TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL RESULTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

November 11, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the unaudited condensed consolidated interim financial results of True North Commercial Real Estate Investment Trust (the "REIT") dated November 11, 2014, for the three and nine months ended September 30, 2014 should be read in conjunction with the REIT's audited annual consolidated financial statements for the year ended December 31, 2013 and the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2014 and 2013 and the accompanying notes thereto. These documents are available on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking statements are provided for the purposes of assisting the reader in understanding the REIT's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and readers are cautioned such statements may not be appropriate for other purposes. Forward-looking information may relate to future results, performance, achievements, events, prospects or opportunities for the REIT or the real estate industry and may include statements regarding the financial position, business strategy, budgets, projected costs, capital expenditures, financial results, taxes, plans and objectives of or involving the REIT. In some cases, forward-looking information can be identified by such terms as "may", "might", "will", "could", "should", "would", "expect", "plan", "anticipate", "believe", "intend", "seek", "aim", "estimate", "target", "goal", "project", "predict", "forecast", "potential", "continue", "likely", or the negative thereof or other similar expressions concerning matters that are not historical facts.

Forward-looking statements necessarily involve known and unknown risks and uncertainties, which may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, assumptions may not be correct and objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the REIT's control, affect the operations, performance and results of the REIT and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to, risks related to the trust units of the REIT ("Units") and risks related to the REIT and its business. See "Risks and Uncertainties". The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance actual results will be consistent with such forward-looking statements.

Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations believed to be appropriate in the circumstances, including the following: the Canadian economy will remain stable over the next 12 months; inflation will remain relatively low; interest rates will remain stable; conditions within the real estate market, including competition for acquisitions, will be consistent with the current climate; the Canadian capital markets will provide the REIT with access to equity and/or debt at reasonable rates when required; and the risks referenced above, collectively, will not have a material impact on the REIT. While management considers these assumptions to be reasonable based on currently available information, they may prove to be incorrect.

The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Except as specifically required by applicable Canadian law, the REIT undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

NON-IFRS FINANCIAL MEASURES

Certain terms used in this MD&A such as Funds from Operations (“FFO”), Adjusted Funds from Operations (“AFFO”), Adjusted Funds from Operations Normalized (“AFFO Normalized”), Net Operating Income (“NOI”), indebtedness (“Indebtedness”), gross book value (“GBV”) and Indebtedness to GBV Ratio are not measures defined under IFRS as prescribed by the International Accounting Standards Board, do not have standardized meanings prescribed by IFRS and should not be compared to or construed as alternatives to profit/loss, cash flow from operating activities or other measures of financial performance calculated in accordance with International Financial Reporting Standards (“IFRS”). FFO, AFFO, AFFO Normalized, NOI, Indebtedness, GBV and Indebtedness to GBV Ratio as computed by the REIT may not be comparable to similar measures presented by other issuers.

FFO is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for other capital needs. The REIT calculates FFO in accordance with the guidelines set out by the Real Property Association of Canada. Management considers this non-IFRS measure to be an important measure of the REIT’s operating performance.

AFFO is an important performance measure to determine the sustainability of future distributions paid to holders of Units (“Unitholders”). AFFO is calculated as FFO subject to certain adjustments, including: (a) amortization of fair value mark-to-market adjustments on mortgages acquired, amortization of deferred financing costs, amortization of tenant inducements and compensation expense related to Unit-based incentive plans; and (b) a deduction of a reserve for capital expenditures, tenant inducements and leasing costs. Other adjustments may be made to AFFO as determined by the trustees of the REIT (“Trustees”) in their discretion.

AFFO Normalized is also an important performance measure, defined as AFFO adjusted for non-recurring items and other items as determined by the Trustees. AFFO and AFFO Normalized should not be interpreted as an indicator of cash generated from operating activities as neither considers changes in working capital. Management considers AFFO and AFFO Normalized to be important measures of the REIT’s operating performance.

NOI is defined by the REIT as rental revenue from property operations less property operating costs and property taxes. NOI is presented in this MD&A because management considers this non-IFRS measure to be a valuable measure for evaluating the operating performance of the REIT’s properties.

Indebtedness is defined in the REIT’s amended and restated declaration of trust (“DOT”) made as of May 22, 2014, and is a measure of the amount of leverage utilized by the REIT. GBV is defined in the DOT and is a measure of the value of the REIT’s assets. The Indebtedness to GBV ratio is a compliance measure in the DOT and establishes the limit of financial leverage for the REIT. The indebtedness to GBV Ratio is presented in this MD&A as management considers this non-IFRS measure to be an important measure of the REIT’s financial position.

Adjusted cash provided by operating activities measures the amount of cash generated from operating activities including interest expense. Adjusted cash provided by operating activities is presented in this MD&A because management considers this non-IFRS measure to be an important measure of the REIT’s operating performance.

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BASIS OF PRESENTATION

The REIT's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2014 and 2013 have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of dollars, except for Unit and per Unit information.

Certain time periods used in the MD&A are used interchangeably such as three months ended September 30, 2014 ("Q3-2014"), nine months ended September 30, 2014 ("YTD – 2014"), three months ended September 30, 2013 ("Q3-2013"), and nine months ended September 30, 2013 ("YTD – 2013").

OVERVIEW AND STRATEGY

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to the DOT, and governed by the laws of the Province of Ontario. The registered office of the REIT is 1801 – 3300 Bloor Street West, West Tower, Toronto, Ontario, Canada, M8X 2X2. The Units are listed on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN.

The REIT is focused on acquiring and owning commercial rental properties across Canada and other jurisdictions where it identifies opportunities that are consistent with the REIT's portfolio profile and strategy.

The objectives of the REIT are to:

- generate stable cash distributions on a tax-efficient basis;
- expand the asset base of the REIT and increase its distributable cash flow through acquisitions of additional commercial rental properties across Canada and such other jurisdictions where opportunities exist; and
- enhance the value of the REIT's assets to maximize long-term Unit value through active management of its assets.

The REIT seeks to identify potential acquisitions using investment criteria that focus on the security of cash flow, capital appreciation, increasing value through more efficient management of the acquired assets and growth of AFFO per Unit.

