Consolidated Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Year ended December 31, 2013 and period from July 13, 2012
(commencement of operations) to December 31, 2012

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INDEPENDENT AUDITORS' REPORT

The Unitholders of True North Commercial
Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of True North Commercial Real Estate Investment Trust, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, the consolidated statements of income (loss) and comprehensive income (loss), changes in unitholders' equity (deficiency) and cash flows for the year ended December 31, 2013 and the period from July 13, 2012 (commencement of operations) to December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of True North Commercial Real Estate Investment Trust as at December 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2013 and the period from July 13, 2012 (commencement of operations) to December 31, 2012 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 5, 2014
Toronto, Canada

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

December 31, 2013 and 2012

	2013	2012
Assets		
Non-current assets:		
Investment properties (note 4)	$ 179,671	$ 14,554
Deposits	289	–
Derivative instrument (note 12)	459	–
Total non-current assets	180,419	14,554
Current assets:		
Tenant and other receivables (note 5)	1,620	103
Prepaid expenses and other assets (note 6)	254	55
Restricted cash (note 7)	341	–
Cash and cash equivalents	1,832	907
Total current assets	4,047	1,065
Total assets	$ 184,466	$ 15,619
Liabilities and Unitholders' Equity (Deficiency)		
Non-current liabilities:		
Mortgages payable (note 8)	$ 105,010	$ 10,149
Class B LP units (note 10)	15,533	16,008
Total non-current liabilities	120,543	26,157
Current liabilities:		
Mortgages payable (note 8)	2,679	2
Credit facility (note 9)	1,400	–
Tenant rental deposits and prepayments	814	17
Accounts payable and accrued liabilities (note 11)	4,419	1,190
Derivative instrument (note 12)	300	–
Total current liabilities	9,612	1,209
Total liabilities	130,155	27,366
Unitholders' equity (deficiency) (note 13)	54,311	(11,747)
Total liabilities and unitholders' equity	$ 184,466	$ 15,619

Subsequent event (note 21)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Trustees on March 5, 2014:

"William J. Biggar" Director

"Roland A. Cardy" Director

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2013 and period from July 13, 2012
(commencement of operations) to December 31, 2012

	2013	2012
Revenue (note 5)	$ 17,246	$ 73
Expenses:		
Property operating	3,702	6
Realty taxes	2,766	13
Trust	2,019	790
Fair value adjustment of investment properties (note 4)	(5,586)	103
	2,901	912
Income (loss) before finance income and finance costs	14,345	(839)
Finance income	8	28
Finance costs (note 15)	(3,276)	(44)
Finance costs - fair value adjustment of Class B LP Units (notes 10 and 15)	3,475	(12,928)
Finance costs - distributions on Class B LP Units (note 15)	(1,371)	–
Finance cost - unrealized gain on change in fair value of derivative instrument (notes 12 and 15)	159	–
Net income (loss) for the period and comprehensive income (loss)	$ 13,340	$ (13,783)

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2013 and period from July 13, 2012
(commencement of operations) to December 31, 2012

	Trust Unit capital (note 13(c))	Cumulative income (loss)	Total
Unitholders' equity, July 13, 2012	$ –	$ –	$ –
Changes during the period:			
Common shares and units issued, net of issue costs	2,228	–	2,228
Loss for the period and comprehensive loss	–	(13,783)	(13,783)
Share options and share warrants to unit options and warrants (note 13(d))	–	(192)	(192)
Unitholders' equity (deficiency), December 31, 2012	2,228	(13,975)	(11,747)
Changes during the year:			
Units issued, net of issue costs	56,162	–	56,162
Net income and comprehensive income for the year	–	13,340	13,340
Fair value adjustment on warrants exercised (note 13(d)(ii))	–	7	7
Issue of units under unit option plan	276	–	276
Distributions	–	(5,135)	(5,135)
Issue of units under Distribution Reinvestment Plan (note 13(e))	1,408	–	1,408
Unitholders' equity , December 31, 2013	$ 60,074	$ (5,763)	$ 54,311

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2013 and period from July 13, 2012
(commencement of operations) to December 31, 2012

	2013	2012
Operating activities:		
Net income (loss) for the period	$ 13,340	$ (13,783)
Adjustments for financing activities included in income (loss):		
Finance income	(8)	(28)
Finance costs (note 15)	1,013	12,972
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 4)	(5,586)	103
Fair value adjustment on conversion of share options and share warrants to unit options and warrants (note 13(d))		(192)
Warrant and unit-based compensation expense (note 13(d)(i) and 13(d)(ii))	474	58
Straight-line rent adjustment	(714)	–
Change in non-cash operating working capital (note 16)	230	767
Cash provided by (used in) operating activities	8,749	(103)
Investing activities:		
Acquisitions (note 3)	(152,348)	(14,442)
Additions to investment properties	(1,516)	–
Additions to property under development	(45)	–
Change in restricted cash	113	–
Cash used in investing activities	(153,796)	(14,442)
Financing activities:		
Proceeds from issuance of Units, net of costs	56,189	5,308
Proceeds from credit facilities	1,400	–
Proceeds from new mortgage financing, net of costs	98,328	10,149
Principal payments	(2,604)	–
Finance costs paid	(3,129)	(33)
Finance income received	8	28
Distributions to unitholders	(4,220)	–
Cash provided by financing activities	145,972	15,452
Increase in cash and cash equivalents	925	907
Cash and cash equivalents, beginning of period	907	–
Cash and cash equivalents, end of period	$ 1,832	$ 907
Supplemental cash flow information:		
Units issued under Distribution Reinvestment Plan - unitholders	$ 434	$ –
Units issued under Distribution Reinvestment Plan - Class B LP Units	974	–
Common shares exchanged for Class B LP Units	–	3,080

