Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	September 30, 2014	December 31, 2013
Assets		
Non-current assets:		
Investment properties (note 4)	$ 228,088	$ 179,671
Deposits	286	289
Derivative instrument (note 12)	7	459
Total non-current assets	228,381	180,419
Current assets:		
Tenant and other receivables (note 5)	1,561	1,620
Prepaid expenses and other assets (note 6)	1,041	254
Restricted cash (note 7)	284	341
Cash and cash equivalents	1,021	1,832
Total current assets	3,907	4,047
Total assets	$ 232,288	$ 184,466
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 8)	$ 128,434	$ 105,010
Class B LP units (note 10)	16,776	15,533
Total non-current liabilities	145,210	120,543
Current liabilities:		
Mortgages payable (note 8)	3,343	2,679
Credit facilities (note 9)	836	1,400
Tenant rental deposits and prepayments	1,278	814
Accounts payable and accrued liabilities (note 11)	4,071	4,419
Derivative instrument (note 12)	257	300
Total current liabilities	9,785	9,612
Total liabilities	154,995	130,155
Unitholders' equity (note 13)	77,293	54,311
Total liabilities and unitholders' equity	$ 232,288	$ 184,466

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on November 11, 2014

"William J. Biggar" Trustee

"Roland A. Cardy" Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue (note 4)	$ 5,606	$ 4,881	$ 16,521	$ 12,141
Expenses:				
Property operating	1,119	1,064	3,579	2,516
Realty taxes	1,048	810	3,014	1,947
	2,167	1,874	6,593	4,463
	3,439	3,007	9,928	7,678
Other income (expenses):				
General and administration expenses	(289)	(408)	(1,379)	(1,416)
Finance costs (note 15)	(1,083)	(1,030)	(3,622)	(1,969)
Distributions on Class B LP Units	(385)	(317)	(1,154)	(1,009)
Fair value adjustment of Class B LP Units	1,088	533	(1,243)	2,988
Fair value adjustment of investment properties (note 4)	1,898	989	9,711	13,947
Net income and comprehensive income for the period	$ 4,668	$ 2,774	$ 12,241	$ 20,219

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Nine months ended September 30, 2014 and 2013
(Unaudited)

	Trust Unit capital (note 13(c))	Cumulative income (loss)	Total
Unitholders' equity (deficiency), December 31, 2012	$ 2,228	$ (13,975)	$ (11,747)
Units issued, net of issue costs	54,028	–	54,028
Net Income and comprehensive income for the period	–	20,219	20,219
Fair value adjustment on warrants exercised (note 13(d)(ii))	–	7	7
Distributions	–	(3,719)	(3,719)
Issue of units under Distribution Reinvestment Plan (“DRIP”) (note 13(e))	1,008	–	1,008
Unitholders' equity, September 30, 2013	57,264	2,532	59,796
Units issued, net of issue costs	2,134	–	2,134
Net income (loss) and comprehensive income (loss) for the year	–	(6,879)	(6,879)
Issue of units under unit option plan	276	–	276
Distributions	–	(1,416)	(1,416)
Issue of units under DRIP (note 13(e))	400	–	400
Unitholders' equity, December 31, 2013	60,074	(5,763)	54,311
Changes during the period:			
Units issued, net of issue costs	13,845	–	13,845
Net income and comprehensive income for the period	–	12,241	12,241
Issue of units under unit option plan	374	–	374
Distributions	–	(4,622)	(4,622)
Issue of units under DRIP (note 13(e))	1,144	–	1,144
Unitholders' equity, September 30, 2014	$ 75,437	$ 1,856	$ 77,293

