

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

**TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT
TRUST**

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	September 30, 2015	December 31, 2014
Assets		
Non-current assets:		
Investment properties (note 4)	\$ 340,955	\$ 311,480
Instalment notes receivable (note 5)	1,029	1,264
Deposits	368	287
Total non-current assets	342,352	313,031
Current assets:		
Tenant and other receivables (note 6)	1,244	1,337
Prepaid expenses and other assets (note 7)	1,592	821
Instalment notes receivable (note 5)	317	328
Restricted cash	–	264
Cash and cash equivalents	523	2,186
Total current assets	3,676	4,936
Total assets	\$ 346,028	\$ 317,967
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages and notes payable (note 8)	\$ 195,592	\$ 182,193
Derivative instruments (note 12)	1,014	199
Class B LP Units (note 10)	24,038	20,533
Total non-current liabilities	220,644	202,925
Current liabilities:		
Mortgages and notes payable (note 8)	5,763	5,097
Credit facilities (note 9)	6,087	1,473
Tenant rental deposits and prepayments	1,309	1,243
Accounts payable and accrued liabilities (note 11)	4,721	4,641
Derivative instrument (note 12)	746	228
Total current liabilities	18,626	12,682
Total liabilities	239,270	215,607
Unitholders' equity (note 13)	106,758	102,360
Total liabilities and unitholders' equity	\$ 346,028	\$ 317,967

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on November 11, 2015.

"William J. Biggar" _____ Trustee

"Roland A. Cardy" _____ Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and nine months ended September, 2015 and 2014
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 9,519	\$ 5,606	\$ 27,291	\$ 16,521
Expenses:				
Property operating	2,133	1,119	6,034	3,579
Realty taxes	1,505	1,048	4,387	3,014
Income before the undernoted	5,881	3,439	16,870	9,928
Other income (expenses):				
General and administration expenses	(444)	(289)	(1,388)	(1,379)
Finance costs (note 15)	(2,489)	(1,083)	(6,807)	(3,622)
Distributions on Class B LP Units	(644)	(385)	(1,660)	(1,154)
Fair value adjustment of Class B LP Units (note 10)	1,036	1,088	1,686	(1,243)
Fair value adjustment of investment properties (note 4)	4,179	1,898	2,378	9,711
Loss on sale of investment property	–	–	(350)	–
Net income and comprehensive income for the period	\$ 7,519	\$ 4,668	\$ 10,729	\$ 12,241

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, 2015 and 2014
(Unaudited)

	Trust Unit capital (note 13(c))	Retained earnings	Total
Unitholders' equity, January 1, 2014	\$ 60,074	\$ (5,763)	\$ 54,311
Changes during the period:			
Units issued (repurchased), net of issue costs	13,845	–	13,845
Net income and comprehensive income for the period	–	12,241	12,241
Issue of units under unit option plan (note 13(d))	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
Units issued, net of issue costs	26,001	–	26,001
Net income and comprehensive income for the year	–	740	740
Issue of units under unit option plan (note 13(d))	–	–	–
Distributions	–	(2,050)	(2,050)
Issue of units under DRIP (note 13(e))	376	–	376
Unitholders' equity, December 31, 2014	101,814	546	102,360
Changes during the period:			
Units issued (repurchased), net of issue costs	(220)	–	(220)
Net income and comprehensive income for the period	–	10,729	10,729
Issue of units under unit option plan (note 13(d))	307	–	307
Distributions	–	(7,563)	(7,563)
Issue of units under DRIP (note 13(e))	1,145	–	1,145
Unitholders' equity, September 30, 2015	\$ 103,046	\$ 3,712	\$ 106,758

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, 2015 and 2014
(Unaudited)