See accompanying notes to consolidated financial statements.

True North Commercial Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to the Declaration of Trust ("DOT") dated November 16, 2012, and amended and restated on December 14, 2012, and governed by the laws of the Province of Ontario. The REIT incorporated True North Commercial General Partner Corp. ("TNCGP") on November 16, 2012 and, together with TNCGP, formed True North Commercial Limited Partnership ("TNCLP") on November 16, 2012. The registered office of the REIT is 401 The West Mall, Suite 1100, Toronto, Ontario, Canada, M9C 5J5.

Tanq Capital Corporation (the "Company") was formed as a capital pool company on July 13, 2012 and completed its initial public offering ("IPO") on August 28, 2012. Prior to entering into the Plan of Arrangement on December 14, 2012, there were 27,500,000 common shares of the Company issued and outstanding.

Pursuant to a Plan of Arrangement approved by the Company's shareholders and the TSX Venture Exchange ("TSXV") on December 14, 2012, the Company's shareholders either transferred their common shares to TNCLP in exchange for REIT Units ("Units"), and/or in the case of electing shareholders, for Class B LP Units of TNCLP and related special voting units of the REIT with exchange rights ("Special Voting Units"), at an exchange ratio of eight common shares for one Unit or Class B LP Unit ("Exchange Ratio"). In addition, outstanding share options to purchase common shares in the Company were exchanged for Unit options having identical terms, based on the Exchange Ratio. The REIT is the continuing public entity and its Units were listed on the TSXV, under the symbol TNT.UN.

On June 19, 2013, the REIT commenced trading on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN, at which time the Units were delisted from, and ceased trading on, the TSXV. Contemporaneously, with the listing on the TSX, the Units and the Class B LP Units (collectively, the "Voting Units") were consolidated on the basis of one (1) post-consolidation Voting Units for two (2) pre-consolidation Voting Units ("Unit Consolidation").

1. Basis of preparation:

(a) Statement of compliance:

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

(b) Basis of presentation:

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

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

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties, Class B LP Units, Unit options, warrants and the derivative instrument, which are stated at their fair values.

The number of Units, common shares issued prior to the Plan of Arrangement, number of Class B LP Units, exercise price and number of Units issuable upon exercise of the outstanding options of the REIT, and the common shares issued prior to the Plan of Arrangement, have all been proportionally adjusted within these consolidated financial statements for all periods presented to reflect the Unit Consolidation affected on June 19, 2013.

(c) Critical judgments and estimates:

The preparation of 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, revenue and expenses. Actual results may differ from these estimates.

1. Basis of preparation (continued):

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

(i) Critical judgments in applying accounting policies:

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

(a) Accounting for acquisitions:

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

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

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

1. Basis of preparation (continued):

(b) Income taxes:

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

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

(ii) Key sources of estimation uncertainty:

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

(a) Valuation of investment property:

The estimates used when determining the fair value of 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.

1. Basis of preparation (continued):

(b) Unit-based compensation:

The estimates used when determining the fair value of Unit-based compensation are the average expected Unit option holding period, the average expected volatility rate, and the average risk-free interest rate. The average expected Unit option holding period used is estimated to being half the life of the respective option contract applied to that Unit option upon vesting. The average expected volatility rate applied is estimated based on the historical volatility of the Units and that of comparable companies. The average risk-free interest rate is based on zero-coupon Government of Canada bond with terms consistent with the average expected Unit option holding period. Management determines the fair value internally, utilizing the aforementioned inputs, which are available in the forms of external market data and internal financial information.

2. Significant accounting policies:

(a) Investment property:

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

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

2. Significant accounting policies (continued):

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

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, unrestricted cash and short-term investments.