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Operating activities:				
Net income for the period	$ 4,668	$ 2,774	$ 12,241	$ 20,219
Adjustments for financing activities included in income:				
Finance costs (note 15)	1,083	1,030	3,622	1,969
Distributions on Class B LP units	385	317	1,154	1,009
Fair value adjustment of Class B LP units	(1,088)	(533)	1,243	(2,988)
Adjustments for items not involving cash:				
Fair value adjustment of investment properties (note 4)	(1,898)	(989)	(9,711)	(13,947)
Warrant and unit-based compensation expense (note 13(d)(ii) and 13(d)(i))	28	77	400	320
Straight-line rent adjustment	(57)	(14)	(175)	(690)
Amortization of leasing commissions	1	–	1	–
Change in non-cash operating working capital (note 16)	744	356	(996)	(1,366)
Cash provided by operating activities	3,866	3,018	7,779	4,526
Investing activities:				
Acquisitions (note 3)	(34,491)	–	(34,491)	(138,063)
Additions to investment properties	(506)	(943)	(2,131)	(962)
Additions to property under development	(899)	–	(1,197)	–
Change in restricted cash	(284)	–	57	–
Cash used in investing activities	(36,180)	(943)	(37,762)	(139,025)
Financing activities:				
Proceeds (repayments) from credit facilities, net of costs	(3,640)	200	(619)	200
Proceeds from new mortgage financing, net of costs	25,503	–	25,503	86,523
Principal payments	(735)	(562)	(2,159)	(1,119)
Finance costs paid	(1,136)	(916)	(3,543)	(2,144)
Proceeds from issuance of units, net of costs	14,112	–	14,160	54,028
Units repurchased and cancelled under normal course issuer bid (“NCIB”)	–	–	(235)	–
Cash distributions to unitholders	(1,471)	(1,271)	(3,935)	(2,985)
Cash provided by (used in) financing activities	32,633	(2,549)	29,172	134,503
Increase (decrease) in cash and cash equivalents	319	(474)	(811)	4
Cash and cash equivalents, beginning of period	702	1,385	1,832	907
Cash and cash equivalents, end of period	$ 1,021	$ 911	$ 1,021	$ 911
Supplemental cash flow information:				
Units issued under DRIP – Unitholders	$ 190	$ 89	$ 562	$ 279
Units issued under DRIP – Class B LP units	189	256	582	729

See accompanying notes to condensed consolidated interim financial statements.

Organization:

True North Commercial Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust as most recently amended and restated May 22, 2014 ("DOT"), and governed by the laws of the Province of Ontario. The REIT incorporated True North Commercial General Partner Corp. ("TNCGP") on November 16, 2012 and, together with TNCGP, formed True North Commercial Limited Partnership ("TNCLP") on November 16, 2012.

The REIT is listed on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN. The registered office of the REIT is 1801 – 3300 Bloor St West, West Tower, Toronto, Ontario, Canada, M8X 2X2.

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the REIT have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions significant to an understanding of the changes in financial position and performance of the REIT since the last annual consolidated financial statements as at and for the year ended December 31, 2013. 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").

The condensed consolidated financial statements were approved on behalf of the Board of Trustees on November 11, 2014.

(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 99.99% 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.

1. Basis of preparation (continued):

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for investment properties, class B limited partnership units of TNCLP ("Class B LP Units"), unit options, warrants 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 which 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 were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2013.

2. Significant accounting policies:

Except as described below, the accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its consolidated financial statements for the year ended December 31, 2013.

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

In December 2011, the International Accounting Standards Board ("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. The REIT has adopted these amendments on January 1, 2014 on a prospective basis.

The adoption did not result in any changes to the condensed consolidated interim financial statements.

2. Significant accounting policies (continued):

(b) International Financial Reporting Interpretations Committee (“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.

The REIT adopted IFRIC 21 on January 1, 2014 on a prospective basis. The adoption did not result in any changes to the condensed consolidated interim financial statements.

(c) Future accounting changes:

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

IFRS 9 as issued reflects the IASB’s 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) will come into effect on January 1, 2018, with early application permitted.