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2015	2014	2015	2014
Operating activities:				
Net income for the period	\$ 7,519	\$ 4,668	\$ 10,729	\$ 12,241
Adjustments for financing activities included in income:				
Finance costs (note 15)	2,489	1,083	6,807	3,622
Distributions on Class B LP units	644	385	1,660	1,154
Fair value adjustment of Class B LP Units	(1,036)	(1,088)	(1,686)	1,243
Adjustments for items not involving cash:				
Fair value adjustment of investment properties (note 4)	(4,179)	(1,898)	(2,378)	(9,711)
Loss on sale of investment property	–	–	350	–
Unit-based compensation expense (note 13(d))	37	6	96	328
Change in other non-cash operating items	49	(34)	107	(102)
Change in non-cash operating working capital (note 16)	(259)	744	(542)	(996)
Cash provided by operating activities	5,264	3,866	15,143	7,779
Investing activities:				
Acquisitions (note 3)	(29,954)	(34,491)	(35,997)	(34,491)
Net proceeds from the disposition of investment properties (note 3)	–	–	5,916	–
Additions to investment properties (note 4)	(16)	(506)	(2,100)	(2,131)
Additions to property under development	–	(899)	–	(1,197)
Change in restricted cash	266	(284)	264	57
Cash used in investing activities	(29,704)	(36,180)	(31,917)	(37,762)
Financing activities:				
Proceeds from (repayment) of credit facilities, net of costs	4,100	(3,640)	4,576	(619)
Proceeds from new mortgage financing, net of costs	24,270	25,503	28,328	25,503
Repayment of mortgage	–	–	(697)	–
Principal payments on mortgages	(1,346)	(735)	(3,931)	(2,159)
Principal payments on instalment note receivable	85	–	246	–
Finance costs paid	(2,151)	(1,136)	(6,241)	(3,543)
Proceeds from issuance of Units, net of costs	359	14,112	336	14,160
Units repurchased and cancelled under normal course issuer bid	(105)	–	(542)	(235)
Cash distributions to unitholders	(2,376)	(1,471)	(6,964)	(3,935)
Cash provided by financing activities	22,836	32,633	15,111	29,172
(Decrease) increase in cash and cash equivalents	(1,604)	319	(1,663)	(811)
Cash and cash equivalents, beginning of period	2,127	702	2,186	1,832
Cash and cash equivalents, end of period	\$ 523	\$ 1,021	\$ 523	\$ 1,021
Supplemental cash flow information:				
Units issued under DRIP - unitholders	\$ 155	\$ 190	\$ 590	\$ 562
Units issued under DRIP – Class B LP Units	183	189	555	582
Mortgages assumed on sale of investment property	–	–	9,828	–
Issuance of Class B LP Units on acquisition	5,191	–	5,191	–

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

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 amended and restated on May 22, 2014 (“DOT”), and governed by the laws of the Province of Ontario. The REIT incorporated True North Commercial General Partner Corp. (“TNCGP”) on November 16, 2012 and, together with TNCGP, formed True North Commercial Limited Partnership (“TNCLP”) on November 16, 2012.

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

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the REIT have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions significant to understand the changes in financial position and performance of the REIT since the last annual consolidated financial statements as at and for the year ended December 31, 2014. These condensed consolidated interim financial statements do not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”).

The condensed consolidated interim financial statements were approved on behalf of the Board of Trustees on November 11, 2015.

(b) Basis of presentation:

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

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

1. Basis of preparation (continued):

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for investment properties, class B limited partnership units of TNCLP ("Class B LP Units"), unit options and derivative instruments, which are stated at their fair values.

(c) Critical judgments and estimates:

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying accounting policies were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2014.

2. Significant accounting policies:

The accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its audited consolidated financial statements as at and for the year ended December 31, 2014.

(a) Future accounting changes:

A number of new standards have been issued but are not effective for the three and nine months ended September 30, 2015 and, accordingly, have not been applied in preparing these condensed consolidated interim financial statements.

Standards	Effective date (annual period beginning on or after)
IFRS 15, Revenue from Contracts with Customers ("IFRS 15")	January 1, 2018
IFRS 9, Financial Instruments	January 1, 2018

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

2. Significant accounting policies (continued):

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

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

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

(ii) IFRS 9, Financial Instruments:

On July 24, 2014, the International Accounting Standards Board ("IASB") issued IFRS 9, Financial Instruments ("IFRS 9 (2014)"). IFRS 9 (2014) was issued as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets and liabilities. This amendment completes the IASB's financial instruments project and the standard is effective for reporting periods beginning on or after January 1, 2018, with early adoption permitted.