(c) Revenue recognition:

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

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

2. Significant accounting policies (continued):

(d) Class B LP Units:

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

(e) Unit capital:

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

(f) Income taxes:

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

2. Significant accounting policies (continued):

(g) Financial instruments:

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

Financial liabilities are classified as FVTPL when the financial liability is either classified as held-for-trading or it is designated as FVTPL. A financial liability may be designated at FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and IAS 39, Financial Instruments - Recognition and Measurement, permits the entire combined contract (asset or liability) to be designated at FVTPL. The Class B LP Units have been classified as financial liabilities at FVTPL. The REIT derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

	Classification	Measurement
Financial assets:		
Deposits	Loans and receivables	Amortized cost
Derivative instrument	FVTPL	Fair value
Tenant and other receivables	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Cash and cash equivalents	FVTPL	Fair value
Financial liabilities:		
Mortgages payable	Other liabilities	Amortized cost
Class B LP Units	FVTPL	Fair value
Tenant rental deposits and prepayments	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Unit option plan	FVTPL	Fair value

2. Significant accounting policies (continued):

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

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

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

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

(h) Unit-based compensation and warrants:

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

2. Significant accounting policies (continued):

(i) Changes in accounting policies:

On January 1, 2013, the REIT adopted the following IFRS standards as described below:

IFRS 10, Consolidation Financial Statements ("IFRS 10"):

IFRS 10 replaced the guidance in IAS 27, Consolidated and Separate Financial Statements ("IAS 27"), and Standing Interpretations Committee - 12, Consolidation - Special Purpose Entities. IFRS 10 provides a single control model on consolidation based on control, which exists when an investor is exposed or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. IFRS 10 also provides guidance on how to evaluate power and requires that control be assessed as facts and circumstances change. The REIT has assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of TNCLP and other entities.

The REIT has adopted IFRS 11, Joint Ventures, and IFRS 12, Disclosure of Interest in Other Entities. The adoption of these standards did not have an impact on the REIT's consolidated financial statements.

IFRS 13, Fair Value Measurement ("IFRS 13"):

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price.

The REIT adopted IFRS 13 on a prospective basis. The standard also requires disclosures which enable users to assess the methods and inputs used to develop fair value measurements. The adoption of IFRS 13 resulted in the REIT changing its methodology for determining fair value of Class B LP Units and resulted in additional disclosure of the REIT's various methods in estimating the fair values of assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the consolidated statements of financial position.

2. Significant accounting policies (continued):

(j) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended December 31, 2013, and, accordingly, have not been applied in preparing these consolidated financial statements.

(i) IFRS 9, Financial Instruments ("IFRS 9"):

IFRS 9 as issued reflects the International Accounting Standards Board's ("IASB") work to date on the replacement of Financial Instruments: Recognition and Measurement ("IAS 39"), and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. In November 2013, the IASB issued a new version of IFRS 9 (IFRS 9 (2013)) which includes the new hedge accounting requirements and some related amendments to IAS 39, Financial Instruments - Recognition and Measurement and IFRS 7, Financial Instruments - Disclosures*.* IFRS 9 (2013) does not have a mandatory effective date. The impact of this ongoing project will be assessed by the REIT as remaining phases of the project are completed.

(ii) Amendments to IAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities ("IAS 32").

In December 2011, the IASB issued certain amendments to IAS 32, which establishes disclosure requirements that are intended to help clarify for financial statement users the effect or potential effect of offsetting arrangements on an entity's financial position. These amendments are effective for the REIT's annual period beginning on January 1, 2014. The REIT has determined that the adoption of these amendments will not have a material impact on its consolidated financial statements.

2. Significant accounting policies (continued):

(iii) IFRIC Interpretation 21, Levies ("IFRIC 21"):

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment occurs, as identified by the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The IFRIC does not apply to accounting for income taxes, fines and penalties or for the acquisition of assets from governments. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The REIT is in the process of assessing the impact of the adoption of this interpretation on its consolidated financial statements.

3. Acquisitions:

The REIT acquired four properties on February 12, 2013, one property on February 14, 2013 and one property on November 13, 2013. The acquisitions were accounted for as asset acquisitions.

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

3. Acquisitions (continued):

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

	Carlingview	Century Park Place	340 Laurier West	Miramichi	Maple Grove	551 King Street	Net assets acquired
	February 12, 2013	February 14, 2013	February 12, 2013	February 12, 2013	February 12, 2013	November 13, 2013	
Net assets acquired:							
Investment properties (including acquisition costs of $3,901)	$ 5,105	$ 30,564	$ 69,413	$ 9,748	$ 25,116	$ 17,310	$ 157,256
Restricted cash	454	–	–	–	–	–	454
Other receivables	(40)	37	24	13	35	–	69
Prepaid expenses and other assets	5	232	148	–	25	81	491
Tenant rental deposits	(98)	(36)	(9)	(54)	(134)	–	(331)
Accounts payable and accrued liabilities	(25)	(67)	(446)	(119)	(167)	(101)	(925)
Net assets acquired	$ 5,401	$ 30,730	$ 69,130	$ 9,588	$ 24,875	$ 17,290	$ 157,014
Consideration:							
Proceeds from public offering, private placements and cash on hand	$ 2,235	$ 11,607	$ 20,656	$ 7,926	$ 9,063	$ 2,485	$ 53,972
Proceeds from new mortgage financing, net of financing costs of $731	3,166	19,123	48,474	–	15,812	11,805	98,380
Vendor take-back mortgage	–	–	–	1,662	–	–	1,662
Issuance of Class B LP Units	–	–	–	–	–	3,000	3,000
	$ 5,401	$ 30,730	$ 69,130	$ 9,588	$ 24,875	$ 17,290	$ 157,014

The REIT acquired the Carlingview property from an entity under the same common ownership as Starlight Investments Ltd. ("Starlight") (note 14).