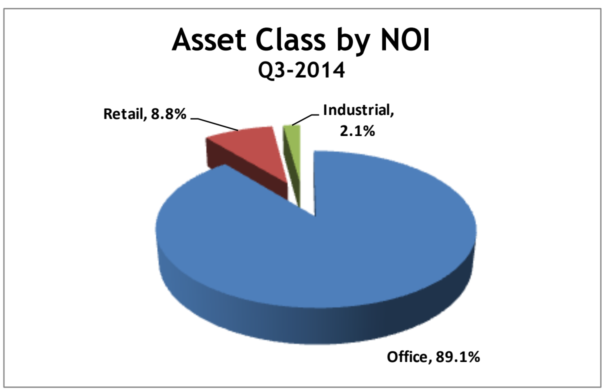
PORTFOLIO SUMMARY

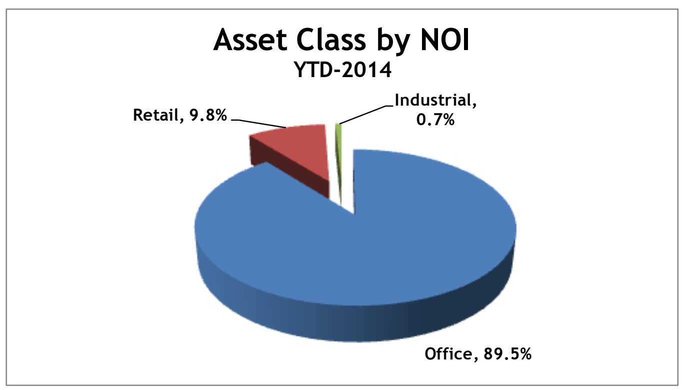
At September 30, 2014 the REIT's portfolio was comprised of ten commercial properties totaling approximately 883,333 square feet of gross leasable area. The following table highlights certain information about the REIT's properties as at September 30, 2014:

Property Name	City	Province	Type	Occupancy	Average Remaining Lease Term [1]	Square Feet
Belliveau	Shediac	NB	Office	100%	7.3 years	42,115
Carlingview	Toronto	ON	Office	100%	3.4 years	26,754
Century Park	Calgary	AB	Office	97.4%	3.2 years	75,675
Coronation Mall	Duncan	BC	Retail	83.7%	6.0 years	51,594
Innovation	Hamilton	ON	Industrial	100.0%	9.2 years	45,879
King Street	Fredericton	NB	Office	100%	7.4 years	85,051
Laurier	Ottawa	ON	Office	100%	3.4 years	279,055
Maple Grove	Ottawa	ON	Office	100%	2.9 years	107,243
Miramichi	Miramichi	NB	Office/Retail	100%	2.9 years	73,163
St. Albert Trail	Edmonton	AB	Office	100%	5.2 years	96,804
Average/Total				98.8%	4.2 years	883,333

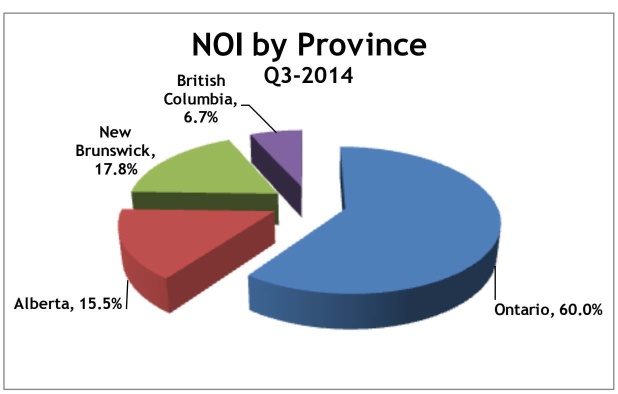
Notes:
(1) Weighted by annualized 2014 gross revenue as at September 30, 2014.

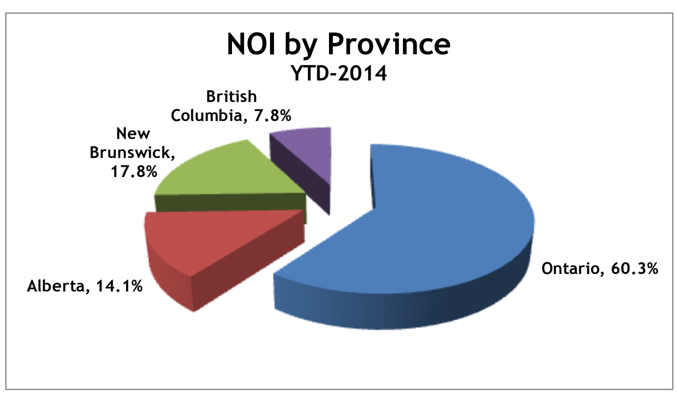
COMPOSITION BY ASSET CLASS





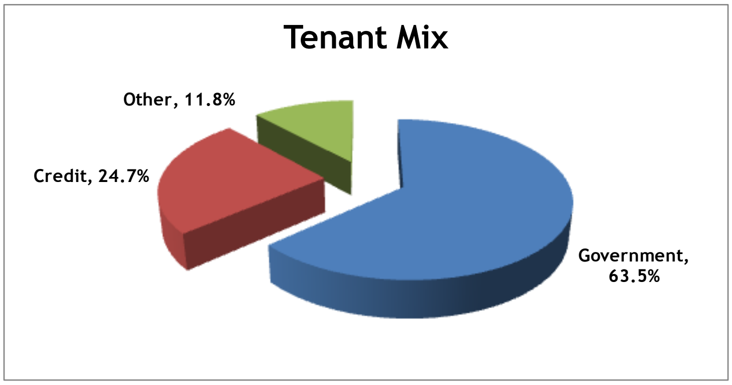
COMPOSITION BY GEOGRAPHIC REGION





TENANT MIX

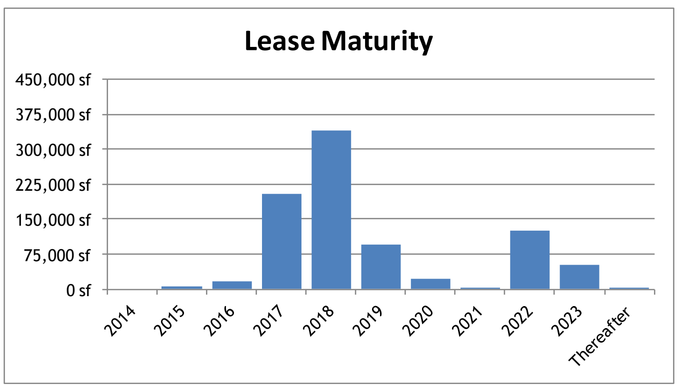
As at September 30, 2014, the percentage of revenue generated from tenants that are government institutions, credit-rated or other is as follows:



The tenant mix is based on annualized 2014 gross revenue as at September 30, 2014.

LEASE ROLLOVER PROFILE

As at September 30, 2014, the lease rollover profile of the REIT is as follows:



Lease maturity is based on square footage of the leases.

3RD QUARTER HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Increased revenue $725 or 14.9% to $5,606 from Q3-2013.
- Increased NOI $432 or 14.4% to $3,439 from Q3-2013.
- AFFO and AFFO Normalized of $0.15 per Unit, and AFFO Normalized payout ratio of 98% for Q3-2014.
- Decreased indebtedness to GBV ratio from 59.40% at December 31, 2013 to 57.23%.
- Portfolio occupancy increased sequentially to 98.8% compared to 98.5% at the end of Q2-2014.
- Paid distributions for Q3-2014 and Q3-2013 of $2,100 and $1,679, respectively.

