Consolidated Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2014 and 2013

BDO

Tel: 416 865 0200
Fax: 416 865 0887
www.bdo.ca

BDO Canada LLP
TD Bank Tower
66 Wellington Street West
Suite 3600, PO Box 131
Toronto, ON M5K 1H1 Canada

Independent Auditor's Report

To the Unitholders of
True North Commercial Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of True North Commercial Real Estate Investment Trust, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of unitholders' equity, income and comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of True North Commercial Real Estate Investment Trust as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter
The consolidated financial statements of True North Commercial Real Estate Investment Trust for the year ended December 31, 2013 were audited by another auditor who expressed an unmodified opinion on those statements on March 5, 2014.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

March 11, 2015
Toronto, Ontario

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

December 31, 2014 and 2013

	2014	2013
Assets		
Non-current assets:		
Investment properties (note 4)	$ 311,480	$ 179,671
Instalment notes receivable (note 5)	1,264	–
Deposits	287	289
Derivative instrument (note 13)	–	459
Total non-current assets	313,031	180,419
Current assets:		
Tenant and other receivables (note 6)	1,337	1,620
Prepaid expenses and other assets (note 7)	821	254
Instalment notes receivable (note 5)	328	–
Restricted cash (note 8)	264	341
Cash and cash equivalents	2,186	1,832
Total current assets	4,936	4,047
Total assets	$ 317,967	$ 184,466
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages and notes payable (note 9)	$ 182,193	$ 105,010
Derivative instrument (note 13)	199	–
Class B LP Units (note 11)	20,533	15,533
Total non-current liabilities	202,925	120,543
Current liabilities:		
Mortgages and notes payable (note 9)	5,097	2,679
Credit facilities (note 10)	1,473	1,400
Tenant rental deposits and prepayments	1,243	814
Accounts payable and accrued liabilities (note 12)	4,641	4,419
Derivative instrument (note 13)	228	300
Total current liabilities	12,682	9,612
Total liabilities	215,607	130,155
Unitholders' equity (note 14)	102,360	54,311
Total liabilities and unitholders' equity	$ 317,967	$ 184,466

Subsequent events (note 22)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Trustees on March 11, 2015:

"William J. Biggar" Director

"Roland A. Cardy" Director

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2014 and 2013

	2014	2013
Revenue (note 6)	$ 23,321	$ 17,246
Expenses:		
Property operating	5,122	3,702
Realty taxes	4,157	2,766
Income before the undernoted	14,042	10,778
Other income (expenses):		
General and administration expenses	(1,641)	(2,011)
Finance costs (note 16)	(5,184)	(3,117)
Distributions on Class B LP Units	(1,579)	(1,371)
Fair value adjustment of Class B LP Units	500	3,475
Fair value adjustment of investment properties (note 4)	6,843	5,586
Net income and comprehensive income	$ 12,981	$ 13,340

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2014 and 2013

	Unit capital (note 14(c))	Cumulative income (loss)	Total
Unitholders' equity (deficiency), January 1, 2013	$ 2,228	$ (13,975)	$ (11,747)
Changes during the year:			
Units issued, net of issue costs	56,162	–	56,162
Net income and comprehensive income for the year	–	13,340	13,340
Fair value adjustment on warrants exercised (note 14(d)(ii))	–	7	7
Issue of units under unit option plan	276	–	276
Distributions	–	(5,135)	(5,135)
Issue of units under Distribution Reinvestment Plan (note 14(e))	1,408	–	1,408
Unitholders' equity, December 31, 2013	60,074	(5,763)	54,311
Changes during the year:			
Units issued and repurchased, net of issue costs	39,846	–	39,846
Net income and comprehensive income for the year	–	12,981	12,981
Issue of units under unit option plan	374	–	374
Distributions	–	(6,672)	(6,672)
Issue of units under Distribution Reinvestment Plan (note 14(e))	1,520	–	1,520
Unitholders' equity, December 31, 2014	$ 101,814	$ 546	$ 102,360