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

3. Acquisitions (continued):

On December 14, 2012, the REIT acquired Coronation Mall, located in Duncan, British Columbia. The acquisition was accounted for as an asset acquisition and purchase price allocated as follows:

Net assets acquired:	
Investment properties (including acquisition costs of $103)	$ 14,657
Tenant rental deposits	(17)
Accounts payable and accrued liabilities	(198)
Net assets acquired	$ 14,442
Consideration paid, funded by:	
Mortgage financing, net of financing costs of $101	$ 10,149
Cash	4,293
	$ 14,442

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

4. Investment properties:

The following table summarizes the changes in investment properties for the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012:

	Investment properties
Balance, July 13, 2012	$ –
Acquisition of investment property	14,657
Fair value adjustment	(103)
Balance, December 31, 2012	14,554
Acquisitions of investment properties, including acquisition costs of $3,901	157,256
Additions to investment properties	1,516
Straight-line rent adjustment	714
Fair value adjustment	5,586
Balance, December 31, 2013	$ 179,626

	Property under development
Balance, December 31, 2012	$ –
Additions to property under development	45
Balance, December 31, 2013	$ 45
Total investment properties, December 31, 2013	$ 179,671
Total investment properties, December 31, 2012	14,554

The fair value adjustment of $5,586 for the year ended December 31, 2013 includes $3,901 relating to the acquisition costs incurred during the year, $9 of additional acquisition costs relating to Coronation Mall, $142 of leasehold improvements incurred in the year, $714 relating to the straight-line rent adjustment, $10 relating to leasing commissions offset by increase in the fair value of all properties of $10,362.

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

4. Investment properties (continued):

The key valuation assumptions for the REIT's investment properties are set out in the following table:

Terminal capitalization rates - range	6.34% to 11.60%
Terminal capitalization rate - weighted average	7.02%
Discount rates - range	7.15% to 10.50%
Discount rate - weighted average	7.53%

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

Weighted average terminal capitalization rate:	
25-basis points increase	$ (2,937)
25-basis points decrease	3,164
Weighted average discount rate:	
25-basis points increase	(2,830)
25-basis points decrease	2,901

As at December 31, 2012, the REIT owned one investment property which was acquired on December 14, 2012. The fair value of the investment property as at December 31, 2012 approximated the purchase price.

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

5. Tenant and other receivables:

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

	2013	2012
Tenant receivables and charge backs	$ 1,584	$ 7
Other receivables	36	96
	$ 1,620	$ 103

As at December 31, 2013, there is no impairment of tenant and other receivables.

The REIT holds no collateral in respect of tenant and other receivables.

Future minimum rental commitments on non-cancellable tenant operating leases are as follows:

Within one year	$ 12,590
Later than one year and not longer than five years	38,920
Thereafter	7,002
	$ 58,512

6. Prepaid expenses and other assets:

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

	2013	2012
Prepaid expenses	$ 165	$ –
Pre-acquisition costs and deposits	89	55
	$ 254	$ 55

7. Restricted cash:

Restricted cash represents $454 of funds originally held in escrow in relation to the Carlingview acquisition completed in February 2013. The funds were required to be held in escrow by the mortgage lender on the property. The funds are released on the first day of each month commencing November 1, 2013 in an amount equal to the minimum rent and additional rent of $57 that would otherwise be paid by the tenant until such time as these funds are exhausted. As at December 31, 2013, there was $341 in restricted cash.

8. Mortgages payable:

As at December 31, 2013, the REIT had $108,418 (2012 - $10,250) of principal balance of mortgages payable. The mortgages carry a weighted average fixed interest rate of 3.53% (2012 - 3.92%), and a weighted average term to maturity of 4.21 years (2012 - 5.00 years). All interest rates are fixed for the term of the respective mortgages. One mortgage has fixed its floating interest rate through the use of an interest rate swap (note 12). The mortgages are secured by first charges on the respective properties, except for a secured promissory note, which has a second charge on the Miramichi property.

As part of the purchase of the Miramichi property, the REIT obtained financing from the vendor, in the amount of $1,662. Subsequent to the acquisition, this vender take-back was sold to another party as a secured promissory note ("Note"). The Note is to be repaid by an amount equal to the total gross revenue realizable from any new lease of a specified portion of the property starting the earlier of the signed renewal of the specified portion of the property or June 1, 2014. However, the full amount is repayable no later than February 12, 2018. A partial repayment of $897 was made on November 8, 2013 as the REIT received a signed renewal of the specified portion of the property for a two year term. As at December 31, 2013, the balance outstanding on the Note is $765.