PROPERTY ACQUISITIONS

During Q3-2014, the REIT acquired three commercial properties for an aggregate purchase price of $35,000 plus closing costs. The purchase price for the acquisitions was settled with proceeds of new mortgage financing of $25,725, a vendor take back mortgage of $750, and cash on hand of $8,525.

Property Name	Acquisition Date	Location	Property Type	Occupancy	Square Feet	Purchase Price	
Belliveau	July 31, 2014	Shediac, NB	Office	100%	42,115	$	6,500
Innovation	July 31, 2014	Hamilton, ON	Industrial	100%	45,879	$	4,000
St. Albert Trail	September 15, 2014	Edmonton, AB	Office	100%	96,804	$	24,500

On July 31, 2014, the REIT issued 378,787 Units pursuant to a private placement to an entity controlled by the REIT's CEO at a price of $6.60 per Unit for aggregate gross proceeds of $2,500. The net proceeds from the private placement were applied towards the purchase of the Belliveau and Innovation properties.

On August 27, 2014, the REIT issued 1,920,917 Units at a price of $6.55 per Unit for aggregate gross proceeds of $12,582. The net proceeds from the offering were applied towards the purchase of St. Albert Trail on September 15, 2014 and to repay a portion of the REIT's credit facilities.

PROPERTIES UNDER DEVELOPMENT

Construction of a 2,600 square foot development at Coronation Mall was substantially complete at the end of Q3-2014. The stand alone building is fully leased to Burger King for a fifteen year term and the tenant will take occupancy of the space in Q4-2014.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ending September 30,		Nine months ending September 30,	
	2014	2013	2014	2013
Revenue	$5,606	$4,881	$16,521	$12,141
NOI	$3,439	$3,007	$9,928	$7,678
Income and comprehensive income	$4,668	$2,774	$12,241	$20,219
FFO	$2,019	$1,778	$5,668	$4,278
FFO per Unit - basic (1)	$0.15	$0.16	$0.45	$0.43
FFO per Unit - diluted (1)	$0.14	$0.15	$0.42	$0.40
AFFO	$1,957	$1,764	$5,449	$3,581
AFFO per Unit - basic (1)	$0.15	$0.16	$0.43	$0.36
AFFO per Unit - diluted (1)	$0.14	$0.15	$0.41	$0.33
AFFO payout ratio - basic	103%	96%	104%	125%
AFFO - Normalized (2)	$2,044	$1,853	$5,885	$4,549
AFFO Normalized per Unit - basic (1)	$0.15	$0.16	$0.46	$0.45
AFFO Normalized per Unit - diluted (1)	$0.14	$0.15	$0.44	$0.42
AFFO Normalized payout ratio - basic	98%	91%	96%	98%
Units outstanding for FFO, AFFO and AFFO Normalized per Unit:				
Weighted average (000s) – basic (1)	13,437	11,300	12,728	10,063
Add: Unexercised unit options and warrants	712	783	709	719
Weighted average (000s) – diluted (1)	14,149	12,083	13,437	10,782

Notes:

(1) For purposes of calculating FFO and AFFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis. Diluted amounts assume the conversion of the unexercised Unit Options and Warrants.

(2) AFFO Normalized is adjusted for non-recurring items such as due diligence acquisition costs related to property acquisitions the REIT is no longer pursuing and rental income recognized as purchase price adjustments under IFRS. See "FFO and AFFO Reconciliations".

The REIT has significantly increased its portfolio in the past year resulting in increased revenues of $725 or 14.9% compared to Q3-2013. NOI increased $432 or 14.4% compared to Q3-2013. FFO increased $241 or 13.6% compared to Q3-2013. AFFO increased $193 or 10.9% compared to Q3-2013. These increases are primarily attributable to acquisition activity in November 2013 and Q3-2014. Same property NOI remained stable quarter over quarter decreasing slightly from $3,007 in Q3-2013 to $2,951 in Q3-2014.

The REIT has experienced strong growth in revenue, NOI, FFO and AFFO during Q3-2014. FFO and AFFO per Unit results have experienced a temporary impact due to the timing of the issuance of the Units associated with the public offering, private placement and the closing of the acquisitions during Q3-2014. Full operational benefit from the most recent acquisitions on July 31 and September 15, 2014 will be reflected in the REIT's results starting in Q4-2014.

	September 30, 2014	December 31, 2013
GBV	$233,504	$184,890
Indebtedness	$133,633	$109,818
Indebtedness to GBV	57.23%	59.40%
Weighted average mortgage fixed interest rate	3.50%	3.53%
Weighted average mortgage term to maturity	3.80 years	4.21 years

Notes:

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

The REIT's indebtedness to GBV as at September 30, 2014 decreased by 2.17% to 57.23% from 59.40% as at December 31, 2013.

QUARTERLY INFORMATION

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

	Q3-14 (1)	Q2-14	Q1-14	Q4-13 (2)	Q3-13	Q2-13	Q1-13 (3)	Q4-12 (4)
Revenue	$ 5,606	$ 5,283	$ 5,632	$5,105	$4,881	$4,774	$ 2,486	$ 73
Property operating costs	2,167	2,026	2,400	2,005	1,874	1,786	803	19
NOI	3,439	3,257	3,232	3,100	3,007	2,988	1,683	54
General and administration expenses	(289)	(572)	(518)	(595)	(408)	(610)	(398)	(467)
Finance costs	(1,083)	(1,146)	(1,393)	(1,148)	(1,030)	220	(1,159)	(44)
Fair value adjustment of Class B LP Units	1,088	(2,719)	388	487	533	2,241	214	(12,928)
Distributions on Class B LP Units	(385)	(385)	(384)	(362)	(317)	(317)	(375)	-
Fair value adjustment of investment properties	1,898	3,944	3,869	(8,361)	989	16,349	(3,391)	(103)
Income (loss) and comprehensive income (loss) for the period	$ 4,668	$ 2,379	$ 5,194	$(6,879)	$ 2,774	$20,871	$(3,426)	$(13,488)
FFO per Unit - basic	$ 0.15	$ 0.15	$ 0.14	$ 0.13	$ 0.16	$ 0.14	$ 0.13	n/a
AFFO Normalized per Unit - basic	$ 0.15	$ 0.16	$ 0.16	$ 0.15	$ 0.16	$ 0.15	$ 0.13	n/a
AFFO Normalized payout ratio - basic	98%	95%	94%	99%	91%	97%	110%	n/a

Notes:

(1) During the three months ended September 30, 2014, the REIT acquired three properties.

