Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three months ended March 31, 2013
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	March 31, 2013	December 31 2012
Assets		
Non-current assets:		
Investment properties (note 4)	$ 151,830	$ 14,554
Deposits	22	–
Total non-current assets	151,852	14,554
Current assets:		
Tenant and other receivables (note 5)	220	103
Prepaid expenses and other assets	743	55
Restricted cash (note 6)	458	–
Cash and cash equivalents	3,142	907
Total current assets	4,563	1,065
Total assets	$ 156,415	$ 15,619
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 7)	$ 96,232	$ 10,149
Class B LP units (note 9)	15,794	16,008
Total non-current liabilities	112,026	26,157
Current liabilities:		
Mortgages payable (note 7)	2,247	2
Tenant rental deposits	294	17
Accounts payable and accrued liabilities	2,205	1,181
Finance costs payable	287	9
Distributions payable	449	–
Derivative instrument (note 10)	655	–
Total current liabilities	6,137	1,209
Total liabilities	118,163	27,366
Unitholders' equity (deficiency)	38,252	(11,747)
Total liabilities and unitholders' equity	$ 156,415	$ 15,619

See accompanying notes to unaudited condensed consolidated interim financial statements.

Approved on behalf of the Board on May 8, 2013:

"William J. Biggar" Director

"Roland A. Cardy" Director

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2013
(Unaudited)

Revenue from rental properties	$	2,486
Expenses:		
Rental property operating costs		382
Realty taxes		421
Trust		401
Fair value adjustment of investment properties (note 4)		3,391
		4,595
Loss before finance income and finance costs		(2,109)
Finance income		3
Finance costs (note 13)		(504)
Finance costs - fair value adjustment of Class B LP Units (notes 9 and 13)		214
Finance costs - distributions on Class B LP Units (note 13)		(375)
Unrealized loss on change in fair value of derivative instrument (note 10)		(655)
Loss for the period and comprehensive loss	$	(3,426)

See accompanying notes to unaudited condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2013
(Unaudited)

	Unit capital (note 11(c))	Deficit	Total
Unitholders' equity, July 13, 2012	$ –	$ –	$ –
Changes during the period:			
Units issued, net of issue costs	2,228	–	2,228
Loss for the period and comprehensive loss	–	(13,783)	(13,783)
Fair value adjustment on conversion of share options to unit options (note 11(d))	–	(192)	(192)
Unitholders' deficiency, December 31, 2012	2,228	(13,975)	(11,747)
Changes during the period:			
Units issued, net of issue costs	54,146	–	54,146
Loss for the period and comprehensive loss	–	(3,426)	(3,426)
Fair value adjustment on warrant options exercised (note 11(d)(ii))	–	7	7
Distributions	–	(1,003)	(1,003)
Issue of units under Distribution Reinvestment Plan (note 11(e))	275	–	275
Unitholders' equity (deficiency), March 31, 2013	$ 56,649	$ (18,397)	$ 38,252

See accompanying notes to unaudited condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2013
(Unaudited)

Operating activities:		
Loss for the period	$	(3,426)
Adjustments for financing activities included in net loss:		
Finance income		(3)
Finance costs (note 13)		665
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 4)		3,391
Fair value adjustment on derivative instrument		655
Non-cash employee unit-based compensation expense		195
Non-cash warrant option expense (note 11)		6
Straight line rent adjustment		(572)
Change in non-cash operating working capital (note 14)		(393)
Cash provided by operating activities		518
Investing activities:		
Acquisitions (note 3)		(137,751)
Change in restricted cash		(458)
Additions to investment properties		(9)
Cash used in investing activities		(138,218)
Financing activities:		
Proceeds from issuance of Units, net of costs of $4,598		54,146
Proceeds from new mortgage financing, net of financing costs of $575		86,649
Finance costs paid		(373)
Finance income received		3
Distributions to unitholders		(490)
Cash provided by financing activities		139,935
Increase in cash and cash equivalents		2,235
Cash and cash equivalents, beginning of period		907
Cash and cash equivalents, end of period	$	3,142
Supplemental cash flow information:		
Units issued under Distribution Reinvestment Plan - unitholders	$	64
Units issued under Distribution Reinvestment Plan - Class B LP Units		211

See accompanying notes to unaudited condensed consolidated interim 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 Corporation ("TNCGP") on November 16, 2012 and, together with TNCGP, formed True North Commercial Limited Partnership ("TNCLP") on November 16, 2012.

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 55,000,000 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 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 8 common shares for 1 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 with its Units listed on the TSX Venture Exchange, under the symbol TNT.UN. The registered office of the REIT is 401 The West Mall, Suite 1100, Toronto, Ontario, Canada, M9C 5J5.