The Note bears interest at an annual fixed rate of 2.0%, is interest-only, and secured by a second charge on the Miramichi property.

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

8. Mortgages payable (continued):

The mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2014	$ 2,871	$ –	2,871	$ 3,763
2015	2,974	–	2,974	3,661
2016	3,080	765	3,845	3,548
2017	3,165	9,136	12,301	3,399
2018	833	85,594	86,427	1,045
Thereafter	–	–	–	–
Face value	$ 12,923	$ 95,495	$ 108,418	$ 15,416
Unamortized financing costs (2012 - $99)			(729)	
Total mortgages payable			$ 107,689	

The following table provides a breakdown of current and non-current portions of mortgages payable as at December 31, 2013 and 2012:

	2013	2012
Current:		
Mortgages payable	$ 2,871	$ 22
Unamortized financing cost	(192)	(20)
	2,679	2
Non-current:		
Mortgages payable	105,547	10,228
Unamortized financing cost	(537)	(79)
	105,010	10,149
	$ 107,689	$ 10,151

9. Revolving credit facility:

On February 12, 2013, the REIT entered into a credit agreement with a Canadian chartered bank to obtain a $5,000 floating rate revolving credit facility (the "Credit Facility"). The Credit Facility bears interest on cash advances above $1,000 at 225 basis points per annum over the floating banker's acceptance rate or under $1,000 at 100 basis points over prime rate. The Credit Facility matures on February 12, 2015. As at December 31, 2013, $1,400 was drawn on the Credit Facility. The revolving Credit Facility is secured by a first charge on the Miramichi property.

10. Class B LP Units:

Pursuant to a Plan of Arrangement which was completed on December 14, 2012, 17,075,000 common shares of the Company were exchanged for Class B LP Units in TNCLP on the basis of one Class B LP Unit for every eight common shares of the Company, resulting in 2,134,369 Class B LP Units being issued at a value of $3,080, which represented the carrying value of these Units at the date of the Plan of Arrangement.

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

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

10. Class B LP Units (continued):

The following table summarizes the changes in Class B LP Units for the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012:

	Class B LP Units	Amount
Outstanding, July 13, 2012	–	$ –
Issuance of Class B LP Units - Plan of Arrangement	2,134,369	3,080
Fair value adjustment	–	12,928
Outstanding, December 31, 2012	2,134,369	16,008
Issuance of Class B LP Units	454,545	3,000
Fair value adjustment	–	(3,475)
Outstanding, December 31, 2013	2,588,914	$ 15,533

On November 13, 2013, 454,545 Class B LP Units were issued as part of the consideration paid for 551 King Street (Note 3).

During the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012, the distributions on Class B LP Units were $1,371 and nil, respectively, and have been recognized in finance costs in the consolidated statements of income (loss) and comprehensive income (loss).

11. Accounts payable and accrued liabilities:

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

	2013	2012
Accounts payable and accrued liabilities	$ 3,538	$ 1,181
Finance costs payable	400	9
Distributions payable	481	–
	$ 4,419	$ 1,190

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

12. Derivative instrument:

	2013			2012	
	Current fair value (liability)	Non-current fair value asset	Unrealized gain on derivative	Fair value asset (liability)	Unrealized gain on derivative
Mortgage interest rate swap	$ (300)	$ 459	$ 159	$ –	$ –

The REIT entered into an interest rate swap on February 12, 2013 to limit its interest rate exposure from floating to fixed during the term of the mortgage on 340 Laurier West with a principal amount of $47,808 at December 31, 2013. The interest rate swap was required to be entered into by the lender and will expire coterminously upon maturity of the mortgage on March 1, 2018. The annual fixed interest rate for this mortgage is 3.388%.

13. Unitholders' equity (deficiency):

(a) Units:

The REIT is authorized to issue an unlimited number of Units and an unlimited number of Special Voting Units. Each Unit confers the right to one vote at any meeting of unitholders and to participate pro rata in all distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. The unitholders have the right to require the REIT to redeem their Units on demand. The Units have no par value. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall cease and the holder thereof shall be entitled to receive a price per Unit ("Redemption Price"), as determined by a formula outlined in the DOT. The Redemption Price will be paid in accordance with the conditions provided for in the DOT.

The Board of Trustees of the REIT (the "Trustees") have discretion in respect to the timing and amounts of distributions.

13. Unitholders' equity (deficiency) (continued):

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

(i) 90% of the "market price" of the Units on the Exchange or market on which the Units are listed or quoted for trading during the ten consecutive trading days ending immediately prior to the date on which the Units were surrendered for redemption; and

(ii) 100% of the "closing market price" on the Exchange or market or on which the Units are listed or quoted for trading on the redemption date.