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

3. Acquisitions and dispositions:

All acquisitions completed during the nine months ended September 30, 2015 were accounted for as asset acquisitions.

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

	845 Prospect Street	Kingswood Portfolio (a)	Net assets acquired
	March 25, 2015	July 29, 2015	
Investment properties (including acquisition costs of \$813)	\$ 6,075	\$ 34,829	\$ 40,904
Other receivables	21	68	89
Prepaid expenses and other assets	–	303	303
Tenant rental deposits	–	(24)	(24)
Accounts payable and accrued liabilities	(50)	(34)	(84)
Net assets acquired	\$ 6,046	\$ 35,142	\$ 41,188
Consideration:			
Proceeds from private placement and cash on hand	\$ 1,976	\$ 5,677	\$ 7,653
Proceeds from new mortgage financing, net of financing costs of \$285	4,070	24,274	28,344
Issuance of Class B LP Units	–	5,191	5,191
	\$ 6,046	\$ 35,142	\$ 41,188

(a) Kingswood portfolio consists of the 414-422 York Street, 440-478 York Street, 495 Prospect Street and 500 Beaverbrook Court properties located in Fredericton, New Brunswick.

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

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

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

4. Investment properties:

The following table summarizes the changes in investment properties for the nine months ended September 30, 2015 and 2014:

	Investment properties	Properties under development	Total
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, tenant inducements and straight line rents	174	–	174
Fair value adjustment	9,711	–	9,711
Balance, September 30, 2014	228,088	–	228,088
Acquisitions	85,168	–	85,168
Additions	1,022	(5)	1,017
Reclassification of properties under development	(5)	5	–
Amortization of leasing costs, tenant inducements and straight line rents	75	–	75
Fair value adjustment	(2,868)	–	(2,868)
Balance, December 31, 2014	311,480	–	311,480
Acquisitions	40,904	–	40,904
Additions	2,100	–	2,100
Dispositions	(15,869)	–	(15,869)
Amortization of leasing costs, tenant inducements and straight line rents	(38)	–	(38)
Fair value adjustment	2,378	–	2,378
Balance, September 30, 2015	\$ 340,955	\$ –	\$ 340,955

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

4. Investment properties (continued):

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

	September 30, 2015	September 30, 2014
Terminal and direct capitalization rates - range	6.00% to 11.50%	6.06% to 11.60%
Terminal and direct capitalization rate - weighted average	7.19%	7.00%
Discount rates - range	7.00% to 12.00%	7.25% to 10.50%
Discount rate - weighted average	7.80%	7.71%

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, 2015	September 30, 2014
Weighted average terminal and direct capitalization rate:		
25-basis points increase	\$ (10,156)	\$ (6,623)
25-basis points decrease	9,038	7,137
Weighted average discount rate:		
25-basis points increase	(10,023)	(1,678)
25-basis points decrease	8,759	1,712

5. Instalment notes receivable:

In connection with the acquisition of certain properties in December 2014, the vendors agreed to deliver non-interest bearing instalment notes totalling \$2,028 with a present value of \$1,592 pursuant to which such vendors will provide instalment payments to the REIT to allow the REIT to achieve an effective interest rate of 3.3% per annum on certain assumed mortgages. These instalment notes mature on various dates between April 1, 2017 and April 1, 2027, co-terminously with the assumed mortgages.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

5. Instalment notes receivable (continued):

The following table provides a breakdown of the current and non-current portions of the instalment notes receivable:

	September 30, 2015	December 31, 2014
Current	\$ 317	\$ 328
Non-current	1,029	1,264
Balance	\$ 1,346	\$ 1,592

6. Tenant and other receivables:

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

	September 30, 2015	December 31, 2014
Tenant receivables and charge backs	\$ 1,197	\$1,243
Other receivables	47	94
	\$ 1,244	\$1,337

As at September 30, 2015, there is no impairment of tenant and other receivables.