(2) During the three months ended December 31, 2013, the REIT acquired one property.

(3) During the three months ended March 31, 2013, the REIT acquired five properties.

(4) The REIT acquired its first property on December 14, 2012.

Revenue increased in Q3-2014 by $323 or 6.1% from Q2-2014. NOI increased in Q3-2014 by $182 or 5.6% compared to Q2-2014. The REIT has been actively acquiring properties during Q3-2014 resulting in increased revenues and NOI from Q2-2014.

ANALYSIS OF FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the three and nine months ended September 30, 2014 and 2013 are summarized below.

	Three months ending September 30,		Nine months ending September 30,	
	2014	2013	2014	2013
Revenue	$ 5,606	$ 4,881	$ 16,521	$ 12,141
Expenses:				
Property operating costs	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
NOI	$ 3,439	$ 3,007	$ 9,928	$ 7,678
General and administration expenses	(289)	(408)	(1,379)	(1,416)
Finance costs	(1,083)	(1,030)	(3,622)	(1,969)
Fair value adjustment of Class B LP Units	1,088	533	(1,243)	2,988
Distributions on Class B LP Units	(385)	(317)	(1,154)	(1,009)
Fair value adjustment of investment properties	1,898	989	9,711	13,947
Income and comprehensive income	$ 4,668	$ 2,774	$ 12,241	$ 20,219

PROPERTY OPERATIONS

Revenue includes all income earned from the REIT's properties, including rental income and all other miscellaneous income paid by the tenants under the terms of their existing leases, such as base rent, parking, operating costs and realty tax recoveries, as well as adjustments for the straight-lining of rents.

The REIT accounts for rent step-ups and free rent periods by straight-lining the incremental increases and free rent periods over the entire non-cancelable lease term. In Q3-2014, straight-line rent adjustments of $57 (YTD-2014 - $175) were recorded compared to $14 (YTD-2013 - $690) in Q3-2013.

Q3-2014 revenue increased $725 or 14.9% compared to Q3-2013 results (YTD-2014 - $4,380 or 36.1%). The increase is primarily attributed to the acquisitions of the King Street property in November 2013, and the Belliveau, Innovation and St. Albert Trail properties in Q3-2014.

Property operating costs include costs relating to building maintenance, heating, ventilation and air-conditioning, elevator, insurance, utilities and management fees and other operational costs. Property operating costs have remained stable quarter over quarter. The REIT realized a decrease in utility expenses from energy saving projects implemented at the Laurier Property in 2013 consisting of lighting retrofits and boiler replacements. However, this was offset by the inclusion of operating costs from the King Street, Belliveau, Innovation and St. Albert Trail properties.

Realty taxes increased $238 or 29.4% compared to Q3-2013 (YTD-2014 - $1,067 or 54.8%). This is due to an overall increase in realty tax rates as a result of higher property assessment values in 2014 for certain of the REIT's properties as well as the addition of three properties acquired in Q3-2014.

Occupancy for the property portfolio increased to 98.8% from 98.5% at Q2-2014, which was due to the completion of the 2,600 square foot development at Coronation Mall as well as the three acquisitions in Q3-2014 which are 100% occupied.

SAME PROPERTY NOI ANALYSIS

Same property operations analysis highlights period over period differences due to changes in occupancy, rental rate changes, other income and property expenses.

Year to date same property analysis represents the operations of the REIT's first property, Coronation Mall, acquired on December 14, 2012.

	Three months ending September 30, 2014	Three months ending September 30, 2013	Nine months ending September 30, 2014	Nine months ending September 30, 2013
Revenue	$ 4,764	$ 4,881	$ 1,132	$ 1,169
Expenses:				
Property operating	954	1,064	136	118
Realty taxes	859	810	225	207
	1,813	1,874	361	325
NOI	$ 2,951	$ 3,007	$ 771	$ 844

Revenue decreased $117 from Q3-2013 to Q3-2014 due to the decrease in average occupancy from 99.4% in Q3-2013 to 98.3% in Q3-2014. Property operating costs decreased $110 from Q3-2013 to Q3-2014 due to a decrease in utility expenses attributed to energy savings initiatives implemented at the Laurier Property. The Q3-2014 decrease in operating costs was offset by an increase in realty taxes of $49 year over year as a result of higher assessed values at certain of the REIT's properties.

Year to date NOI decreased $73 from YTD-2013 due to a decrease in occupancy from 100% at the end of Q3-2013 to 82.9% at the end of Q3-2014 for Coronation Mall.

GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses include items such as legal and audit fees, trustee fees, investor relations expenses, trustees' and officers' insurance premiums, costs associated with the REIT's unit option plan and other general and administrative expenses associated with the operation of the REIT. Also included in general and administration expenses are asset management fees payable to Starlight Investments Ltd. ("Starlight"). See "Related Party Transactions and Arrangements – Arrangements with Starlight".

The breakdown of general and administration expenses is as follows:

	Three months ending September 30, 2014	Three months ending September 30, 2013	Nine months ending September 30, 2014	Nine months ending September 30, 2013
Legal, audit and compliance	$ 31	$ 21	$ 118	$ 243
Investor relations	13	16	50	49
Unit based compensation	7	77	333	320
General and administration	70	154	400	274
Listing and graduation	-	-	-	172
Asset management fee	168	140	478	358
General and administration expenses	**$ 289**	**$ 408**	**$ 1,379**	**$ 1,416**

General and administration expenses in Q3-2014 were $289 compared to $408 in Q3–2013. Legal, audit and compliance as well as investor relations remained consistent quarter over quarter while other general and administration expenses decreased $84 from Q3-2013 to Q3-2014 primarily due to the write off of due diligence costs in Q3-2013 of $89 relating to potential property acquisitions the REIT is no longer pursuing.

YTD-2014 general and administration expenses were $1,379 compared to $1,416 for YTD-2013. Legal, audit and compliance decreased $125 due to additional legal and other fees incurred in 2013 associated with annual regulatory filing requirements and the annual general meeting of the REIT. Other general and administration expenses increased $126 primarily due to the write off of due diligence costs in 2013 of $101 relating to potential property acquisitions the REIT is no longer pursuing.

TSX listing and graduation fees of $172 are one-time fees associated with the REIT's graduation and listing of its Units on the TSX on June 19, 2013.

FINANCE COSTS

The REIT's finance costs for the three and nine months ended September 30, 2014 and 2013 are summarized below, excluding the distributions and fair value adjustment on Class B LP Units.