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

(b) Special Voting Units:

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

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

13. Unitholders' equity (deficiency) (continued):

(c) Units outstanding:

The following table summarizes the changes in common shares and Units for the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012:

	Common shares	Units	Amount
		(note 1(b))	
Balance, July 13, 2012	–	–	$ –
Common shares issued for cash (seed financing - July 23, 2012)	5,000,000	–	500
Common shares issued for cash (private placement - July 24, 2012)	20,500,000	–	4,100
Common shares issued for cash (IPO - August 28, 2012),	2,000,000	–	400
Issuance costs	–	–	(192)
	27,500,000	–	4,808
Common shares exchanged for REIT Units (one Unit for every eight common shares)	(10,425,000)	1,303,125	–
Common shares exchanged for Class B LP Units (one Class B LP Unit for every eight common shares)	(17,075,000)	–	(3,080)
	–	1,303,125	1,728
Units issued for cash (private placement - December 14, 2012)	–	66,845	500
Balance, December 31, 2012	–	1,369,970	2,228
Units issued for cash (February 12, 2013),	–	7,274,954	55,726
Units issued for cash (private placement - February 12, 2013)	–	391,645	3,000
Units issued for cash (private placement - November 13, 2013)	–	386,364	2,550
Issue of Units under Distribution Reinvestment Plan ("DRIP")	–	223,302	1,408
Issue of Units under the non-executive trustee unit issuance plan	–	9,305	56
Issue of Units from warrants exercised	–	3,721	18
Issue of Units from options exercised	–	52,083	276
Issuance costs	–	–	(5,188)
Balance, December 31, 2013	–	9,711,344	$ 60,074

13. Unitholders' equity (deficiency) (continued):

As at December 31, 2013, 108,794 (2012 - 435,178) Units and 321,877 (2012 - 1,287,500) Class B LP Units related to the July 13, 2012 seed financing and the July 24, 2012 private placement, remain in escrow to be released in future periods in accordance with the Escrow Agreement entered into between the REIT and the respective shareholders.

(d) Unit-based compensation plan:

The REIT has adopted a Unit-based compensation plan (the "Plan") effective December 14, 2012, and as amended and restated as of June 18, 2013. Under the terms of the Plan, Trustees may, from time to time, at their discretion, and in accordance with TSX requirements, grant certain Trustees and officers of the REIT, employees of Starlight and consultants to the REIT, non-transferable options to purchase Units, exercisable for a period of up to five years from the date of grant. These options vest over a three-year period beginning one year from the date of grant. The total number of Units reserved under the Plan may not exceed 10% of the Units outstanding.

(i) Options granted to employees:

On August 27, 2012, the Company granted share options to directors, officers and key employees of the Company to purchase 1,950,000 common shares at $0.20 per share. The share options will expire five years from the date the options are granted. Pursuant to a Plan of Arrangement approved by the Company's shareholders on December 14, 2012, 1,950,000 of outstanding share options have been exchanged for 243,750 Unit options at an exercise of $1.60 per Unit option on the basis of one Unit option for every eight share options of the Company. The Unit options have terms identical to the share options. As part of this exchange, the fair value adjustment on conversion of the share options to Unit options using the Black-Scholes option pricing model was $162, which was recognized through unitholders' equity (deficiency).

On December 14, 2012, the REIT granted 100,000 Unit options at an exercise price of $7.48 per Unit option. These Unit options will expire five years from the date the options are granted.

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

13. Unitholders' equity (deficiency) (continued):

On February 12, 2013, the REIT granted 427,500 Unit options at an exercise price of $7.66 per Unit option. These Unit options will expire five years from the date the options are granted.

For the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012, compensation expense was $384 and $58, respectively. The expense was determined using the Black-Scholes option pricing model with the following assumptions:

	2013	2012
Average expected Unit option holding period	2.54 years	3.38 years
Average expected volatility rate	20%	75%
Average dividend yield	9.90%	7.00%
Average risk-free interest rate	1.45%	0.98%

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

On November 20, 2013, 52,083 Unit options were exercised at an exercise price of $1.60. The fair value adjustment on the Unit options exercised of $193 was recognized through unitholders' equity (deficiency).

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

13. Unitholders' equity (deficiency) (continued):

For the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012, the number of Unit options outstanding changed as follows:

	Number of share options	Number of Unit options	Weighted average exercise price	Remaining contractual life (in years)
Balance, July 13, 2012	–	–	$ –	–
Share options granted	1,950,000	–	–	–
Exchange of share options for Unit options	(1,950,000)	243,750	1.60	3.66
Unit options granted	–	100,000	7.48	3.96
Outstanding, December 31, 2012	–	343,750	3.31	
Unit options granted	–	427,500	7.66	4.12
Unit options exercised	–	(52,083)	1.60	
Outstanding, December 31, 2013	–	719,167	6.02	
Exercisable,				
December 31, 2013		62,500		
December 31, 2012		–		

(ii) Warrants granted to non-employees:

On August 27, 2012, the Company granted share warrants to agents to purchase 125,000 common shares at a price of $0.60 per share. The share warrants will expire two years from the grant date. Pursuant to the Plan of Arrangement approved by the Company's shareholders on December 14, 2012, the 125,000 share warrants have been exchanged for 15,625 warrants ("warrants") to acquire REIT Units at an exercise price of $4.80 per Unit on the basis of one Unit for every eight share warrants of the Company. As part of this exchange, the fair value adjustment on conversion of the share warrants to warrants using the Black-Scholes option pricing model was $30, which was recognized through unitholders' equity (deficiency).

