD-2014 represents the increase in the number of Class B LP Units outstanding year over year.

FAIR VALUE ADJUSTMENT OF INVESTMENT PROPERTIES

The REIT has selected the fair value method to account for real estate classified as investment property and records properties at their purchase price (less any purchase price adjustments) in the quarter of acquisition. Any changes in the fair value of investment properties are recognized as fair value gains and losses in the statement of income and comprehensive income in the quarter in which they occur.

The REIT calculates fair value using both the discounted cash flow method and direct capitalization method which are generally accepted appraisal methodologies. Fair value is based on, among other things, assumptions of future cash flows in respect of current and future leases, capitalization rates, terminal capitalization rates, discount rates, market rents, tenant inducements and leasing cost assumptions and expected lease rollovers. Fair values are supported by a combination of internal financial information, market data and external independent valuations.

The fair value loss of $2,868 for Q4-2014 and gain of $6,843 for YTD-2014 is attributable to capitalization rate changes, changes in market rent assumptions and changes in lease renewal probabilities of certain properties owned by the REIT offset by the write off of $3,235 in acquisition costs related to the fourteen properties acquired during the year.

The key valuation assumptions for the REIT's investment properties as at December 31, 2014 and 2013 are as follows:

	December 31 2014	December 31 2013
Terminal and direct capitalization rates - range	6.00% - 11.02%	6.34% - 11.60%
Terminal and direct capitalization rate - weighted average	7.22%	7.02%
Discount rates - range	7.25% - 10.50%	7.15% - 10.50%
Discount rate - weighted average	7.85%	7.53%

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 ending December 31		Year ended December 31	
	2014	2013	2014	2013
Income (loss) and comprehensive income (loss)	$ 740	$ (6,879)	$ 12,981	$ 13,340
Add / (deduct):				
Revaluation of unit options and warrants [1]	(36)	53	297	373
Fair value adjustment of investment properties	2,868	8,361	(6,843)	(5,586)
Fair value adjustment of Class B LP Units	(1,743)	(487)	(500)	(3,475)
Distributions on Class B LP Units	425	362	1,579	1,371
Unrealized loss/(gain) on change in fair value of derivative instrument	177	176	585	(159)
Amortization of leasing commissions	3	-	3	-
Tenant inducements amortized to revenue	2	-	2	-
FFO	$ 2,436	$ 1,586	$ 8,104	$ 5,864
FFO per Unit - basic [2]	$0.16	$0.13	$0.60	$0.56
FFO per Unit - diluted [2]	$0.15	$0.13	$0.57	$0.52
Weighted average Units outstanding:				
Basic - (000s) [2]	15,677	11,840	13,471	10,511
Add: Unexercised Unit Options and Warrants	659	759	703	729
Diluted - (000s) [2]	16,336	12,599	14,174	11,240

Notes:

(1) Unit options and warrants are treated as a financial liability and are remeasured to fair value at each reporting date.

(2) 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 and Warrants.

FFO increased $850 or 54% compared to Q4-2013 ($2,240 or 38% compared to YTD-2013). FFO per Unit increased to $0.16 compared to $0.13 in Q4-2013 and increased to $0.60 compared to $0.56 for YTD-2013. The increase in quarterly and year to date FFO and FFO per Unit is primarily attributable to the fourteen properties acquired in the latter half of 2014.