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2014 and 2013

	2014	2013
Operating activities:		
Net income for the period	$ 12,981	$ 13,340
Adjustments for financing activities included in income:		
Finance costs (note 16)	5,184	3,117
Distributions on Class B LP Units	1,579	1,371
Fair value adjustment of Class B LP Units	(500)	(3,475)
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 4)	(6,843)	(5,586)
Unit-based and warrant compensation expense (note 14(d)(i) and 14(d)(ii))	390	474
Straight-line rent adjustment	(254)	(714)
Amortization of leasing commissions and tenant inducements	5	-
Change in non-cash operating working capital (note 17)	(586)	230
Cash provided by operating activities	11,956	8,757
Investing activities:		
Acquisitions (note 3)	(89,825)	(152,348)
Additions to investment properties (note 4)	(4,345)	(1,561)
Change in restricted cash	57	113
Cash used in investing activities	(94,113)	(153,796)
Financing activities:		
Proceeds (repayments) from credit facilities, net of costs	(24)	1,400
Proceeds from new mortgage financing, net of costs	55,953	98,328
Principal payments	(3,011)	(2,604)
Finance costs paid	(4,949)	(3,129)
Proceeds from issuance of Units, net of costs	40,363	56,189
Units repurchased and cancelled under Normal Course Issuer Bid (“NCIB”)	(322)	-
Cash distributions to unitholders	(5,499)	(4,220)
Cash provided by financing activities	82,511	145,964
Increase in cash and cash equivalents	354	925
Cash and cash equivalents, beginning of year	1,832	907
Cash and cash equivalents, end of year	$ 2,186	$ 1,832
Supplemental cash flow information:		
Units issued under DRIP - unitholders	$ 752	$ 434
Units issued under DRIP - Class B LP Units	768	974

See accompanying notes to consolidated financial statements.

Organization:

True North Commercial Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust as most recently amended and restated 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 consolidated financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of presentation:

The REIT holds its interest in investment property and other assets and liabilities related to the property in TNCLP, which is 99.99% controlled by the REIT. All intercompany transactions and balances between the REIT and the subsidiary entities have been eliminated upon consolidation.

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

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

(c) Critical judgments and estimates:

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

1. Basis of preparation (continued):

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

(i) Critical judgments in applying accounting policies:

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

(a) Accounting for acquisitions:

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

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

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

1. Basis of preparation (continued):

(b) Income taxes:

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

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

(ii) Key sources of estimation uncertainty:

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

(a) Valuation of investment property:

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

1. Basis of preparation (continued):

(b) Unit-based compensation:

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

2. Significant accounting policies:

(a) Investment properties:

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

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

2. Significant accounting policies (continued):

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

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, unrestricted cash and short-term investments. As at December 31, 2014 and 2013, the REIT does not hold any short-term investments.

(c) Revenue recognition:

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

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

2. Significant accounting policies (continued):

(d) Class B LP Units:

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

(e) Unit capital:

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

(f) Unit repurchases:

If the REIT repurchases its own Units, those Units are deducted from unitholders' equity and the associated Units are cancelled. No gain or loss is recognized and the consideration paid, including any directly attributable incremental costs, is recognized in unitholders' equity.

(g) Unit-based compensation and warrants:

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

2. Significant accounting policies (continued):

(h) Income taxes:

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

(i) Financial instruments:

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

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

2. Significant accounting policies (continued):

	Classification	Measurement
Financial assets:		
Instalment notes receivable	Loans and receivables	Amortized cost
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	Loans and receivables	Amortized cost
Financial liabilities:		
Mortgages and notes payable	Other liabilities	Amortized cost
Class B LP Units	FVTPL	Fair value
Credit facilities	Other liabilities	Amortized cost
Tenant rental deposits and prepayments	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Unit option plan	FVTPL	Fair value
Derivative instrument	FVTPL	Fair value

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

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

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

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

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

2. Significant accounting policies (continued):

(j) Future accounting changes:

A number of new standards have been issued but are not effective for the year ended December 31, 2014, and, accordingly, have not been applied in preparing these consolidated financial statements.

Standards	Effective date (annual period beginning on or after)
IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)	January 1, 2017
IFRS 9, Financial Instruments (“IFRS 9”)	January 1, 2018

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

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

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

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

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

On July 24, 2014, the 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.

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

3. Acquisitions:

The following acquisitions were completed during the years ended December 31, 2014 and 2013. All acquisitions were accounted for as asset acquisitions.