	Three months ending September 30,		Nine months ending September 30,	
	2014	2013	2014	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)
Total finance costs	$ 1,083	$ 1,030	$ 3,622	$ 1,969

Interest expense on mortgages payable of $1,010 in Q3-2014 increased $158 compared to Q3-2013, primarily due to additional mortgage financing obtained in connection with the acquisition of the King Street Property in November 2013 and the acquisitions of the Belliveau, Innovation and St. Albert Trail properties in Q3-2014. Financing costs on mortgages and the REIT's credit facilities are netted against the related debt, and amortized on an effective interest basis over the expected life of the debt.

Other interest expense and standby fees relates to interest and standby fees incurred on the credit facilities. The Q3-2014 year over year increase is due to the increase in the amount borrowed on the REIT's credit facilities.

The REIT entered into an interest rate swap agreement on the Laurier Property resulting in a mortgage that has an effective annual fixed interest rate of 3.39%. For this derivative instrument, an asset or liability is recognized and measured initially at fair value. The asset or liability is re-measured to fair value at each reporting date. Changes in the fair value of the asset or liability are recognized as an unrealized gain or loss on change in fair value of the derivative instrument. The unrealized gain in Q3-2014 of $55 and the unrealized loss in Q3-2013 of $132 is the present value of the difference between the fixed rate the lender would offer the REIT on each reporting date compared to the annual fixed rate of 3.39%, multiplied by the principal balance of the mortgage.

Interest expense on mortgages payable of $2,897 for YTD-2014 has increased $702 compared to YTD-2013, primarily due to additional mortgage financing obtained in connection with the acquisition of the King Street property in November, 2013 and the acquisitions of the Belliveau, Innovation and St. Albert Trail properties in Q3-2014 as well as a full year of interest in 2014 on the properties acquired in February 2013. The YTD-2014 increase in other interest and standby fees of $110 over YTD-2013 is due to the increase in the amount borrowed on the REIT's credit facilities during 2014.

FAIR VALUE ADJUSTMENT OF CLASS B LP UNITS

The fair value change in Class B LP Units represents the change in the trading price of the Units (given the Class B LP Units have economic and voting rights equivalent, in all material aspects, to the Units). Any resulting change in the fair value of the Class B LP Units is reported in the period such change occurs. The fair value change of $1,088 for Q3-2014 represents the change in the Unit price from $6.90 to $6.48.

DISTRIBUTIONS ON CLASS B LP UNITS

The REIT currently pays monthly distributions of $0.0495 per Class B LP Unit or $0.594 per Class B LP Unit on an annualized basis. Distributions declared were $385 for Q3-2014 compared to $317 for Q3-2013.

FAIR VALUE ADJUSTMENT OF INVESTMENT PROPERTIES

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

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

The fair value gain of $1,898 for Q3-2014 and $9,711 for YTD-2014 is attributable to capitalization rate changes and changes in lease renewal probabilities of certain properties owned by the REIT offset by the write off of acquisition costs on the three properties acquired during the quarter in accordance with IFRS.

The key valuation assumptions for the REIT's investment properties at September 30, 2014 and December 31, 2013 are set out in the following table:

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

FFO AND AFFO RECONCILIATIONS

FFO

The REIT calculates FFO in accordance with the guidelines set out by the Real Property Association of Canada. Reconciliation of income and comprehensive income, determined in accordance with IFRS, to FFO for the three and nine months ended September 30, 2014 and 2013 is as follows:

	Three months ending September 30, 2014	Three months ending September 30, 2013	Nine months ending September 30, 2014	Nine months ending September 30, 2013
Income and comprehensive income	$ 4,668	$ 2,774	$ 12,241	$ 20,219
Add / (Deduct):				
Revaluation of unit options and warrants (1)	7	77	333	320
Fair value adjustment of investment properties	(1,898)	(989)	(9,711)	(13,947)
Fair value adjustment of Class B LP Units	(1,088)	(533)	1,243	(2,988)
Distributions on Class B LP Units	385	317	1,154	1,009
Unrealized loss/(gain) on change in fair value of derivative instrument	(55)	132	408	(335)
FFO	$ 2,019	$ 1,778	$ 5,668	$ 4,278
FFO per Unit - basic (2)	$0.15	$0.16	$0.45	$0.43
FFO per Unit - diluted (2)	$0.14	$0.15	$0.42	$0.40
Weighted average Units outstanding:				
Basic - (000s) (2)	13,437	11,300	12,728	10,063
Add: Unexercised Unit Options and Warrants	712	783	709	719
Diluted - (000s) (2)	14,149	12,083	13,437	10,782

Notes:

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

(2) For purposes of calculating FFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis. Diluted amounts also assume the conversion of the unexercised unit options and warrants.

FFO increased $241 or 13.6% compared to Q3-2013 and FFO per Unit decreased $0.01 compared to Q3-2013. The increase in FFO is primarily attributable to acquisitions completed subsequent to September 30, 2013.

FFO increased $1,390 or 32.5% compared to YTD-2013 and FFO per Unit increased $0.02 compared to YTD-2013. YTD-2013 FFO is lower as it does not include a full nine months of operations of the five properties acquired in February 2013 and acquisitions completed during 2014.

AFFO AND AFFO – NORMALIZED

Reconciliation of FFO, to AFFO and AFFO Normalized for the three and nine months ended September 30, 2014 and 2013 is as follows:

	Three months ending September 30, 2014	Three months ending September 30, 2013	Nine months ending September 30, 2014	Nine months ending September 30, 2013
FFO	$ 2,019	$ 1,778	$ 5,668	$ 4,278
Add / (Deduct):				
Non-cash compensation expense (1)	24	24	76	75
Amortization of deferred financing costs	82	45	200	108
Amortization of below market mortgages	6	-	6	-
Straight-line rent	(57)	(14)	(175)	(690)
Capital reserve (2)	(117)	(69)	(326)	(190)
AFFO	$ 1,957	$ 1,764	$ 5,449	$ 3,581
AFFO per Unit - basic (3)	$0.15	$0.16	$0.43	$0.36
AFFO per Unit - diluted (3)	$0.14	$0.15	$0.41	$0.33
Distributions declared (4)	$ 2,100	$ 1,679	$ 5,776	$ 4,727
AFFO payout ratio - basic	103%	96%	104%	125%
AFFO	$ 1,957	$ 1,764	$ 5,449	$ 3,581
Add / (Deduct):				
Due diligence acquisition costs	-	89	175	101
Graduation costs	-	-	-	172
Rental income related to purchase price adjustments	87	-	261	695
AFFO - Normalized	$ 2,044	$ 1,853	$ 5,885	$ 4,549
AFFO Normalized per Unit - basic (3)	$0.15	$0.16	$0.46	$0.45
AFFO Normalized per Unit - diluted (3)	$0.14	$0.15	$0.44	$0.42
AFFO Normalized payout ratio - basic	98%	91%	96%	98%

Notes:

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

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

(3) For purposes of calculating AFFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis. Diluted amounts assume the conversion of the unexercised unit options and warrants.