1. Basis of presentation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the REIT have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Selected explanatory notes included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the REIT since the last annual consolidated financial statement as at and for the period from July 13, 2012 (commencement of operations) to December 31, 2012. These condensed consolidated interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

1. Basis of presentation (continued):

(b) Basis of presentation:

The REIT holds its interest in the investment properties and other assets and liabilities related to the properties 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 condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the REIT.

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

(c) Critical judgments and estimates:

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the period from July 13, 2012 (commencement of operations) to December 31, 2012.

2. Significant accounting policies:

Except as described below, the accounting policies applied by the REIT in these unaudited condensed consolidated interim financial statements are the same as those applied by the REIT in its consolidated financial statements for the period from July 13, 2012 (commencement of operations) to December 31, 2012.

(a) Investments in subsidiaries:

IFRS 10, Consolidated Financial Statements ("IFRS 10"), replaced the guidance in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 provides a single control model to be applied in the control analysis for all investors. In addition, the consolidation procedures are carried financial substantially unmodified from IAS 29 (2008). For the purpose of this assessment, the REIT determines it controls an entity when:

(i) it is exposed, or has rights, to variable returns from its involvement with that entity; and

(ii) it has the ability to affect those returns through its power over that entity.

The REIT has assessed its consolidation conclusions on July 13, 2012 (commencement of operations) 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.

(b) Fair value measurements:

IFRS 13, Fair Value Measurement ("IFRS 13"), replaces the fair value measurement guidance contained in individual IFRS's 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, ie. an exit price.

The REIT adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the REIT to determine fair value and did not result in any measurement adjustments as at January 1, 2013.

2. Significant accounting policies (continued):

(c) Future accounting changes:

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective and, accordingly, have not been applied in preparing these condensed consolidated interim financial statements.

Standards	Effective date (annual period beginning on or after)
IAS 32, Financial Instruments - Presentation (amendments)	January 1, 2014
IFRS 9, Financial Instruments (2010)	January 1, 2015

The REIT intends to adopt these standards on their respective effective dates. The REIT does not expect the adoption of these standards to have a significant impact on the condensed consolidated interim financial statements.

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

3. Acquisitions:

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

The fair value of consideration has been allocated, on a preliminary basis, 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 Business Complex	Maple Grove	Net assets acquired
Net assets acquired:						
Investment properties (including acquisition costs of $3,731)	$ 5,104	$ 30,590	$ 69,485	$ 9,768	$ 25,139	$ 140,086
Restricted cash	454		4			458
Other receivables	(40)	43	24	10	35	72
Prepaid and other assets	5	232	148	–	25	410
Tenant rental deposits	(98)	(36)	(9)	(54)	(134)	(331)
Accounts payable and accrued liabilities	(25)	(67)	(446)	(119)	(167)	(824)
Net assets acquired	$ 5,400	$ 30,762	$ 69,206	$ 9,605	$ 24,898	$ 139,871
Consideration:						
Proceeds from public offering and cash on hand	$ 2,234	$ 11,625	$ 20,658	$ 7,943	$ 9,065	$ 51,525
Proceeds from new mortgage financing, net of financing costs of $540	3,166	19,137	48,548	–	15,833	86,684
Vendor take-back mortgage	–	–	–	1,662	–	1,662
	$ 5,400	$ 30,762	$ 69,206	$ 9,605	$ 24,898	$ 139,871

(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 on a preliminary basis 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:	
New financing obtained, net of financing costs of $101	$ 10,149
Cash	4,293
	$ 14,442

4. Investment properties:

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

Balance, July 13, 2012	$ –
Acquisitions of investment property	14,657
Fair value adjustment	(103)
Balance, December 31, 2012	14,554
Acquisitions of investment properties, including acquisition costs of $3,731	140,086
Additions to investment properties	9
Straight line rent adjustment	572
Fair value adjustment	(3,391)
Balance, March 31, 2013	$ 151,830

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

4. Investment properties (continued):

The fair value adjustment of $3,391 includes $3,731 relating to the acquisition costs written off during the quarter, $9 of additional acquisition costs incurred in the period relating to Coronation Mall and $572 relating to the straight line rent adjustment, offset by increase in the fair value of Coronation Mall of $921.

The following table reconciles the cost base of investment properties to their fair value:

	March 31, 2013	December 31, 2012
Cost	$ 155,324	$ 14,657
Cumulative fair value adjustment	(3,494)	(103)
Fair value	$ 151,830	$ 14,554

The fair value of the investment properties acquired during the quarter is deemed to be the purchase price paid to an arm's-length party as no significant events have occurred to change the value from the date of purchase to March 31, 2013. The REIT acquired the Carlingview property from an entity under the same common ownership as Starlight (note 12).