AFFO AND AFFO - NORMALIZED

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

	Three months ending December 31		Year ended December 31	
	2014	2013	2014	2013
FFO	$ 2,436	$ 1,586	$ 8,104	$ 5,864
Add / (deduct):				
Non-cash compensation expense (1)	30	25	106	101
Amortization of deferred financing costs	97	46	297	153
Amortization of mark to market mortgage adjustments	12	-	18	-
Instalment note receipts	13	-	13	-
Straight-line rent	(79)	(25)	(254)	(714)
Capital reserve (2)	(141)	(74)	(467)	(264)
AFFO	$ 2,368	$ 1,558	$ 7,817	$ 5,140
AFFO per Unit - basic (3)	$0.15	$0.13	$0.58	$0.49
AFFO per Unit - diluted (3)	$0.14	$0.12	$0.55	$0.46
Distributions declared (4)	$ 2,475	$ 1,779	$ 8,251	$ 6,506
AFFO payout ratio - basic	99%	114%	102%	122%
AFFO	$ 2,368	$ 1,558	$ 7,817	$ 5,140
Add / (Deduct):				
Due diligence acquisition costs	-	171	175	272
Graduation costs	-	-	-	172
Rental income related to purchase price adjustments	83	58	344	753
AFFO - Normalized	$ 2,451	$ 1,787	$ 8,336	$ 6,337
AFFO Normalized per Unit - basic (3)	$0.16	$0.15	$0.62	$0.60
AFFO Normalized per Unit - diluted (3)	$0.15	$0.14	$0.59	$0.56
AFFO Normalized payout ratio - basic	95%	99%	96%	99%

Notes:

(1) Non-cash compensation expense includes certain trustee fees.

(2) Based on an estimate of $0.60 (2013 - $0.45) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

(3) 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 and warrants.

(4) Distributions declared YTD-2013 represents the period from December 14, 2012 to December 31, 2013.

The REIT has experienced strong growth in revenue, NOI, FFO and AFFO during Q4-2014 as well as during the year. FFO and AFFO per Unit results have experienced a temporary impact due to the timing of the issuance of the Units associated with the public offering and private placement and the closing of the acquisitions during Q4-2014. Full operational benefit from the most recent acquisitions will be reflected in the REIT's results commencing in Q1-2015.

AFFO Normalized increased $664 or 37% compared to Q4-2013, and reflects the add back of the following adjustments to AFFO:

- Rental income recognized as purchase price adjustments under IFRS upon acquisition of $83 in Q4-2014 and $58 in Q4-2013. The rental income relates to rent free periods for various tenants for which the REIT received funds as part of the acquisition;
- Due diligence acquisition costs of nil for Q4-2014 and $171 for Q4-2013, relate to potential property acquisitions the REIT is no longer pursuing.

AFFO Normalized increased $1,999 or 32% compared to YTD-2013, and reflects the add back of the following adjustments to AFFO:

- Rental income recognized as purchase price adjustments under IFRS upon acquisition of $344 for YTD-2014 and $753 for YTD-2013;
- Due diligence acquisition costs of $175 for YTD-2014 and $272 for YTD-2013; and
- One-time costs of $172 in YTD-2013 associated with the graduation of the REIT to the TSX.

Reconciliation of adjusted cash provided by operating activities to AFFO for the three months and years ended December 31, 2014 and 2013 are detailed below:

	Three months ending December 31		Year ended December 31	
	2014	2013	2014	2013
Adjusted cash flow provided by operating activities	3,076	3,235	7,884	5,897
Non-cash compensation expense	5	-	13	-
Change in finance costs payable	(175)	69	(212)	(263)
Instalment note receipts	13	-	13	-
Capital reserve (1)	(141)	(74)	(467)	(264)
Change in non-cash operating working capital (2)	(410)	(1,672)	586	(230)
AFFO	2,368	1,558	7,817	5,140

Notes:

(1) Based on an estimate of $0.60 (2013 - $0.45) 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.

ANALYSIS OF FINANCIAL POSITION

INVESTMENT PROPERTIES

The following table summarizes changes in the REIT's investment properties for the years ended December 31, 2014 and 2013:

	Investment Properties	Properties Under Development	Total
Balance at December 31, 2012	$ 14,554	$ -	$ 14,554
Acquisitions	157,256	-	157,256
Additions	1,516	45	1,561
Straight-line rent adjustment	714	-	714
Fair value adjustment	5,586	-	5,586
Balance at December 31, 2013	179,626	45	179,671
Acquisitions	120,372		120,372
Additions	3,153	1,192	4,345
Reclassification of properties under development	1,237	(1,237)	-
Amortization of leasing costs, tenant inducements and straight-line rents	249		249
Fair value adjustment	6,843		6,843
Balance at December 31, 2014	**$ 311,480**	**$ -**	**$ 311,480**

ACQUISITIONS:

During 2014, the REIT acquired fourteen properties of which eleven were completed in December 2014. The REIT funded its acquisitions from cash on hand, public offerings, private placements, and from the proceeds of new mortgage financing and vendor take back mortgages. All acquisitions have been accounted for as asset acquisitions.