(4) Distributions declared YTD-2013 represents the period from December 14, 2012 to September 30, 2013.

AFFO Normalized increased $191 or 10.3% compared to Q3-2013, and reflects the add back of the following adjustments to AFFO:

- Rental income recognized as purchase price adjustments under IFRS upon acquisition of $87 in Q3-2014 and nil in Q3-2013. The rental income relates to rent free periods for various tenants for which the REIT received funds as part of the acquisition; and
- Due diligence acquisition costs of nil for Q3-2014 and $89 for Q3-2013, relate to potential property acquisitions the REIT is no longer pursuing.

AFFO Normalized increased $1,336 or 29.4% compared to YTD-2013, and reflects the add back of the following adjustments to AFFO:

- Due diligence acquisition costs of $175 for YTD-2014 and $101 for YTD-2013;
- One-time costs of $172 in YTD-2013 associated with the graduation of the REIT to the TSX on June 19, 2013; and
- Rental income recognized as purchase price adjustments under IFRS upon acquisition of $261 for YTD-2014 and $695 for YTD-2013.

The REIT has experienced strong growth in revenue, NOI, FFO and AFFO during Q3-2014. FFO and AFFO per Unit results have experienced a temporary impact due to the timing of the issuance of the Units associated with the public offering and private placement and the closing of the acquisitions. Full operational benefit from the most recent acquisitions will be reflected in the REIT's results starting in Q4-2014.

ANALYSIS OF FINANCIAL POSITION

INVESTMENT PROPERTIES

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

	Investment Properties	Properties Under Development	Total
Balance at December 31, 2012	$ 14,554	$ -	$ 14,554
Acquisitions	157,256	-	157,256
Additions	1,516	45	1,561
Straight-line rent adjustment	714	-	714
Fair value adjustment	5,586	-	5,586
Balance at December 31, 2013	179,626	45	179,671
Acquisitions	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 at September 30, 2014	**$ 228,088**	**$ -**	**$ 228,088**

ACQUISITIONS:

The REIT acquired two properties on July 31, 2014 and one property on September 15, 2014. The REIT funded these acquisitions from cash on hand, a public offering and private placement, and from the proceeds of new mortgage financing and a vendor take back mortgage. The acquisitions have been accounted for as asset acquisitions.

ADDITIONS:

Additions to investment properties for the nine months ended September 30, 2014 was $3,328 consisting of the following:

- Capital expenditures of $1,708 of which $1,622 relates to building enhancements and leasehold improvements at the Laurier Property;
- Tenant inducements and leasing costs of $423 which include costs incurred to improve space that primarily benefit the tenant, as well as allowances paid to tenants; and
- Construction costs of $1,197 related to the development at Coronation Mall which was re-classified as capital expenditures.

PREPAID EXPENSES AND OTHER ASSETS

At September 30, 2014, the REIT had $1,041 in prepaid expenses and other assets, compared to $254 at December 31, 2013. This is primarily due to an increase in prepaid realty taxes.

LIABILITIES

MORTGAGES PAYABLE

The following table sets out, as at September 30, 2014, scheduled principal repayments and amounts maturing on the REIT's mortgages over each of the next five fiscal years:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Scheduled interest payments	Percentage of total mortgages payable
2014	$ 852	$ -	$ 852	$ 1,129	0.64%
2015	3,645	-	3,645	4,538	2.75%
2016	3,775	765	4,540	4,402	3.42%
2017	3,883	9,136	13,019	4,230	9.81%
2018	1,576	85,594	87,170	1,851	65.67%
Thereafter	769	22,738	23,507	798	17.71%
	$ 14,500	$ 118,233	132,733	$ 16,948	100.00%
Unamortized below market mortgage adjusments			(151)		
Unamortized financing costs			(805)		
			$ 131,777		

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 effectively fixed for the terms of the respective mortgages.

CREDIT FACILITIES

The REIT has a credit agreement with a Canadian chartered bank for a $5,000 floating rate revolving credit facility. The 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, matures on February 12, 2015 and is secured by a first charge on the Miramichi Property. As at September 30, 2014, $900 (December 31, 2013 - $1,400) was drawn on the credit facility.

The REIT has an additional revolving credit facility of $10,000. This 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, and also matures on February 12, 2015. As at September 30, 2014, $nil was drawn on this credit facility.

Both credit facilities are secured by the Miramichi and Laurier properties.

DEBT PROFILE

As at September 30, 2014, the overall leverage, as represented by the ratio of Indebtedness to GBV was 57.23% compared to 59.40% at December 31, 2013. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT's Indebtedness to GBV Ratio at September 30, 2014 and December 31, 2013.

	September 30, 2014	December 31, 2013
Total assets	$ 232,288	$ 184,466
Deferred Financing Costs	1,223	883
Derivative instrument	(7)	(459)
GBV	$ 233,504	$ 184,890
Mortgages payable	131,777	107,689
Credit facilities	836	1,400
Unamortized financing costs and below market mortgage adjustments	1,020	729
Indebtedness	$ 133,633	$ 109,818
Indebtedness to GBV	57.23%	59.40%

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

CLASS B LP UNITS

The Class B LP Units meet the definition of a financial liability under IAS 32, Financial Instruments – Presentation ("IAS 32") and are classified as fair value through profit or loss financial liabilities under IAS 32. The Class B LP Units are measured at fair value at each reporting period with any changes in fair value recorded in the statement of income and comprehensive income.

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

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

As at September 30, 2014 there were 2,588,914 Class B LP Units issued valued at $16,776 compared to $15,533 as at December 31, 2013.

Distributions were $1,154 for YTD-2014 compared to $1,009 for YTD-2013.

UNITHOLDERS' EQUITY

Unitholders' equity increased by $22,982 between December 31, 2013 and September 30, 2014. The increase was primarily due to the issuance of Units for $15,363 and income for the period of $12,241. This increase was partially offset by distributions to unitholders of $4,622.

OUTSTANDING UNIT DATA

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

The balance of Units outstanding as of September 30, 2014 is as follows:

	Units		Amount
Balance, December 31, 2013	9,711,344		60,074
Issuance of Units	2,299,704		15,082
Issuance of Units under DRIP	188,487		1,144
Issuance of Units under the non-executive trustee unit issuance plan	14,288		89
Issuance of Units from warrants exercised	11,903		74
Issuance of Units from unit options exercised	60,416		374
Units repurchased and cancelled under NCIB	(39,500)		(235)
Issuance costs	-		(1,165)
Balance, September 30, 2014	12,246,642	$	75,437

The balance of Units outstanding as of November 11, 2014 is 12,262,791.