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

Capitalization rates - range	6.35% to 12.13%
Capitalization rate - weighted average	7.74%
Occupancy - weighted average	98.78%

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

4. Investment properties (continued):

The fair values of the REIT's investment properties are sensitive to changes in the key valuation assumptions. Changes in the capitalization 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 capitalization rate:	
25-basis points increase	$ (5,781)
25-basis points decrease	6,211

5. Tenant and other receivables:

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

	March 31, 2013	December 31, 2012
Tenant receivables	$ 183	$ 7
Harmonized sales tax and other receivables	37	96
	$ 220	$ 103

As at the date specified, all tenant receivables that were past due but not impaired were outstanding for 90 days or less.

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	$ 11,139
Later than one year and not longer than five years	30,464
Thereafter	2,315
	$ 43,918

6. Restricted cash:

Restricted cash represents funds held in escrow in relation to the Carlingview acquisition. The funds were required to be held in escrow by the lender. The funds will be released on the first day of each month commencing November 1, 2013 in an amount equal to the minimum rent and additional rent that would otherwise be paid by the tenant until such time as these funds are exhausted.

7. Mortgages payable:

As at March 31, 2013, the REIT had $99,137 (December 31, 2012 - $10,250) of principal balance of mortgages payable. The REIT obtained new financing in the amount of $88,347 (net of financing costs of $540) to fund the acquisitions that occurred in the first quarter of 2013. The mortgages carry a weighted average fixed interest rate of 3.48% (December 31, 2012 - 3.92%), and a weighted average term to maturity of 4.83 years (December 31, 2012 - 4.90 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 10). 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 Business Complex.

Included in the balance is financing obtained by the REIT from the vendor, as part of the purchase of the Miramichi Business Complex, in the amount of $1,662. Subsequent to acquisition, this vender take-back was sold to another party as a secured promissory note ("Note"). The Note shall be repaid by an amount equal to the total gross revenue realizable from any new lease of a specified portion of the property starting June 1, 2014. However, the full amount is repayable no later than February 12, 2018. The Note bears interest at an annual fixed rate of 2.0%. The Note is interest-only and is payable monthly in arrears. The Note is secured by a second charge on the Miramichi Business Complex.

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

7. Mortgages payable (continued):

The mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2013	$ 1,707	$ –	$ 1,707	$ 2,561
2014	2,579	1,662	4,241	3,323
2015	2,671	–	2,671	3,214
2016	2,765	–	2,765	3,121
2017	2,838	9,136	11,974	2,992
Thereafter	493	75,286	75,779	651
Face value	$ 13,053	$ 86,084	99,137	$ 15,862
Unamortized financing costs			(658)	
Total mortgage payable			$ 98,479	

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

	March 31, 2013	December 31, 2012
Current:		
Mortgages payable	$ 2,345	$ 22
Unamortized financing cost	(98)	(20)
	2,247	2
Non-current:		
Mortgages payable	96,792	10,228
Unamortized financing cost	(560)	(79)
	96,232	10,149
	$ 98,479	$ 10,151

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

8. 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 at 225 basis points per annum over the floating banker's acceptance rate or 100 basis points over prime rate. The Credit Facility expires on February 12, 2015. As at March 31, 2013, no amounts were drawn on the Credit Facility. The revolving Credit Facility is secured by a first charge on the Miramichi Business Complex.

Total financing costs incurred with obtaining the revolving Credit Facility amounted to $35.

9. Class B LP units:

Pursuant to a Plan of Arrangement which was completed on December 14, 2012, 34,150,000 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 4,268,750 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.

The following table summarizes the changes in Class B LP Units for the three months ended March 31, 2013 and the period ended December 31, 2012:

	Class B LP Units	Amount
Outstanding, July 13, 2012	–	$ –
Issuance of Class B LP Units - Plan of Arrangement	4,268,750	3,080
Fair value adjustment	–	12,928
Outstanding, December 31, 2012	4,268,750	16,008
Fair value adjustment	–	(214)
Outstanding, March 31, 2013	4,268,750	$ 15,794

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

9. Class B LP units (continued):

The following table reconciles the cost base of the Class B LP Units to their fair value at March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Cost	$ 3,080	$ 3,080
Cumulative fair value adjustment	12,714	12,928
Fair value	$ 15,794	$ 16,008

During the three months ended March 31, 2013, the distributions on Class B LP units were $375 and have been recognized in finance costs in the condensed consolidated interim statements of loss and comprehensive loss.