ADDITIONS:

Additions to investment properties for the year ended December 31, 2014 were $4,345 consisting of the following:

- Capital expenditures of $2,658 of which $2,472 relates to building enhancements and leasehold improvements at the Laurier Property;
- Tenant inducements and leasing costs of $495 which include costs incurred to improve space that primarily benefit the tenant, as well as allowances paid to tenants; and
- Construction costs of $1,192 related to the development at Coronation Mall which was re-classified to investment properties.

INSTALMENT NOTES RECEIVABLE

In connection with the acquisition of the Ontario Portfolio, certain of 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 scheduled principal and imputed interest receipts on the instalment notes are as follows:

	Principal receipts	Imputed interest receipts
2015	$ 328	$ 11
2016	308	30
2017	212	35
2018	151	36
2019	134	42
Thereafter	459	282
	$ 1,592	$ 436

The instalment notes are secured by 833,333 Class B LP Units issued to certain of the vendors of the Ontario Portfolio.

PREPAID EXPENSES AND OTHER ASSETS

At December 31, 2014, the REIT had $821 in prepaid expenses and other assets, compared to $254 at December 31, 2013. This is primarily due to an increase in prepaid realty taxes.

LIABILITIES

As at December 31, 2014, the overall leverage, as represented by the ratio of Indebtedness to GBV was 59.22% compared to 59.40% at December 31, 2013. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT's Indebtedness to GBV Ratio as at December 31, 2014 and 2013.

		December 31 2014		December 31 2013
Total assets	$	317,967	$	184,466
Deferred financing costs		1,651		883
Derivative instrument		-		(459)
GBV	$	319,618	$	184,890
Mortgages and notes payable		187,290		107,689
Credit facilities (net of $27 unamortized financing costs)		1,473		1,400
Unamortized financing costs and mark to market mortgage adjustments		501		729
Indebtedness	$	189,264	$	109,818
Indebtedness to GBV		59.22%		59.40%

The REIT's objectives are to maintain a combination of short, medium and long-term debt maturities appropriate for the overall debt level of the REIT, to extend the current weighted average term to maturity and achieve staggered debt maturities while taking into account the availability of financing, market conditions and the financial characteristics of each property. Per the DOT, at no time shall the REIT incur debt aggregating more than 20% of GBV at floating interest rates or having maturities less than one year (excluding debt with an original maturity of one year or more falling due in the next 12 months or variable rate debt for which the REIT has entered into interest rate swap agreements to fix the interest rate for a one year period or more).

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

As at December 31, 2014, 1% (December 31, 2013 – 1%) of the REIT's debt was at floating rates.

MORTGAGES AND NOTES PAYABLE

The following table sets out, as at December 31, 2014, scheduled principal repayments and amounts maturing on the REIT's mortgages over each of the next five fiscal years:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Scheduled interest payments	Percentage of total mortgages payable
2015	$ 5,247	$ -	$ 5,247	$ 6,647	2.79%
2016	5,547	765	6,312	6,494	3.36%
2017	5,392	21,248	26,640	5,938	14.19%
2018	2,950	85,594	88,544	3,300	47.16%
2019	2,061	20,474	22,535	2,039	12.00%
Thereafter	4,486	34,000	38,486	3,410	20.50%
	$ 25,683	$ 162,081	187,764	$ 27,828	100.00%
Unamortized mark to market mortgage adjustments			700		
Unamortized financing costs			(1,174)		
			$ 187,290		

The mortgages carry a weighted average fixed interest rate of 3.44% (December 31, 2013 – 3.53%), after giving effect to the instalment notes receipts and a weighted average term to maturity of 4.32 years (December 31, 2013 – 4.21 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, matures on February 12, 2017 and is secured by a first charge on the 410 King George Highway Property. As at December 31, 2014, $1,500 (December 31, 2013 - $1,400) 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 $1,000 at 250 basis points per annum over the floating banker's acceptance rate or under $1,000 at 150 basis points over prime rate, and also matures on February 12, 2017. As at December 31, 2014, nil (December 31, 2013 – nil) was drawn on this credit facility.