UNIT OPTIONS

The total number of Units reserved under the REIT's Unit-based compensation plan may not exceed 10% of the Units and Class B LP Units outstanding. Options outstanding at September 30, 2014 consist of the following:

Weighted average exercise price (1)	Unit Options Outstanding	Unit Options exercisable
$1.60	131,251	50,000
7.48	100,000	33,325
7.66	427,500	142,500
$6.43	658,751	225,825

(1) In actual dollars.

All warrants had been exercised as at September 30, 2014.

DISTRIBUTIONS AND DISTRIBUTION REINVESTMENT PLAN (“DRIP”)

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

The Trustees of the REIT determine the level of cash distributions based on the level of cash flow from operations before working capital changes, less actual and planned capital expenditures. In any given period, distributions may differ from cash provided by operating activities, primarily due to fluctuations in working capital. It is expected that normal fluctuations in working capital will be funded from the REIT’s cash resources as described in “Liquidity and Capital Resources”. In addition, the distributions declared include a component funded by the DRIP.

	Three months ended September 30, 2014	Nine months ended September 30, 2014	Year ended December 31, 2013	Period from July 13, 2012 to December 31, 2012
Cash flow provided by operating activities	$ 3,866	$ 7,779	$ 8,757	$ (75)
Less: Interest paid	(1,007)	(2,971)	(2,860)	(33)
Adjusted cash flow provided by operating activities	2,859	4,808	5,897	(108)
Income and comprehensive income	4,668	12,241	13,340	(13,783)
Distributions	2,100	5,776	6,506	-
Less: DRIP	(380)	(1,144)	(1,408)	n/a
Cash distributions	1,720	4,632	5,098	n/a
Excess (shortfall) of adjusted cash flow from operating activities over distributions	759	(968)	(609)	n/a
Excess (shortfall) of income and comprehensive income over distributions	2,568	6,465	6,834	n/a
Cash basis:				
Excess of adjusted cash flow from operating activities over cash distributions	1,139	176	799	n/a
Excess of income and comprehensive income over cash distributions	2,948	7,609	8,242	n/a

Adjusted cash flow provided by operating activities of $2,859 exceeded distributions of $2,100 by $759 for Q3-2014.

The shortfall of adjusted cash flow from operating activities over distributions was $968 for YTD-2014. Total distributions for YTD-2014 were $5,776 of which $1,144 represents amounts paid to Unitholders through the DRIP. On a cash basis, adjusted cash flow from operations exceeded cash distributions by $176.

The shortfall of adjusted cash flow from operating activities over distributions was $609 for YTD-2013. Total distributions declared for YTD-2013 were $6,506 of which $1,408 represents amounts paid to Unitholders through the DRIP. On a cash basis, adjusted cash flow from operations exceeded cash distributions by $799.

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

NORMAL COURSE ISSUER BID ("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. As at September 30, 2014, 39,500 (December 31, 2013 – nil) Units had been repurchased under the NCIB.

SHORT FORM BASE SHELF PROSPECTUS

Under the REIT's short form base shelf prospectus, the REIT has the ability to offer and issue securities having an offer price of up to $200,000 in aggregate. As at September 30, 2014, 1,920,917 (December 31, 2013 – nil) Units were issued under the short from base shelf prospectus at a price of $6.55 per Unit for aggregate gross proceeds of approximately $12,582.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Cash flow from operating activities represents the primary source of liquidity to fund distributions, debt service, capital improvements, tenant inducements and leasing costs. The REIT's cash flow from operating activities is dependent upon the occupancy level of its investment properties, the rental rates on its leases, the collectability of rent from its tenants, other expenses and other factors. Material changes in these factors may adversely affect the REIT's net cash flow from operating activities and hence its liquidity. A more detailed discussion of these risks can be found under the "Risks and Uncertainties" section in the REIT's annual MD&A dated March 5, 2014 for the year ended December 31, 2013 and in the annual information form of the REIT dated March 5, 2014. See "Risks and Uncertainties".

The REIT expects to be able to meet all of its obligations, including distributions to Unitholders, and capital expenditure requirements as they become due and to provide for the future growth of the business. The REIT has a number of financing sources available to fulfill its commitments including: (i) cash flow from operating activities; (ii) mortgage debt secured by investment properties; (iii) credit facilities; and (iv) issuances of debt and equity.

CASH FLOW

The following table details the changes in cash and cash equivalents for the three and nine months ended September 30, 2014 and 2013:

	Three months ending September 30, 2014	Three months ending September 30, 2013	Nine months ending September 30, 2014	Nine months ending September 30, 2013
Cash provided by operating activities	$ 3,866	$ 3,018	$ 7,779	$ 4,526
Cash (used in) provided by investing activities	(36,180)	(943)	(37,762)	(139,025)
Cash (used in) provided by 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

In Q3-2014, the REIT generated $3,866 of cash flow from operating activities compared to $3,018 in Q3-2013 which is primarily attributed to the addition of the King Street, Belliveau, Innovation and St. Albert Trail properties.

Cash used in investing activities in Q3-2014 of $36,180 relates primarily to the acquisition of three properties during the quarter. The construction of the Burger King development at Coronation Mall Property was completed during the quarter which amounted to $1,197.

Cash provided by financing activities in Q3-2014 of $32,633 (Q3-2013 – ($2,549)) is comprised of proceeds from new mortgage financing of $25,503 (Q3-2013 - $nil) and from the issuance of Units of $14,112 (Q3-2013 - $nil). These increases were offset by the repayment of credit facilities, principal mortgage payments, interest payments, and distributions to Unitholders in the period.

The REIT generated $7,779 of cash flow from operating activities for YTD-2014 compared to $4,526 for YTD-2013. Cash used in investing activities was $37,762 for YTD-2014 compared to $139,025 for YTD-2013. In 2014, acquisitions amounted to $34,491 for three properties compared to five properties purchased in February 2013 for $138,063. Cash provided by financing activities was $29,172 for YTD-2014 compared to $134,503 for YTD-2014, primarily made up of proceeds from new mortgage financing in relation to the acquisitions of $25,503 for YTD-2014 compared to $86,523 for YTD-2013; and proceeds from the issuance of Units of $14,160 for YTD-2014 compared to $54,028 for YTD-2013.

CAPITAL RESOURCES

The REIT's portfolio requires ongoing capital expenditures, tenant inducements and leasing expenditures. Leasing expenditures include the cost of tenant allowances and commissions incurred in connection with the leasing of vacant space and the renewal or replacement of tenants occupying space. The REIT plans to continue to invest capital in all its properties throughout 2014 and beyond. Expenditures are expected to be funded through operational cash flow and the available credit facilities. For the three and nine months ended September 30, 2014, the REIT invested $506 and $2,131, respectively, in capital and leasing expenditures. For the three and nine months ended September 30, 2014, the REIT incurred $899 and $1,197, respectively, for properties under development.