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

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”):

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

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

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

3. Acquisitions:

The REIT acquired two properties on July 31, 2014 and one property on September 15, 2014. The acquisitions were accounted for as asset acquisitions.

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

	295 Belliveau Street	63 Innovation Drive	13140 St. Albert Trail	Net assets acquired
Net assets acquired:				
Investment properties (including acquisition costs of $711)	$ 6,606	$ 4,122	$ 24,476	$ 35,204
Restricted cash	–	–	284	284
Other receivables	8	38	40	86
Prepaid expenses and other assets	164	16	–	180
Tenant rental deposits	–	–	(394)	(394)
Accounts payable and accrued liabilities	(2)	(1)	(116)	(119)
Net assets acquired	$ 6,776	$ 4,175	$ 24,290	$ 35,241
Consideration:				
Proceeds from public offering, private placement and cash on hand	$ 2,273	$ 819	$ 6,053	$ 9,145
Proceeds from new mortgage financing, net of financing costs of $222	4,503	2,763	18,237	25,503
Vendor take-back mortgage, net of discount of $157	–	593	–	593
	$ 6,776	$ 4,175	$ 24,290	$ 35,241

The REIT acquired the 295 Belliveau Street property from an entity under the same common ownership as Starlight Investments Ltd. (“Starlight”) (note 14).

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

4. Investment properties:

The following table summarizes the changes in investment properties for the nine months ended September 30, 2014 and the year ended December 31, 2013:

	Investment properties	Properties under Development	Total
Balance, December 31, 2012	$ 14,554	$ –	$ 14,554
Acquisitions	157,256	–	157,256
Additions	1,516	45	1,561
Straight-line rent adjustment	714	–	714
Fair value adjustment	5,586	–	5,586
Balance, December 31, 2013	179,626	45	179,671
Acquisitions	35,204		35,204
Additions	2,131	1,197	3,328
Reclassification of properties under development	1,242	(1,242)	–
Amortization of leasing costs and straight-line rents	174	–	174
Fair value adjustment	9,711	–	9,711
Balance, September 30, 2014	$ 228,088	$ –	$ 228,088

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

	September 30, 2014	December 31, 2013
Terminal and direct capitalization rates - range	6.06% to 11.60%	6.34% to 11.60%
Terminal and direct capitalization rate - weighted average	7.00%	7.02%
Discount rates - range	7.25% to 10.50%	7.15% to 10.50%
Discount rate - weighted average	7.71%	7.53%

(In thousands of Canadian dollars, except Unit and per 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 terminal and direct capitalization rates and discount rates would result in a change to the fair value of the REIT's investment properties as set out in the following table:

	September 30, 2014	December 31, 2013
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (6,623)	$ (2,937)
25-basis points decrease	7,137	3,164
Weighted average discount rate:		
25-basis points increase	(1,678)	(2,830)
25-basis points decrease	1,712	2,901

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

Within one year	$ 15,005
Later than one year and not longer than five years	43,070
Thereafter	7,830
	$ 65,905

5. Tenant and other receivables:

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

	September 30, 2014	December 31, 2013
Tenant receivables	$ 1,465	$ 1,584
Other receivables	96	36
	$ 1,561	$ 1,620

As at September 30, 2014, there is no impairment of tenant and other receivables.

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

6. Prepaid expenses and other assets:

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

	September 30, 2014	December 31, 2013
Prepaid expenses	$ 1,016	$ 165
Pre-acquisition costs	25	89
	$ 1,041	$ 254

7. Restricted cash:

The following table presents details of restricted cash:

	September 30, 2014	December 31, 2013
Funds in escrow	$ 263	$ –
Deposits in trust	21	341
	$ 284	$ 341

8. Mortgages payable:

As at September 30, 2014, the REIT had $132,733 (December 31, 2013 - $108,418) of principal balance of mortgages payable. The mortgages carry a weighted average fixed interest rate of 3.50% (December 31, 2013 - 3.53%), and a weighted average term to maturity of 3.80 years (December 31, 2013 – 4.21 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 REIT's Miramichi property.