Both credit facilities are secured by the 410 King George Highway and 340 Laurier Avenue properties.

CONTRACTUAL MATURITIES

The contractual maturities and repayment obligations of the REIT's financial liabilities excluding Class B LP units as at December 31, 2014 are as follows:

	2015	2016	2017	2018	2019 +	Total
Mortgages and notes payable	$ 5,247	$ 6,312	$ 26,640	$ 88,545	$ 61,020	$ 187,764
Interest	6,647	6,494	5,938	3,300	5,449	27,828
Credit facilities	1,500	-	-	-	-	1,500
Tenant rental deposits	1,243	-	-	-	-	1,243
Accounts payable and accrued liabilities	4,641	-	-	-	-	4,641
	$ 19,278	$ 12,806	$ 32,578	$ 91,845	$ 66,469	$ 222,976

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

Each Class B LP Unit entitles the holder to receive distributions from the Partnership equivalent to the distributions such holder would have received if they were holding Units.

As at December 31, 2014 there were 3,422,247 Class B LP Units issued valued at $20,533 compared to 2,588,914 Class B LP Units issued valued at $15,533 as at December 31, 2013.

UNITHOLDERS' EQUITY

OUTSTANDING UNITS

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

The following table summarizes changes in the Unit capital of the REIT for the year ended December 31, 2014:

	Units		Amount
Balance, December 31, 2013	9,711,344		60,074
Issuance of Units	6,891,219		43,388
Issuance of Units under distribution reinvestment plan ("DRIP")	249,522		1,520
Issuance of Units under the non-executive trustee unit issuance plan	18,582		115
Issuance of Units from warrants exercised	11,903		74
Issuance of Units from unit options exercised	60,416		374
Units repurchased and cancelled under NCIB	(52,700)		(322)
Issuance costs	-		(3,409)
Balance, December 31, 2014	16,890,286	$	101,814

The number of Units outstanding as of March 11, 2015 is 16,905,785.

DISTRIBUTIONS

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

The Trustees of the REIT 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 December 31 2014	Year ended December 31 2014	Year ended December 31 2013	Period from July 13, 2012 to December 31, 2012 (1)
Distributions declared	$ 2,475	$ 8,251	$ 6,506	-
Less: DRIP	(376)	(1,520)	(1,408)	n/a
Cash distributions paid	$ 2,099	$ 6,731	$ 5,098	n/a

Notes:
(1) There were no distributions paid or DRIP Units issued during the period from July 13, 2012 to December 31, 2012.

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

	Three months ended December 31 2014	Year ended December 31 2014	Year ended December 31 2013	Period from July 13, 2012 to December 31, 2012
Cash flow provided by operating activities	$ 4,177	$ 11,956	$ 8,757	$ (75)
Less: Interest paid	(1,101)	(4,072)	(2,860)	(33)
Adjusted cash flow provided by operating activities	3,076	7,884	5,897	(108)
Income (loss) and comprehensive income (loss)	740	12,981	13,340	(13,783)
Declared basis:				
Excess (shortfall) of adjusted cash flow from operating activities over distributions	601	(367)	(609)	n/a (1)
Excess (shortfall) of income and comprehensive income over distributions	(1,735)	4,730	6,834	n/a (1)
Cash basis:				
Excess of adjusted cash flow from operating activities over cash distributions	977	1,153	799	n/a (1)
Excess of income and comprehensive income over cash distributions	(1,359)	6,250	8,242	n/a (1)

Notes:
(1) There were no distributions paid or Units issued under DRIP during the period from July 13, 2012 to December 31, 2012.