10. Derivative instrument:

	Three months ended March 31, 2013	
	Fair value liability	Unrealized loss on derivative
Mortgage interest rate swap	$ 655	$ 655

The REIT entered into an interest rate swap to limit its interest rate exposure from floating to fixed during the term of the mortgage on the Laurier property with a principal value of $48,750 at March 31, 2013. The interest rate swap was required to be entered into by the lender. The annual fixed interest rate for this mortgage is 3.388%.

11. Unitholders' equity:

(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 and 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.

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.

11. Unitholders' equity (continued):

(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)

11. Unitholders' equity (continued):

(c) Units outstanding:

The following table summarizes the changes in common shares and Units for the three months ended March 31, 2013 and the period ended December 31, 2012:

	Common shares	Units	Amount
Balance, July 13, 2012	–	–	$ –
Common shares issued for cash (seed financing - July 13, 2012)	10,000,000	–	500
Common shares issued for cash (private placement - July 24, 2012)	41,000,000	–	4,100
Common shares issued for cash (IPO - August 28, 2012), net of issuance costs of $192	4,000,000	–	208
	55,000,000	–	4,808
Common shares exchanged for REIT Units (one Unit for every eight common shares)	(20,850,000)	2,606,250	–
Common shares exchanged for Class B LP Units (one Class B LP Unit for every eight common shares)	(34,150,000)	–	(3,080)
	–	2,606,250	1,728
Units issued for cash (private placement - December 14, 2012)	–	133,690	500
Balance, December 31, 2012	–	2,739,940	2,228
Units issued for cash (February 12, 2013), net of issuance costs of $4,598	–	14,549,914	51,128
Units issued for cash (private placement on February 12, 2013)	–	783,290	3,000
Issue of Units under Distribution Reinvestment Plan	–	75,950	275
Issue of Units from warrants exercised	–	7,442	18
Balance, March 31, 2012	–	18,156,536	$ 56,649

11. Unitholders' equity (continued):

On July 23, 2012, the Company issued 10,000,000 common shares for cash of $500 in its seed financing. These shares were initially held in escrow to be released in future periods in accordance with the Escrow Agreement entered into between the Company and the seed shareholders.

On July 24, 2012, the Company issued 41,000,000 common shares for cash of $4,100 in a private placement. Of these 41,000,000 common shares, 17,100,000 common shares were initially held in escrow to be released in future periods in accordance with the Escrow Agreement entered into between the Company and the shareholders of the private placement.

On August 28, 2012, the Company completed its IPO, with the issuance of 4,000,000 common shares for cash of $400. Costs related to the issuance including the agent's commission, legal, audit and filing fees were approximately $192 and charged directly to share capital.

The Qualifying Transaction and Plan of Arrangement were completed on December 14, 2012, whereby 20,850,000 common shares of the Company were exchanged for Units on the basis of one Unit for every eight common shares of the Company (2,606,250 Units at a value of $1,728). The remaining 34,150,000 common shares 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 (4,268,750 Class B LP Units at a value of $3,080).

Concurrent with the Qualifying Transaction on December 14, 2012, the REIT issued 134 units by a way of private placement at $3.74 per unit for gross proceeds of $500. There were no costs associated with the private placement.

On February 12, 2013, the REIT completed a public offering and issued 14,549,914 units for cash of $55,726. Costs related to the issuance including the agent's commission, legal, audit and filing fees were approximately $4,598 and charged directly to share capital.

On February 12, 2013, the REIT issued 783,290 units for cash of $3,000 in a private placement. There were no costs associated with the private placement.

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11. Unitholders' equity (continued):

As at March 31, 2013, 797,036 (December 31, 2012 - 870,356) Units and 2,317,500 (December 31, 2012 - 2,575,000) 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. Under the terms of the Plan, Trustees may, from time to time, at their discretion, and in accordance with Exchange requirements, grant certain Trustees and officers of the REIT, employees of Starlight Investments Ltd. ("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 3,900,000 common shares at $0.10 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, 3,900,000 of outstanding share options have been exchanged for 487,500 Unit options at an exercise of $0.80 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 equity.

On December 14, 2012, the REIT granted 200,000 unit options at an exercise price of $3.74 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)

11. Unitholders' equity (continued):

On February 12, 2013, the REIT granted 855,000 unit options at an exercise price of $3.83 per Unit option. These Unit options will expire five years from the date the options are granted.

For the three months ended March 31, 2013, compensation expense of $195 for these Unit options was determined using the Black-Scholes option pricing model with the following assumptions:

Average expected Unit option holding period	3.20 years
Average expected volatility rate	20%
Average dividend yield	8.03%
Average risk-free interest rate	1.12%

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.