(In thousands of Canadian dollars, except Unit and per 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	$ 852	$ –	852	$ 1,129
2015	3,645	–	3,645	4,538
2016	3,775	765	4,540	4,402
2017	3,883	9,136	13,019	4,230
2018	1,576	85,594	87,170	1,851
Thereafter	769	22,738	23,507	798
Face value	$ 14,500	$ 118,233	$ 132,733	$ 16,948
Unamortized below market mortgage adjustments			(151)	
Unamortized financing costs (December 31, 2013 - $729)			(805)	
Total mortgages payable			$ 131,777	

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

	September 30, 2014	December 31, 2013
Current:		
Mortgages payable	$ 3,574	$ 2,871
Unamortized below market mortgage adjustments	(33)	–
Unamortized financing cost	(198)	(192)
	3,343	2,679
Non-current:		
Mortgages payable	129,159	105,547
Unamortized below market mortgage adjustments	(118)	–
Unamortized financing cost	(607)	(537)
	128,434	105,010
	$ 131,777	$ 107,689

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

8. Mortgages payable (continued):

As part of the purchase of the 63 Innovation Drive property, the REIT obtained financing from the vendor, in the amount of $750. This vendor take-back bears interest at an annual fixed rate of 3.0%, is interest-only, matures on April 30, 2019 (or later in certain circumstances), and is secured by a second charge on the 63 Innovation Drive 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 vendor take back was sold to a third party as a secured promissory note ("Note"). 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 September 30, 2014, the balance outstanding on the Note is $765. The Note bears interest at an annual fixed rate of 2.0%, is interest-only, secured by a second charge on the Miramichi property and repayable no later than February 12, 2018.

9. Credit facilities:

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.

On March 31, 2014, the REIT amended the credit agreement to include a second revolving credit facility of $10,000 (the "Second Credit Facility"). The Second Credit Facility bears interest on cash advances above $1,000 at 285 basis points per annum over the floating banker's acceptance rate or under $1,000 at 185 basis points over prime rate. The Credit Facility and the Second Credit Facility are secured by the Miramichi property and Laurier property and mature on February 12, 2015.

The following table provides a breakdown of the Credit Facility and the Second Credit Facility:

	September 30, 2014	December 31, 2013
Credit facilities	$ 900	$ 1,400
Unamortized financing cost	(64)	–
	$ 836	$ 1,400

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

10. Class B LP Units:

The following table summarizes the changes in Class B LP Units for the nine months ended September 30, 2014 and the year ended December 31, 2013:

	Class B LP Units	Amount
Outstanding, December 31, 2012	2,134,369	$ 16,008
Fair value adjustment	–	(2,988)
Outstanding, September 30, 2013	2,134,369	13,020
Issuance of Class B LP Units	454,545	3,000
Fair value adjustment	–	(487)
Outstanding, December 31, 2013	2,588,914	15,533
Fair value adjustment	–	1,243
Outstanding, September 30, 2014	2,588,914	$ 16,776

During the three and nine months ended September 30, 2014, the distributions on Class B LP Units were $385 and $1,154, respectively, and have been recognized in the condensed consolidated interim statements of income and comprehensive income.

11. Accounts payable and accrued liabilities:

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

	September 30, 2014	December 31, 2013
Accounts payable and accrued liabilities	$ 2,566	$ 3,115
Finance costs payable	437	400
Distributions payable	606	481
Unit based compensation liability	462	423
	$ 4,071	$ 4,419

12. Derivative instrument:

The REIT entered into an interest rate swap on February 12, 2013 to limit its interest rate exposure from floating to fixed during the term of the mortgage on Laurier property with a principal amount of $46,842 at September 30, 2014. The interest rate swap will expire conterminously upon maturity of the mortgage on March 1, 2018. The annual fixed interest rate for this mortgage is 3.388%.