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

Year ended December 31, 2014:

	295 Belliveau Avenue	63 Innovation Drive	13140 St Albert Trail	777 Brock Road	Ontario Portfolio (a)	Single Tenant Portfolio (b)	Net assets acquired
	July 31, 2014	July 31, 2014	September 15, 2014	December 18, 2014	December 19, 2014	December 19, 2014	
Net assets acquired:							
Investment properties (including acquisition costs of $3,235)	$6,603	$4,122	$24,473	$23,236	50,751	$11,187	$120,372
Present value of instalment note payments	-	-	-	-	1,592	-	1,592
Assumed mortgages, net of financing costs and premium	-	-	-	-	(18,755)	-	(18,755)
Restricted cash	-	-	284	-	-	-	284
Other receivables	8	38	36	37	37	72	228
Prepaid expenses and other assets	164	16	-	-	29	7	216
Tenant rental deposits	-	-	(394)	-	(8)	-	(402)
Accounts payable and accrued liabilities	(2)	(1)	(116)	(57)	(237)	(47)	(460)
Net assets acquired	$6,773	$4,175	$24,283	$23,216	$33,409	$11,219	$103,075
Consideration:							
Proceeds from public offering, private placements and cash on hand	$2,270	$819	$6,046	$7,544	$14,049	$3,900	$34,628
Proceeds from new mortgage financing, net of financing costs	4,503	2,763	18,237	15,672	7,459	7,319	55,953
Vendor take-back mortgages	-	593	-	-	3,501	-	4,094
Issuance of Class B LP Units	-	-	-	-	5,500	-	5,500
Promissory note	-	-	-	-	2,900	-	2,900
	$6,773	$4,175	$24,283	$23,216	$33,409	$11,219	$103,075

(a) Ontario portfolio consists of 1161 Crawford Drive, 8 Oakes Avenue, 197-199 Dundas Street, 417 Exeter Road, 534 Queens Avenue, 520 Exmouth Street and 529-533 Exmouth Street properties.

(b) Single tenant portfolio consists of 135 Hunter Street East, 78-79 Meg Drive and 251 Arvin Avenue properties.

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

3. Acquisitions (continued):

Year ended December 31, 2013:

	Carlingview	Century Park Place	Laurier Avenue	410 King George Highway	Maple Grove	551 King Street	Net assets acquired
	February 12, 2013	February 14, 2013	February 12, 2013	February 12, 2013	February 12, 2013	November 13, 2013	
Net assets acquired:							
Investment properties (including acquisition costs of $3,901)	$ 5,105	$ 30,564	$ 69,413	$ 9,748	$ 25,116	$ 17,310	$ 157,256
Restricted cash	454	–	–	–	–	–	454
Other receivables	(40)	37	24	13	35	–	69
Prepaid expenses and other assets	5	232	148	–	25	81	491
Tenant rental deposits	(98)	(36)	(9)	(54)	(134)	–	(331)
Accounts payable and accrued liabilities	(25)	(67)	(446)	(119)	(167)	(101)	(925)
Net assets acquired	$ 5,401	$ 30,730	$ 69,130	$ 9,588	$ 24,875	$ 17,290	$ 157,014
Consideration:							
Proceeds from public offering, private placements and cash on hand	$ 2,235	$ 11,607	$ 20,656	$ 7,926	$ 9,063	$ 2,485	$ 53,972
Proceeds from new mortgage financing, net of financing costs of $731	3,166	19,123	48,474	–	15,812	11,805	98,380
Vendor take-back mortgage	–	–	–	1,662	–	–	1,662
Issuance of Class B LP Units	–	–	–	–	–	3,000	3,000
	$ 5,401	$ 30,730	$ 69,130	$ 9,588	$ 24,875	$ 17,290	$ 157,014

The REIT acquired the 295 Belliveau Avenue and Carlingview properties from an entity under the same common ownership as Starlight Investments Ltd. (“Starlight”) (note 15).

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

4. Investment properties:

The following table summarizes the changes in investment properties for the years ended December 31, 2014 and 2013:

	Investment properties	Properties under Development	Total
Balance, December 31, 2012	$ 14,554	$ –	$ 14,554
Acquisitions	157,256	–	157,256
Additions	1,516	45	1,561
Straight-line rent adjustment	714	–	714
Fair value adjustment	5,586	–	5,586
Balance, December 31, 2013	179,626	45	179,671
Acquisitions	120,372		120,372
Additions	3,153	1,192	4,345
Reclassification of properties under development	1,237	(1,237)	–
Amortization of leasing costs, tenant inducements and straight-line rents	249	–	249
Fair value adjustment	6,843	–	6,843
Balance, December 31, 2014	$ 311,480	$ –	$ 311,480