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

13. Unitholders' equity (deficiency) (continued):

On March 18, 2013, 3,721 warrants were exercised at an exercise price of $4.80. The fair value adjustment on the warrants exercised of $7 was recognized through unitholders' equity.

For the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012, the number of warrants outstanding changed as follows:

	Number of share warrants	Number of warrants	Weighted average exercise price	Remaining contractual life (in years)
Balance, July 13, 2012	–	–	$ –	–
Warrants granted	125,000	–	–	–
Exchange of share warrants for warrants	(125,000)	15,625	4.80	0.66
Outstanding, December 31, 2012	–	15,625	4.80	
Warrants exercised	–	(3,721)	4.80	
Outstanding, December 31, 2013	–	11,904	4.80	
Exercisable,				
December 31, 2013		11,904		
December 31, 2012		15,625		

For the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012, respectively, expenses related to these warrants were nominal and are included in trust expenses.

13. Unitholders' equity (deficiency) (continued):

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

Under the Declaration of Trust, the total amount of income of the REIT to be distributed to unitholders for each calendar month shall be subject to the discretion of the Trustees; however, the total income distributed shall not be less than the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Tax Act for any year. For the year ended December 31, 2013, the REIT declared per unit distributions of $0.621 (2012 - nil).

The REIT adopted a DRIP on January 1, 2013. Unitholders can elect to reinvest cash distributions into additional Units at a 3% discount to the weighted average closing price of the Units on the Exchange for the five trading days immediately preceding the applicable date of distribution. For the year ended December 31, 2013, the REIT issued 223,302 Units under the DRIP for a stated value of $1,408.

(f) Normal course issuer bid:

On December 4, 2013, the REIT announced that the TSX had approved the REIT's notice of intention to make a normal course issuer bid (the "Issuer Bid"). Under the Issuer Bid, the REIT will have the ability to purchase for cancellation up to a maximum of 746,358 of its Units, representing 10% of the REIT's public float of 7,463,586 Units through the facilities of the TSX. The Issuer Bid commenced on December 6, 2013 and will remain in effect until the earlier of December 5, 2014, or the date on which the REIT has purchased the maximum number of units permitted under the Issuer Bid.

As at December 31, 2013, no Units were acquired under the Issuer Bid.

13. Unitholders' equity (deficiency) (continued):

(g) Short form base shelf prospectus:

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

As at December 31, 2013, no securities had been issued under the short form base shelf prospectus.

14. Transactions with related parties:

The consolidated financial statements for the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012, include the accounts of the REIT and all its subsidiaries.

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

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

(a) Pursuant to the Asset Management Agreement, Starlight is to perform asset management services for fees equal to 0.35% of the sum of: (i) the historical purchase price of the properties; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties from the effective date.

14. Transactions with related parties (continued):

For the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012, the costs of these services, aggregating $508 and $3, respectively, were charged to the REIT. Of these amounts, $53 (2012 - $3) is included in accounts payable and accrued liabilities as at December 31, 2013.

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

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

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

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

For the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012, the REIT incurred $1,463 and nil, respectively, for acquisition services under the agreement, which were paid at the time of acquisition. These costs were initially capitalized to investment properties on acquisition. The REIT acquired the Carlingview property from an entity under the same common ownership as Starlight.

(c) From and after January 1, 2013, an incentive fee is payable by the REIT for each fiscal year equal to 15% of the REIT's Funds From Operations ("FFO") per Unit in excess of the FFO per Unit hurdle rate determined by the Trustees by June 30, 2013 for the 2013 fiscal year with reference to such parameters and information as the Trustees deem prudent, including without limitation, the 2013 business plan of the REIT, and for fiscal years from and after January 1, 2014, an amount equal to the REIT's FFO per Unit for fiscal 2013 plus 50% of the increase in the weighted average consumer price index (or other similar metric, as determined by the Trustees) of the jurisdictions in which the properties are located.

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

14. Transactions with related parties (continued):

No incentive fees were incurred for the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012.

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

No capital expenditure fees were incurred for the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012.

(e) Key management compensation:

Aggregate compensation for key management personnel was as follows:

	2013	2012
Short-term employee compensation	$ 489	$ 53
Unit-based compensation	338	58

Key management personnel includes Trustees. During the year ended December 2013, $201 fees were paid to Trustees of the REIT. No trustee fees were paid during the period from July 13, 2012 (commencement of operations) to December 31, 2012.

Short-term employee compensation relate to key management personnel employed by Starlight. Short-term employee compensation were paid by Starlight to key management personnel for the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012 of $288 and $53, respectively. Of the amount paid during the period from July 13, 2012 (commencement of operations) to December 31, 2012, $43 relates to the period prior to the completion of the Plan of Arrangement.