13. Unitholders' equity:

(a) Units:

The REIT is authorized to issue an unlimited number of trust units ("Units") and an unlimited number of special voting units ("Special Voting Units"). Each Unit confers the right to one vote at any meeting of unitholders and to participate *pro rata* in all distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. The unitholders have the right to require the REIT to redeem their Units on demand. The Units have no par value. 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"). The Redemption Price will be paid in accordance with the conditions provided for in the DOT.

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 (as defined in the DOT) 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.

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

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

13. Unitholders' equity (continued):

(b) Special Voting Units:

The DOT and the exchange agreement dated December 14, 2012 between the REIT, Starlight and TNCGP amongst others, provide for the issuance of the Special Voting Units which have no economic entitlement in the REIT or in the distribution or assets of the REIT, but are used to provide voting rights proportionate to the votes of the Units to holders of securities exchangeable into Units, including the Class B LP Units. Each Special Voting Unit is not transferable separately from the Class B LP Unit to which it is attached and will be automatically redeemed and cancelled upon exchange of the attached Class B LP Unit into a Unit.

(c) Units outstanding:

The following table summarizes the changes in Units for the nine months ended September 30, 2014 and 2013:

	Units (note 1(b))	Amount
Balance, December 31, 2012	1,369,970	$ 2,228
Units issued for cash	7,666,599	58,726
Issue of Units under DRIP	153,853	1,008
Issue of Units from warrants exercised	3,721	18
Issuance costs	–	(4,716)
Balance, September 30, 2013	9,194,143	57,264
Units issued for cash	386,364	2,550
Issue of Units under DRIP	69,449	400
Issue of Units under the non-executive trustee unit issuance plan	9,305	56
Issue of Units from options exercised	52,083	276
Issuance costs	–	(472)
Balance, December 31, 2013	9,711,344	60,074
Units issued for cash	2,299,704	15,082
Issue of Units under DRIP	188,487	1,144
Issue of Units under the non-executive trustee unit issuance plan	14,288	89
Issue of Units from warrants exercised	11,903	74
Issue of Units from options exercised	60,416	374
Units repurchased and cancelled under normal course issuer bid	(39,500)	(235)
Issuance costs	–	(1,165)
Balance, September 30, 2014	12,246,642	$ 75,437

13. Unitholders' equity (continued):

On July 31, 2014, the REIT issued 378,787 Units for cash of $2,500 in a private placement. Costs associated with the private placement were approximately $20 and charged directly to trust unit capital.

On August 27, 2014, the REIT completed a public offering and issued 1,920,917 Units for cash of $12,582. Costs related to the issuance including the agent’s commission, legal, audit and filing fees were approximately $1,140 and charged directly to trust unit capital.

As at September 30, 2014, nil (December 31, 2013 – 108,794) Units and nil (December 31, 2013 – 321,877) Class B LP Units remained in escrow.

(d) Unit-based compensation plan:

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

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

13. Unitholders' equity (continued):

(i) Options granted:

For the nine months ended September 30, 2014 and 2013, the number of Unit options outstanding changed as follows:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2012	343,750	$ 3.31	4.61	–
Unit options granted	427,500	7.66	–	–
Outstanding, September 30, 2013	771,250	$ 5.72	4.70	81,250
Unit options exercised	(52,083)	1.60	–	–
Outstanding, December 31, 2013	719,167	6.02	3.97	62,500
Unit options exercised	(60,416)	1.60	–	–
Outstanding, September 30, 2014	658,751	6.43	3.25	225,825

On March 11, 2014 and September 30, 2014, 8,333 and 52,083 Unit options, respectively, were exercised at an exercise price of $1.60. Upon the exercise of these Unit options, $374 was recorded to Trust Unit capital. Included in this amount is $277 which represents the fair value amount of the exercised Unit options.