7. Prepaid expenses and other assets:

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

	September 30, 2015	December 31, 2014
Prepaid expenses	\$ 1,592	\$ 794
Pre-acquisition costs	-	27
	\$ 1,592	\$ 821

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

8. Mortgages and notes payable:

As at September 30, 2015, the REIT had \$201,937 (December 31, 2014 - \$187,764) of principal balances of mortgages and notes payable outstanding. The mortgages and notes carry a weighted average fixed interest rate of 3.34% (December 31, 2014 - 3.44%) after giving effect to the instalment note receipts, and a weighted average term to maturity of 3.82 years (December 31, 2014 - 4.32 years). All interest rates are fixed for the term of the respective mortgages except for six of the REIT's mortgages that have utilized interest rate swaps to fix their floating interest rates (note 12). The mortgages are secured by first charges on the respective properties and the vendor take-back mortgages are secured by second charges on the respective properties.

As at September 30, 2015, mortgages and notes are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages and notes payable	Scheduled interest payments
2015 – remainder of year	\$ 1,470	\$ –	\$ 1,470	\$ 1,764
2016	6,019	765	6,784	6,913
2017	5,903	11,499	17,402	6,377
2018	3,794	85,594	89,388	4,073
2019	2,931	20,474	23,405	2,787
Thereafter	4,972	58,516	63,488	3,853
Face value	<u>\$ 25,089</u>	<u>\$ 176,848</u>	<u>\$ 201,937</u>	<u>\$ 25,767</u>
Unamortized mark to market mortgage adjustments (2014 - \$700)			601	
Unamortized financing costs (2014 - (\$1,174))			(1,183)	
Total mortgage and notes payable			<u>\$ 201,355</u>	

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

8. Mortgages and notes payable (continued):

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

	September 30, 2015	December 31, 2014
Current:		
Mortgages and notes payable	\$ 5,964	\$ 5,240
Unamortized mark to market mortgage adjustments	126	131
Unamortized financing cost	(327)	(274)
	5,763	5,097
Non-current:		
Mortgages and notes payable	195,973	182,524
Unamortized mark to market mortgage adjustments	475	569
Unamortized financing cost	(856)	(900)
	195,592	182,193
	\$ 201,355	\$ 187,290

9. Credit facilities:

The REIT has a credit agreement with a Canadian chartered bank for a \$5,000 and \$10,000 floating rate revolving credit facility (the "Credit Facilities"). The Credit Facilities are secured by two properties and mature on February 12, 2017.

The \$5,000 facility bears interest on cash advances above \$1,000 at 212.5 basis points per annum over the floating banker's acceptance rate or under \$1,000 at 100 basis points over prime rate. The \$10,000 facility bears interest on cash advances above \$1,000 at 250 basis points per annum over the floating banker's acceptance rate or under \$1,000 at 150 basis points over prime rate.

The following table provides a breakdown of the Credit Facilities:

	September 30, 2015	December 31, 2014
Credit Facilities	\$ 6,100	\$ 1,500
Unamortized financing cost	(13)	(27)
	\$ 6,087	\$ 1,473

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

10. Class B LP Units:

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

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

	Class B LP Units	Amount
Outstanding, December 31, 2013	2,588,914	\$ 15,533
Fair value adjustment	–	1,243
Outstanding, September 30, 2014	2,588,914	16,776
Issuance of Class B LP Units	833,333	5,500
Fair value adjustment	–	(1,743)
Outstanding, December 31, 2014	3,422,247	20,533
Issuance of Class B LP Units	909,090	5,191
Fair value adjustment	–	(1,686)
Outstanding, September 30, 2015	4,331,337	\$ 24,038

During the three and nine months ended September 30, 2015, the distributions on Class B LP Units were \$644 and \$1,660, respectively.