Adjusted cash flow provided by operating activities of $3,076 exceeded cash distributions of $2,099 by $601 for Q4-2014 (YTD-2014 – ($367)). While the REIT did have a minor shortfall for the year ended December 31, 2014 on a declared basis, on a cash basis, adjusted cash flow provided by operating activities exceeded distributions paid by $977 for Q4-2014 and by $1,153 YTD-2014. The REIT has not been required to fund distributions from alternate sources such as debt, mortgages and other financing instruments.

Comparative data for the period from July 13, 2012 to December 31, 2012 does not provide a useful comparable measure since property operations did not commence until December 14, 2012. There were no distributions paid or Units issued under the DRIP during the period from July 13, 2012 to December 31, 2012.

NORMAL COURSE ISSUER BID

On December 3, 2014, the REIT renewed the 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. As at December 31, 2014, 52,700 (December 31, 2013 – nil) Units had been repurchased under the NCIB.

SHORT FORM BASE SHELF PROSPECTUS

Under the REIT's short form base shelf prospectus, the REIT has the ability to offer and issue securities having an offer price of up to $200,000 in aggregate. As at December 31, 2014, 6,360,917 (December 31, 2013 – nil) Units were issued under the short from base shelf prospectus at a price ranging from of $6.15 to $6.55 per Unit for aggregate gross proceeds of approximately $39,888.

UNIT OPTIONS

The total number of Units reserved under the REIT's Unit-based compensation plan may not exceed 10% of the Units and Class B LP Units outstanding. Options outstanding at December 31, 2014 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	142,496	February 12, 2018
$6.43	658,751	259,157	

(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 net 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 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 ending December 31		Year ended December 31	
	2014	2013	2014	2013
Cash provided by operating activities	$ 4,177	$ 4,231	$ 11,956	$ 8,757
Cash used in investing activities	(56,351)	(14,771)	(94,113)	(153,796)
Cash provided by financing activities	53,339	11,461	82,511	145,964
Increase in cash and cash equivalents	1,165	921	354	925
Cash and cash equivalents, beginning of period	1,021	911	1,832	907
Cash and cash equivalents, end of period	$ 2,186	$ 1,832	$ 2,186	$ 1,832

In Q4-2014, the REIT generated $4,177 of cash flow from operating activities compared to $4,231 in Q4-2013. Increased operating income of $1,014 from the acquisitions acquired during the latter half of 2014 contributed to an increase in cash flow from operating activities which was offset by $1,266 due to changes in accounts payable, rental deposits, prepaids and tenant receivables.

Cash used in investing activities in Q4-2014 of $56,351 relates primarily to the acquisition of eleven properties during the quarter.

Cash provided by financing activities in Q4-2014 of $53,339 (Q4-2013 – $11,461) is comprised of proceeds from new mortgage financing of $30,450 (Q4-2013 - $11,805) and from the issuance of Units of $26,203 (Q4-2013 - $2,161). These increases were offset by principal mortgage payments, interest payments, and distributions to Unitholders in the period.

The REIT generated $11,956 of cash flow from operating activities for YTD-2014 compared to $8,757 for YTD-2013. Cash used in investing activities was $94,113 for YTD-2014 compared to $153,796 for YTD-2013. In 2014, acquisitions accounted for $89,825 as fourteen properties were purchased compared to six properties in 2013 for $152,348. Cash provided by financing activities was $82,511 for YTD-2014 compared to $145,964 for YTD-2013, primarily made up of proceeds from new mortgage financing in relation to the acquisitions of $55,953 for YTD-2014 compared to $98,328 for YTD-2013; and proceeds from the issuance of Units of $40,363 for YTD-2014 compared to $56,189 for YTD-2013.

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 available credit facilities. For the three months and year ended December 31, 2014, the REIT invested $1,017 and $4,345, (December 31, 2013 - $599 and $1,561) respectively, in capital and leasing expenditures.

COMMITMENTS AND CONTINGENCIES

From time to time in the normal course of business, the REIT is involved in litigation and claims in relation to its investment properties. In the opinion of management, none of these, individually or in aggregate, could result in a liability that would have a significant adverse effect on the financial position of the REIT. The REIT has agreed to indemnify, in certain circumstances, the Trustees and officers of the REIT.