For the nine months ended September 30, 2014 and 2013, compensation expense was $328 and $331, respectively and is included in general and administration expenses. The expense was determined using the Black-Scholes option pricing model with the following assumptions:

	September 30, 2014	September 30, 2013
Average expected Unit option holding period	1.84 years	2.70 years
Average expected volatility rate	20%	20%
Average dividend yield	9.17%	9.74%
Average risk-free interest rate	1.14%	1.48%

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

13. Unitholders' equity (continued):

Expected volatilities are based on the historical volatility of 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) Warrants granted to non-employees:

For the nine months ended September 30, 2014 and 2013, the number of warrants outstanding changed as follows:

	Number of warrants	Weighted average exercise price	Remaining contractual life (in years)	Number of warrants exercisable
Outstanding, December 31, 2012	15,625	$4.80	1.66	15,625
Warrants exercised	(3,721)	4.80		
Outstanding, September 30, 2013	11,904	4.80	0.66	11,904
Warrants exercised	–	–		
Outstanding, December 31, 2013	11,904	4.80	0.66	11,904
Warrants exercised	(11,904)	4.80		
Outstanding, September 30, 2014	–	–	–	–

On January 24, 2014 and January 31, 2014, 5,070 and 530 warrants, respectively, were exercised at an exercise price of $4.80. On April 28, 2014 and August 14, 2014, 2,585 and 3,718 warrants, respectively, were exercised at an exercise price of $4.80. Upon the exercise of these warrants, $74 was recorded to Trust Unit capital. Included in this amount is $17 which represents the fair value amount of the exercised warrants.

For the nine months ended September 30, 2014 and 2013, expenses related to these warrants were nominal and are included in general and administration expenses. The expenses were determined using the Black Scholes option pricing model.

13. Unitholders' equity (continued):

(e) Distributions and Dividend Reinvestment Plan:

Under the DOT, the total amount of income of the REIT to be distributed to unitholders for each calendar month is 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 *Income Tax Act* (Canada) for any year.

For the nine months ended September 30, 2014 and 2013, the REIT declared distributions of $4,622 and $3,719.

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

For the nine months ended September 30, 2014, the REIT issued 188,487 Units under the DRIP for a stated value of $1,144.

For the nine months ended September 30, 2013, the REIT issued 153,853 Units under the DRIP for a stated value of $1,008.

(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 NCIB. Under the NCIB, the REIT has 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 NCIB 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 NCIB.

As at September 30, 2014, 39,500 (December 31, 2013 – nil) Units were repurchased under the NCIB.

13. Unitholders' equity (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) units; (ii) unsecured debt securities; (iii) subscription receipts exchangeable for units and/or other securities of the REIT; (iv) warrants exercisable to acquire units and/or other securities of the REIT; and (v) securities comprised of more than one of 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 September 30, 2014, 1,920,917 (December 31, 2013 – nil) Units were issued under the short from base shelf prospectus.

14. Transactions with related parties:

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

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

14. Transactions with related parties (continued):

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

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

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

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

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

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

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

14. Transactions with related parties (continued):

The following table presents the costs incurred for the three and nine months ended September 30, 2014 and 2013:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Asset management fees	$ 168	$ 140	$ 478	$ 358
Acquisition fees	350	–	350	1,335

Of these amounts, $58 (December 31, 2013 - $47) is included in accounts payable and accrued liabilities.

No incentive fees or capital expenditure fees were incurred for the three and nine months ended September 30, 2014 and 2013.