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

15. Finance costs:

The following table presents the financing costs incurred for the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012:

	2013	2012
Interest on mortgages payable	$ 3,101	$ 42
Other interest expense and standby fees	22	–
Amortization of financing costs	153	2
	3,276	44
Distributions on Class B LP Units	1,371	–
Fair value adjustment of Class B LP Units	(3,475)	12,928
Unrealized gain on change in fair value of derivative instrument	(159)	–
	$ 1,013	$ 12,972

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012 is as follows:

	2013	2012
Deposits	$ (289)	$ –
Tenant and other receivables	(1,448)	(103)
Prepaid expenses and other assets	292	(55)
Tenant rental deposits	466	–
Accounts payable and accrued liabilities	1,209	925
	$ 230	$ 767

17. Commitments and contingencies:

At December 31, 2013, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

18. Segmented disclosure:

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

19. Capital management:

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

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

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

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

(a) incur or assume indebtedness if, after giving effect to the incurrence or assumption of the indebtedness, the total indebtedness of the REIT would be more than 75% of the Gross Book Value as defined; and

(b) incur indebtedness aggregating more than 20% of Gross Book Value at floating interest rates or having maturities of less than one year.

The REIT was in compliance with the above requirements as at December 31, 2013 and 2012.

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

20. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

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

The REIT is exposed to interest rate risk on its floating-rate debt on its Laurier property which was mitigated by entering into an interest rate swap (note 12).

As at December 31, 2013 and 2012, the REIT's interest-bearing financial instruments were:

	Carrying value 2013	Carrying value 2012
Fixed-rate instruments:		
Mortgages payable	$ 108,418	$ 10,250
Variable-rate instruments:		
Credit facility	$ 1,400	$ –

20. Risk management and fair values (continued):

An increase (decrease) of 100 basis points in interest rates at December 31, 2013 for the variable-rate financial instruments would have increased (decreased) net income for the year by $14 (on a pre-tax basis).

(ii) Credit risk:

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

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

As at December 31, 2013, the Federal Government of Canada provides 55% of the REIT's rental revenue.

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits as permitted by legislation, and geographically diversifying its portfolio.

The REIT monitors outstanding receivables on a month-to-month basis to ensure a reasonable allowance is provided for all uncollectible amounts.

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

20. Risk management and fair values (continued):

(iii) Liquidity risk:

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

The REIT's debt obligations are due as follows:

	Total	2014	2015	2016	2017	2018	Thereafter
Mortgages payable (note 8)	$ 108,418	$ 2,871	$ 2,974	$ 3,845	$ 12,301	$ 86,427	$ –
Revolving credit facility (note 9)	1,400	–	1,400	–	–	–	–
Tenant rental deposits	250	250	–	–	–	–	–
Accounts payable and accrued liabilities (note 11)	4,419	4,419	–	–	–	–	–
	$ 114,487	$ 7,540	$ 4,374	$ 3,845	$ 12,301	$ 86,427	$ –

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

(iv) Market risk:

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

20. Risk management and fair values (continued):

(b) Fair values:

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

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

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

Unit options granted and warrants granted are carried at fair value, estimated using the Black-Scholes option pricing model for option valuation as described in note 13(d)(i) and 13(d)(ii), respectively.

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

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

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

20. Risk management and fair values (continued):

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable is approximately $107,900 (2012 - $10,250).

The fair values of the REIT's financial assets, which include deposits, tenant and other receivables, restricted cash and cash and cash equivalents, as well as financial liabilities, which include the revolving credit facility, tenant rental deposits, accounts payable and accrued liabilities, finance costs payable and distributions payable, approximate their recorded values due to their short-term nature.

The table below presents the REIT's assets and liabilities measured at fair value on the consolidated statements of financial position or disclosed in the notes to the consolidated financial statements as follows:

2013	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 179,671	$ 179,671
Derivative instrument, net	–	159	–	159
	$ –	$ 159	$ 179,671	$ 179,830
Liabilities:				
Class B LP Units	$ 15,533	$ –	$ –	$ 15,533
Unit options and warrants	–	–	423	423
Mortgages payable	–	107,900	–	107,900
	$ 15,533	$ 107,900	$ 423	$ 123,856

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

20. Risk management and fair values (continued):

2012	Level 1	Level 2	Level 3	Total
Assets:				
Investments properties	$ –	$ –	$ 14,554	$ 14,554
Liabilities:				
Class B LP Units	$ 16,008	$ –	$ –	$ 16,008
Unit options and warrants	–	–	250	250
Mortgages payable	–	10,250	–	10,250
	$ 16,008	$ 10,250	$ 250	$ 26,508

Note 4 presents a reconciliation of Level 3 fair value measurement for investment properties for the year ended December 31, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012.

21. Subsequent event:

On January 24, 2014 and January 31, 2014, 5,070 and 530 warrants, respectively, were exercised at a price of $4.80.