The REIT has entered into commitments for building enhancements which at December 31, 2014 and December 31, 2013 were $562 and $nil, respectively.

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Starlight is considered a related party to the REIT as Starlight is controlled by the Chairman of the Board 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 months and year ended December 31, 2014 and 2013:

	Three months ending December 31		Year ended December 31	
	2014	2013	2014	2013
Asset management fees	$ 202	$ 150	$ 680	$ 508
Acquisition fees	788	128	1,138	1,463

Of these amounts, $77 (December 31, 2013 - $53) is included in accounts payable and accrued liabilities at December 31, 2014. No incentive fees, capital expenditure fees or out of pocket costs were charged for the three months and year ended December 31, 2014 or 2013.

OTHER:

On July 31, 2014, the REIT acquired 295 Belliveau Avenue from an entity under the same common ownership as Starlight and contemporaneously issued 378,787 Units pursuant to a private placement to the same entity at a price of $6.60 per Unit for aggregate gross proceeds of $2,500.

On December 18, 2014, the REIT issued 151,515 Units pursuant to a private placement to an entity under the same common ownership as Starlight at a price of $6.60 per Unit for aggregate gross proceeds of $1,000.

On February 12, 2013, the REIT acquired 400 Carlingview Drive from an entity under the same common ownership as Starlight.

RISKS AND UNCERTAINTIES

RISKS RELATED TO THE REAL ESTATE INDUSTRY:

REAL PROPERTY OWNERSHIP AND TENANT RISKS

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

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

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

FLUCTUATIONS IN CAPITALIZATION RATES

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

ENVIRONMENTAL MATTERS

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

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

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

COMPETITION

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

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

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

ILLIQUIDITY OF REAL ESTATE INVESTMENTS

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

INTEREST RATE RISK

The REIT may be subject to higher interest rates in the future, given the current economic climate. The REIT may also be unable to renew its maturing debt either with an existing or a new lender, and if it's able to renew its maturing debt, significantly lower loan-to-value ratios may be used. The REIT will seek to manage this risk by negotiating fixed interest rates where possible. At no time will the REIT incur debt aggregating more than 20% of gross book value of the REIT (excluding debt with an original maturity of one year or more falling due in the next 12 months or variable rate debt for which the REIT has entered into interest rate swap agreements to fix the interest rate for a one year period or more) at floating interest rates or having maturities less than one year.

UNINSURED LOSSES

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

CREDIT RISK AND TENANT CONCENTRATION

The REIT is exposed to risk as tenants may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties across several asset classes. As well, management seeks to acquire properties with strong tenant covenants in place. The REIT's portfolio includes over 50 tenant leases with a weighted-average term to maturity of approximately 4.7 years. Approximately 90% of the REIT's portfolio was occupied by government and other credit-rated entities based on expected annualized 2015 gross revenue.

RISKS RELATED TO THE REIT AND ITS BUSINESS:

ACQUISITIONS

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

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

ACCESS TO CAPITAL AND FINANCING RISK

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

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

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

As at December 31, 2014, 1% (December 31, 2013 – 1%) of the REIT's debt was at floating rates.

POTENTIAL CONFLICTS OF INTEREST WITH TRUSTEES

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

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

LITIGATION RISKS

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

TAXATION MATTERS

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

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

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

Unless the REIT qualifies for the REIT Exception, the SIFT Rules could impact the level of cash distributions which would otherwise be made by the REIT and the taxation of such distributions to Unitholders. Management of the REIT has determined that the REIT is not subject to the SIFT tax as it meets the REIT Exception for 2014 and subsequent years.

If the REIT were to no longer qualify for the REIT Exception, it would not be able to flow through its taxable income to Unitholders and the REIT would therefore be subject to tax. The REIT Exception is applied on an annual basis. As such, it will not be possible to determine if the REIT will satisfy the conditions of the REIT Exception for 2014 or any subsequent year until the end of the particular year.