11. Accounts payable and accrued liabilities:

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

	September 30, 2015	December 31, 2014
Accounts payable and accrued liabilities	\$ 2,805	\$ 2,767
Finance costs payable	772	612
Distributions payable	847	836
Unit based compensation liability	297	426
	\$ 4,721	\$ 4,641

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

12. Derivative instruments:

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

13. Unitholders' equity:

(a) Units:

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

(b) Special Voting Units:

The DOT and the exchange agreement among the REIT, Starlight Investments Ltd ("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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

13. Unitholders' equity (continued):

(c) Units outstanding:

The following table summarizes the changes in Units for the nine months ended September 30, 2015 and 2014:

	Units	Amount
Balance, December 31, 2013	9,711,344	\$ 60,074
Units issued for cash	2,299,704	15,082
Issue of Units under distribution reinvestment plan	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 and repurchase costs	–	(1,165)
Balance, September 30, 2014	12,246,642	75,437
Units issued for cash	4,591,515	28,306
Issue of Units under the non-executive trustee unit issuance plan	4,294	26
Issue of Units under distribution reinvestment plan	61,035	376
Units repurchased and cancelled under normal course issuer bid	(13,200)	(87)
Issuance and repurchase costs	–	(2,244)
Balance, December 31, 2014	16,890,286	101,814
Units issued for cash	45,454	300
Issue of Units under the non-executive trustee unit issuance plan	11,752	69
Issue of Units under distribution reinvestment plan	199,302	1,145
Issue of Units from options exercised	52,084	307
Units repurchased and cancelled under normal course issuer bid	(90,600)	(542)
Issuance and repurchase costs	–	(47)
Balance, September 30, 2015	17,108,278	\$ 103,046

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

13. Unitholders' equity (continued):

(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, the trustees of the REIT ("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.

For the nine months ended September 30, 2015 and 2014, the number of Unit options outstanding were as follows:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2013	719,167	\$ 6.02	3.97	62,500
Unit options exercised	(60,416)	1.60	–	–
Outstanding, September 30, 2014	658,751	6.43	3.25	225,825
Outstanding, December 31, 2014	658,751	6.43	3.00	259,157
Unit options granted	495,000	6.15	–	–
Unit options exercised	(52,084)	1.60	–	–
Outstanding, September 30, 2015	1,101,667	\$ 6.53	3.18	430,821

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

13. Unitholders' equity (continued):

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

Balance, December 31, 2013	\$	411
Unit options exercised		(277)
Fair value adjustment		328
Balance, September 30, 2014	\$	462
Balance, December 31, 2014	\$	426
Unit options granted		13
Unit options exercised		(225)
Fair value adjustment		83
Balance, September 30, 2015	\$	297

For the nine months ended September 30, 2015 and 2014, compensation expense was \$96 and \$328, respectively and is included in general and administrative expenses. The expense was determined using the Black-Scholes option pricing model with the following assumptions:

	September 30, 2015	September 30, 2014
Average expected Unit option holding period	1.79 years	1.84 years
Average expected volatility rate	20 %	20 %
Average dividend yield	10.70 %	9.17 %
Average risk-free interest rate	0.54 %	1.14 %

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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

13. Unitholders' equity (continued):

(e) Distribution Reinvestment Plan ("DRIP"):

Under the DOT, the total amount of income of the REIT to be distributed to unitholders of the REIT for each calendar month shall be subject to the discretion of the Trustees, however, the total income distributed shall not be less than the amount necessary to ensure the REIT will not be liable to pay income tax under Part I of the *Tax Act (Canada)* for any year.

For the nine months ended September 30, 2015 and 2014, the REIT declared distributions of \$9,223 and \$5,776, respectively.

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

For the nine months ended September 30, 2015 and 2014, the REIT issued 199,302 (2014 – 188,487) Units under the DRIP for a stated value of \$1,145 (2014 – \$1,144).

14. Transactions with related parties:

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

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

14. 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 acquired in each fiscal year;
 - (ii) 0.75% of the purchase price of a property, on the next \$100,000 of properties acquired in each fiscal year; and
 - (iii) 0.50% of the purchase price on properties in excess of \$200,000 of properties acquired in each fiscal year.
- (c) From and after January 1, 2013, an incentive fee is payable by the REIT for each fiscal year equal to 15% of the REIT's funds from operations ("FFO") per Unit in excess of the FFO per Unit hurdle rate determined by the Trustees by June 30, 2013 for the 2013 fiscal year with reference to such parameters and information as the Trustees deem prudent, including without limitation, the 2013 business plan of the REIT, and for fiscal years from and after January 1, 2014, an amount equal to the REIT's FFO per Unit for fiscal 2013 plus 50% of the increase in the weighted average consumer price index (or other similar metric, as determined by the Trustees) of the jurisdictions in which the properties are located.
- (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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

14. Transactions with related parties (continued):

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Asset management fees	\$ 280	\$ 168	\$ 807	\$ 478
Acquisition fees	350	350	409	350

At September 30, 2015, \$97 (December 31, 2014 - \$77) is included in accounts payable and accrued liabilities.