COMMITMENTS AND CONTINGENCIES

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

The REIT has entered into commitments for building enhancements which at 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.

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Starlight is considered a related party to the REIT as Starlight is controlled by the Chairman of the Board and Chief Executive Officer ("CEO") of the REIT, who is also a significant Unitholder.

ARRANGEMENTS WITH STARLIGHT

Pursuant to the Asset Management Agreement, dated December 14, 2012, Starlight provides advisory, asset management and administrative services to the REIT. The REIT is administered and operated by the CEO and the REIT's Chief Financial Officer ("CFO") and an experienced team of real estate professionals from Starlight.

The Asset Management Agreement has an initial term of ten years from the date of the agreement and is renewable for successive five-year terms, unless and until the Asset Management Agreement is terminated in accordance with its termination provisions.

Starlight is entitled to the following fees pursuant to the Asset Management Agreement:

(a) Base annual management fee calculated and payable on a monthly basis, equal to 0.35% of the sum of:

- the historical purchase price of properties owned by the REIT; and
- the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties owned by the REIT.

(b) Acquisition fee equal to:

- 1.0% of the purchase price of a property, on the first $100,000 of properties announced to be acquired in each fiscal year;
- 0.75% of the purchase price of a property on the next $100,000 of properties announced to be acquired in each fiscal year; and
- 0.50% of the purchase price on properties announced to be acquired in excess of $200,000 in each fiscal year.

(c) From and after January 1, 2013, an incentive fee payable by the REIT for each fiscal year equal to 15% of the FFO in excess of the FFO per Unit hurdle rate determined by the Trustees of the REIT by June 30, 2013 for the 2013 fiscal year, with reference to such parameters and information as the Trustees deem prudent, including without limitation, the 2013 business plan of the REIT, and for fiscal years from and after January 1, 2014, an amount equal to the FFO per Unit for fiscal 2013 plus 50% of the increase in the weighted average consumer price index (or other similar metric as determined by the Trustees) of the jurisdictions in which the properties of the REIT are located. For the purpose of this calculation, FFO per Unit means the quotient obtained by dividing: (i) the sum of: (A) the gain on the dispositions of any properties in the fiscal year (calculated as the difference between the total sale price set out in any agreement entered into by the REIT with respect to the disposition of the property or properties and the historical purchase price of such property or properties inclusive of costs incurred), and (B) FFO, by (ii) the total number of issued and outstanding Units and Class B LP Units as at the end of such fiscal year.

(d) Capital expenditures fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of $1,000 excluding work done on behalf of tenants or any maintenance capital expenditures.

In addition, the REIT is required to reimburse Starlight for all reasonable and necessary out-of-pocket costs and expenses incurred by Starlight in connection with the performance of the services described in the Asset Management Agreement or such other services which the REIT and Starlight agree in writing are to be provided from time to time by Starlight.

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

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

Of these amounts, $58 is included in accounts payable and accrued liabilities at September 30, 2014. No incentive fees, capital expenditure fees or out of pocket costs were incurred for the three and nine months ended September 30, 2014 or 2013.

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

USE OF ESTIMATES

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

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

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

INVESTMENT PROPERTIES

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

UNIT OPTION PLAN

The estimates used when determining the fair value of the unit option plan are the average expected unit option holding period, the average expected volatility rate, and the average risk-free interest rate. The average expected unit option holding period used is estimated as half the life of the respective option agreement applied to that unit option upon vesting. The average expected volatility rate applied is estimated based on the historical volatility of comparable entities. The average risk-free interest rate is based on zero-coupon Government of Canada bonds with terms consistent with the average expected unit option holding period. Management determines the fair value internally, utilizing the aforementioned inputs, some of which are provided by external market data and some through internal financial information.

FINANCIAL INSTRUMENTS

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

Financial liabilities are classified as FVTPL when the financial liability is either classified as held-for-trading or designated as FVTPL. A financial liability may be designated as FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and IAS 39, Financial Instruments - Recognition and Measurement, permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial assets and financial liabilities are accounted for based on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the designation of such instruments.

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

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

The fair value of mortgages payable is estimated based on the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable was approximately $133,500 at September 30, 2014 (December 31, 2013 - $107,900).

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

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

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

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

A summary of the significant accounting policies are described in Note 2 of the audited consolidated financial statements for the year ended December 31, 2013. Any changes in accounting policies from December 31, 2013 are described in Note 2 to the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2014 and 2013. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at each financial statement date, and revenues and expenses for the periods indicated. Actual results could differ from those estimates.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

The CEO and CFO of the REIT evaluated the effectiveness of the REIT’s disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings “NI 52-109”) and concluded that the design and operation of the REIT’s disclosure controls and procedures were effective for the period ended September 30, 2014.

The CEO and CFO of the REIT evaluated the design and effectiveness of the REIT's internal controls over financial reporting (as defined in NI 52-109) and concluded that the design and effectiveness of internal controls over financial reporting continue to be appropriate and were effective for the period ended September 30, 2014.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the securities of the REIT and in the activities of the REIT. Risks and uncertainties are disclosed in the REIT's annual MD&A dated March 5, 2014 for the year ended December 31, 2013 and in the annual information form of the REIT dated March 5, 2014. The annual MD&A and annual information form are available on SEDAR at www.sedar.com. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

Management is not aware of any significant changes in risks and uncertainties applicable to the REIT.

OUTLOOK

The REIT's external growth strategy focuses on the acquisition of commercial rental properties across Canada and such other jurisdictions where opportunities exist. The REIT will continue to identify potential acquisitions using investment criteria that focus on the security of cash flow, capital appreciation, increasing value through more efficient management of the acquired assets and growth of AFFO per Unit.

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

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

According to the TD Bank's Long Term Economic Forecast in December 2013, the Canadian economy was expected to grow by 2.3% in 2014 and 2.5% in 2015. TD has revised its estimates and has upgraded its 2014 forecast to 2.4%, and expects to outperform original estimates for 2015 with a revised 2.7% growth rate.

Given the modest medium-term economic growth outlook, inflation is expected to remain on target at 2% while the Bank of Canada overnight rate is expected to remain at 1% until the latter half of 2015. Access to debt capital continues to remain strong for commercial real estate and management continues to believe interest rates will fluctuate moderately around current levels through the end of 2015.

Commercial property capitalization rates have been stable in recent months and management does not expect significant capitalization rate expansion or compression in its existing and target markets. Management will selectively pursue accretive acquisition opportunities in both its existing and target markets.

Management expects real estate fundamentals to remain stable to the end of 2014 and beyond. The REIT's properties are expected to continue to perform well during the forecast period with modest growth.

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

Dated: November 11, 2014
Toronto, Ontario, Canada