SIGNIFICANT OWNERSHIP BY STARLIGHT

As of the date hereof, Daniel Drimmer and his Affiliates held an approximate 18.21% effective interest in the REIT through ownership of Units and LP Units (excluding unexercised Options). For so long as Starlight maintains a significant effective interest in the REIT, Starlight benefits from certain contractual rights regarding the REIT and Starlight has the ability to exercise influence with respect to the affairs of the REIT and significantly affect the outcome of Unitholder votes, including the ability to prevent certain fundamental transactions, and may discourage transactions involving a change of control of the REIT, including transactions in which an investor might otherwise receive a premium for its Units over the then current market price. The Units may also be less liquid and worth less than they would if Starlight did not have the ability to influence matters affecting the REIT.

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

DEPENDENCE ON STARLIGHT

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

CONTROLS OVER FINANCIAL REPORTING

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

Because of the inherent limitations in all control systems, including well-designed and operated systems, no control system can provide complete assurance that the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. These inherent limitations include the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors.

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

RISKS RELATED TO THE UNITS:

VOLATILE MARKET PRICE FOR THE REIT'S SECURITIES

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

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

RETURN ON INVESTMENT ON UNITS NOT GUARANTEED

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

DISTRIBUTIONS

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

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

DILUTION OF UNITS

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

UNITHOLDER LIABILITY

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

NATURE OF INVESTMENT IN UNITS

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

USE OF ESTIMATES

The preparation of the REIT’s consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties management believes will materially affect the methodology or assumptions utilized in making those estimates in its audited consolidated financial statements.

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

INVESTMENT PROPERTIES

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

UNIT OPTION PLAN

The estimates used when determining the fair value of the unit option plan are the average expected unit option holding period, the average expected volatility rate, and the average risk-free interest rate. The average expected unit option holding period used is estimated as half the life of the respective option agreement applied to that unit option upon vesting. The average expected volatility rate applied is estimated based on the historical volatility of the Units 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, finance costs payable and distributions payable, approximate their recorded values due to their short-term nature at the date of the consolidated statement of financial position.

The fair value of mortgages payable is estimated based on the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable was approximately $191,200 at December 31, 2014 (December 31, 2013 - $107,900).

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

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

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

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

The following are new standards, amendments to standards and interpretations that have been issued but not yet effective for the year ended December 31, 2014 and, accordingly, have not been applied in preparing the consolidated financial statements.

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

IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS ("IFRS 15"):

IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017, and is to be applied retrospectively. Early adoption is permitted.

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

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

On July 24, 2014, the IASB issued IFRS 9, 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 on its consolidated financial statements.

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

The CEO and CFO 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 year ended December 31, 2014.

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 year ended December 31, 2014.

SUBSEQUENT EVENTS

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

On January 15, 2015, both Credit Facilities were renewed for an additional two years and mature on February 12, 2017.

On March 11, 2015, the REIT announced it has agreed to acquire an office property for an aggregate purchase price of $5,900 plus closing costs. The purchase price is expected to be satisfied by a new mortgage of $4,130 and the remainder funded through the REIT's credit facilities. The acquisition is expected to close on March 25, 2015.

OUTLOOK

On January 21, 2015, the Bank of Canada ("BOC") made an unexpected cut to its overnight rate to .75% from 1.0%. This was in response to and an effort by the BOC to cushion the economy from the recent decline in oil prices. Consensus amongst economists is that a further 25 basis point cut may be forth coming given the expectations are that oil prices will continue to remain low for the foreseeable future.

In addition, the BOC and other economists have significantly revised their inflation and growth expectations for 2015. The Consumer Price Index is expected to fall to as low as 0.3% in Q2 2015 before a recovery to 1.2% in Q4. Real GDP growth has been revised downward from 2.4% to 2.1% for 2015 but has been adjusted higher for 2016 from 2.3% to 2.4%.

It is expected that the REIT will benefit from the drop in interest rates as the cost of borrowing will decrease and have a positive impact on cash flow. Investors are expected to gravitate to higher yielding investments such as REITs and all indications are the REIT sector will perform strongly in 2015.

Management believes the REIT is well insulated from economic fluctuations due to the composition of its current tenant base as well as the geographic diversification of its portfolio. 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.

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

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

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

Dated: March 11, 2015
Toronto, Ontario, Canada