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

(e) Key management compensation:

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

	September 30, 2015	September 30, 2014
Short-term employee compensation	\$ 354	\$ 433
Unit-based compensation	31	83
	\$ 385	\$ 516

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

15. Finance costs:

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Interest on mortgages and notes payable	\$ 1,716	\$ 1,010	\$ 5,108	\$ 2,897
Other interest expense and standby fees	71	40	190	111
Amortization of mark to market mortgage adjustments	(33)	6	(99)	6
Amortization of financing costs	83	82	275	200
Unrealized (gain) loss on change in fair value of derivative instruments	652	(55)	1,333	408
	\$ 2,489	\$ 1,083	\$ 6,807	\$ 3,622

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, 2015 and 2014 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Deposits	\$ (17)	\$ –	\$ (67)	\$ 3
Tenant and other receivables	494	(188)	165	145
Prepaid expenses and other assets	28	319	(642)	(607)
Tenant rental deposits and prepayments	(110)	295	42	70
Accounts payable and accrued liabilities	(654)	318	(40)	(607)
	\$ (259)	\$ 744	\$ (542)	\$ (996)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

17. Commitments and contingencies:

At September 30, 2015, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

18. Segmented disclosure:

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

19. Capital management:

The REIT's capital management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2014.

The REIT was in compliance with all financial covenants as at September 30, 2015.

20. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

20. Risk management and fair values (continued):

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

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

	Carrying value	
	September 30, 2015	December 31, 2014
Fixed-rate instruments:		
Mortgages and notes payable	\$ 201,937	\$ 187,067
Variable-rate instruments not subject to interest rate swaps:		
Mortgages and notes payable	\$ —	\$ 697
Credit Facilities	6,100	1,500

The REIT is exposed to interest rate risk on its floating-rate debt on certain of its properties which was mitigated by entering into interest rate swaps (note 12).

An increase (decrease) of 100 basis points in interest rates at September 30, 2015 for the variable-rate financial instruments would have increased (decreased) net income for the period by \$4 (on a pre-tax basis).

(ii) Credit risk:

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

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

20. Risk management and fair values (continued):

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

An aging of billed trade receivables, including billed trade receivables past due but not impaired is as follows:

	September 30, 2015	December 31, 2014
0 to 30 days	\$ 38	\$ 161
31 to 90 days	3	47
Over 90 days	644	59
Total	\$ 685	\$ 267

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

(b) Fair values:

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

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

The tables below presents the REIT's assets and liabilities measured at fair value on the condensed consolidated interim statements of financial position:

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

20. Risk management and fair values (continued):

September 30, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ –	\$ –	\$ 340,955	\$ 340,955
	\$ –	\$ –	\$ 340,955	\$ 340,955
Liabilities:				
Class B LP Units	\$ 24,038	\$ –	\$ –	\$ 24,038
Unit options	–	–	297	297
Derivative instruments	–	1,760	–	1,760
	\$ 24,038	\$ 1,760	\$ 297	\$ 26,095

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ –	\$ –	\$ 311,480	\$ 311,480
	\$ –	\$ –	\$ 311,480	\$ 311,480
Liabilities:				
Class B LP Units	\$ 20,533	\$ –	\$ –	\$ 20,533
Unit options	–	–	426	426
Derivative instrument	–	427	–	427
	\$ 20,533	\$ 427	\$ 426	\$ 21,386

The following summarizes the significant methods and assumptions used in estimating fair values of the REIT's assets and liabilities measured at fair value:

- (i) Investment properties:

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

20. Risk management and fair values (continued):

(ii) Class B LP Units:

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

(iii) Unit option liabilities:

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

(iv) Derivative instruments:

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