15. Finance costs:

The following table presents the financing costs incurred for the three and nine months ended September 30, 2014 and 2013, excluding the distributions and fair value adjustment on Class B LP Units:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Interest on mortgages payable	$ 1,010	$ 852	$ 2,897	$ 2,195
Other interest expense and standby fees	40	1	111	1
Amortization of mortgage discount	6	–	6	–
Amortization of financing costs	82	45	200	108
	1,138	898	3,214	2,304
Unrealized loss (gain) on change in fair value of derivative instrument	(55)	132	408	(335)
	$ 1,083	$ 1,030	$ 3,622	$ 1,969

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

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three and nine months ended September 30, 2014 and 2013 is as follows:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Deposits	$ –	$ –	$ 3	$ (262)
Tenant and other receivables	(188)	(295)	145	(534)
Prepaid expenses and other assets	319	153	(607)	(1,120)
Tenant rental deposits and prepayments	295	8	70	78
Accounts payable and accrued liabilities	318	490	(607)	472
	$ 744	$ 356	$ (996)	$ (1,366)

17. Commitments and contingencies:

The REIT has entered into commitments for building renovations at its Laurier property. The commitments as at September 30, 2014 and December 31, 2013 were $733 and $nil, respectively.

At September 30, 2014, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

18. Segmented disclosure:

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

19. Capital management:

The REIT's capital management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2013.

The REIT was in compliance with all financial covenants as at September 30, 2014.

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

20. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

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

The REIT is exposed to interest rate risk on its floating-rate debt on its 340 Laurier property which was mitigated by entering into an interest rate swap (note 12).

As at September 30, 2014 and December 31, 2013, the REIT's interest-bearing financial instruments were:

		Carrying value
	September 30, 2014	December 31, 2013
Fixed-rate instruments:		
Mortgages payable	$ 132,733	$ 108,418
Variable-rate instruments:		
Credit facilities	$ 900	$ 1,400

An increase (decrease) of 100 basis points in interest rates at September 30, 2014 for the variable-rate financial instruments would have increased (decreased) net income for the period by $19 (on a pre-tax basis).

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

20. Risk management and fair values (continued):

(ii) Credit risk:

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

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

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits as permitted by legislation, and geographically diversifying its portfolio. The REIT monitors outstanding receivables on a month-to-month basis to ensure a reasonable allowance is provided for all uncollectible amounts.

As at September 30, 2014, the Federal Government of Canada provides 49% of the REIT's rental revenue.

(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 at September 30, 2014:

	Total	2014	2015	2016	2017	2018	Thereafter
Mortgages payable (note 8)	$ 132,733	$ 852	$ 3,645	$ 4,540	$ 13,019	$ 87,170	$ 23,507
Derivative instrument	250	90	245	54	(117)	(22)	–
Credit facilities (note 9)	900	–	900	–	–	–	–
Tenant rental deposits	1,278	1,278	–	–	–	–	–
Accounts payable and accrued liabilities (note 11)	4,071	4,071	–	–	–	–	–
	$ 139,232	$ 6,291	$ 4,790	$ 4,594	$ 12,902	$ 87,148	$ 23,507

20. Risk management and fair values (continued):

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 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 foreign exchange risk.

(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.

The REIT determined the fair value of each investment property based on valuation approaches and key assumptions with level 3 inputs as described in note 4.

Unit options granted and warrants granted are carried at fair value, estimated using the Black-Scholes option pricing model for option valuation using level 3 inputs as described in note 13(d)(i) and 13(d)(ii).

20. Risk management and fair values (continued):

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

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

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 at September 30, 2014 is approximately $133,500 (December 31, 2013 - $107,900).

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 other financial liabilities, which include the revolving credit facilities, tenant rental deposits, accounts payable and accrued liabilities, finance costs payable and distributions payable, approximate their carrying values due to their short-term nature.

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

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

20. Risk management and fair values (continued):

September 30, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 228,088	$ 228,088
Liabilities:				
Class B LP Units	$ 16,776	$ –	$ –	$ 16,776
Unit options and warrants			462	462
Mortgages payable	–	133,500	–	133,500
Derivative instrument, net	–	250	–	250
	$ 16,776	$ 133,750	$ 462	$ 150,988

December 31, 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

Note 4 presents a reconciliation of Level 3 fair value measurement for investment properties for the nine months ended September 30, 2014 and the year ended December 31, 2013.