(ii) Options granted to non-employees:

On August 27, 2012, the Company granted warrants to agents underwriting the IPO to purchase 250,000 common shares at a price of $0.30 per share. The warrants will expire two years from the date the warrants are granted. Pursuant to a Plan of Arrangement approved by the Company's shareholders on December 14, 2012, the 250,000 warrants have been exchanged for 31,250 Unit options at an exercise price of $2.40 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 warrants. As part of this exchange, the fair value adjustment on conversion of the share warrants to Unit options using the Black-Scholes option pricing model was $30, which was recognized through equity.

On March 18, 2013, 7,442 Unit options were exercised at an exercise price of $2.40. The fair value adjustment on the Unit options exercised of $7 was recognized through unitholders' equity.

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

11. Unitholders' equity (continued):

For the three months ended March 31, 2013, expenses related to these warrants were nominal and are included in trust expenses.

For the three months ended March 31, 2013 and year ended December 31, 2012, the number of options and warrants 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	3,900,000	–	–	–
Warrants granted	250,000	–	–	–
Exchange of share options for Unit options	(3,900,000)	487,500	0.80	4.66
Exchange of share warrants for Unit warrants	(250,000)	31,250	2.40	1.66
Unit options granted	–	200,000	3.74	4.96
Outstanding, December 31, 2012	–	718,750	1.69	–
Unit option granted	–	855,000	3.83	4.87
Unit warrants exercised	–	(7,442)	2.40	–
Outstanding, March 31, 2013	–	1,566,308	2.85	–
Exercisable, March 31, 2013	–	23,808	–	–

11. Unitholders' equity (continued):

(e) Distribution reinvestment plan:

The REIT adopted a Distribution Reinvestment Plan (“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 three months ended March 31, 2013, the REIT issued 75,950 Units under the DRIP for a stated value of $275.

12. Transactions with related parties:

The condensed consolidated interim financial statements as at March 31, 2013 and for the 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 condensed consolidated interim financial statements, the following are the related party transactions:

The REIT 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.

For the three months ended March 31, 2013, the costs of these services, aggregating $79, were charged to the REIT. Of this amount, $47 (December 31, 2012 - $3) is included in accounts payable and accrued liabilities.

12. Transactions with related parties (continued):

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

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

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

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

For the three months ended March 31, 2013, the REIT incurred $1,335 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.

(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.

There were no capital expenditure fees incurred for the three months ended March 31, 2013.

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

13. Finance costs:

The following table presents the financing costs incurred for the three months ended March 31, 2013:

Interest on mortgages payable	$	488
Amortization of financing costs		16
		504
Distributions on Class B LP Units		375
Fair value adjustment of Class B LP Units		(214)
	$	665

14. Change in non-cash operating working capital:

The changes in non-cash operating working capital for the three months ended March 31, 2013 are as follows:

Deposits	$	(22)
Tenant and other receivables		(45)
Prepaid expenses and other assets		(278)
Tenant rental deposits		(54)
Accounts payable and accrued liabilities		6
	$	(393)

15. Commitments and contingencies:

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

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16. Capital management:

The REIT's capital management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2012.

The REIT was in compliance with all financial covenants and the DOT as at March 31, 2013.

17. 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 consistent with those disclosed in the consolidated financial statements as at and for the period ended December 31, 2012.

(b) Fair values:

The REIT uses various methods in estimating the fair values recognized in the condensed consolidated interim 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.

17. Risk management and fair values (continued):

The following summarizes the significant methods and assumptions used in estimating fair values of the REIT's financial instruments:

(i) Class B LP Units:

The fair value of the Class B LP Units is estimated based on the market trading prices of the Units (Level 2).

(ii) Investment properties:

The fair value of the investment properties is estimated based on capitalized earnings that reflect rental income from current leases and assumptions about rental income from future leases and occupancy reflecting market conditions at the reporting date as outlined in note 4 (Level 3).

(iii) Derivative instrument:

The fair value of the derivate instrument payable has been measured based on the swap rate of a mortgage with similar terms and credit risks (Level 2).

(iv) Unit options and warrants:

Unit options granted and warrants granted are carried at fair value, estimated using the Black-Scholes option pricing model for option valuation (Level 2).

17. Risk management and fair values (continued):

(v) Mortgages payable:

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 (Level 2). The estimated fair value of mortgages payable approximates its carrying value.

(vi) Other financial assets and financial liabilities:

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 tenant rental deposits, accounts payable and accrued liabilities, finance costs payable and distributions payable, approximate their recorded values due to their short-term nature.