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:

	2014	2013
Terminal and direct capitalization rates - range	6.00% to 11.02%	6.34% to 11.60%
Terminal and direct capitalization rate - weighted average	7.22%	7.02%
Discount rates - range	7.25% to 10.50%	7.15% to 10.50%
Discount rate - weighted average	7.85%	7.53%

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

4. Investment properties (continued):

The fair values of the REIT's investment properties are sensitive to changes in the key valuation assumptions. Changes in the terminal 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:

	2014	2013
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (9,704)	$ (2,937)
25-basis points decrease	10,245	3,164
Weighted average discount rate:		
25-basis points increase	(9,663)	(2,830)
25-basis points decrease	10,137	2,901

5. Instalment notes receivable:

In connection with the acquisition of the Ontario Portfolio, certain of the vendors agreed to deliver non-interest bearing instalment notes of $2,028 with a present value of $1,592 pursuant to which such vendors will provide instalment payments to the REIT in order for 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.

The following tables summarize the instalment notes receivable and principal receipts on instalment notes receivable:

Balance, December 31, 2013	$ –
Present value of instalment notes receivable	1,592
Balance, December 31, 2014	$ 1,592

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

5. Instalment notes receivable (continued):

The following table provides a breakdown of the current and non-current portions of the instalment notes receivable at December 31, 2014 and 2013.

	2014	2013
Current	$ 328	$ –
Non-current	1,264	–
Balance	$ 1,592	$ –

The scheduled principal and imputed interest instalment receipts at December 31, 2014 are as follows:

	Principal receipts	Imputed interest receipts
2015	$ 328	$ 11
2016	308	30
2017	212	35
2018	151	36
2019	134	42
Thereafter	459	282
	$ 1,592	$ 436

6. Tenant and other receivables:

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

	2014	2013
Tenant receivables and charge backs	$ 1,243	$1,584
Other receivables	94	36
	$ 1,337	$1,620

As at December 31, 2014, there is no impairment of tenant and other receivables.

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

6. Tenant and other receivables (continued):

The REIT holds no collateral in respect of tenant and other receivables. Future minimum rental commitments on non-cancellable tenant operating leases are as follows:

Within one year	$ 20,774
Later than one year and not longer than five years	59,275
Thereafter	16,763
	$ 96,812

7. Prepaid expenses and other assets:

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

	2014	2013
Prepaid expenses	$ 794	$ 165
Pre-acquisition costs	27	89
	$ 821	$ 254

8. Restricted cash:

The following table presents details of restricted cash:

	2014	2013
Deposits in trust	$ 264	$ 341

9. Mortgages and notes payable:

As at December 31, 2014, the REIT had $187,764 (December 31, 2013 - $108,418) of principal balance of mortgages payable. The mortgages carry a weighted average fixed interest rate of 3.44% (December 31, 2013 - 3.53%) after giving effect to the instalment note receipts and a weighted average term to maturity of 4.32 years (December 31, 2013 – 4.21 years). The mortgages are secured by first charges on the respective properties and the promissory note has a second charge on the 410 King George Highway property.

All interest rates are fixed for the term of the respective mortgages except for a construction financing of $697 (December 31, 2013 - $nil) relating to Coronation Mall. One mortgage has fixed its floating interest rate through the use of an interest rate swap (note 13).

As part of the purchase of the 63 Innovation Drive property on July 31, 2014, the REIT obtained financing from the vendor in the amount of $750. This vendor take-back mortgage bears interest at an annual stated fixed rate of 3.0%, is interest-only, matures on April 30, 2019 (or later in certain circumstances), and is secured by a second charge on the 63 Innovation Drive property.

As part of the purchase of the Ontario Portfolio on December 19, 2014, the REIT obtained financing from the vendors, in the amount of $4,100. These vendor take back mortgages bear interest at an annual stated fixed rate of 3.0%, are interest only, secured by a second charge on the respective properties and mature on dates ranging from April 1, 2017 to October 1, 2021 co-terminously with the assumed mortgages on the respective properties.

As part of the purchase of the Ontario Portfolio on December 19, 2014, the REIT obtained financing from the vendors in the amount of $2,900. The unsecured promissory note bears interest at an annual stated fixed rate of 3.0%, is interest only, unsecured and matures on April 1, 2017.

As part of the purchase of the 410 King George Highway property on February 12, 2013, the REIT obtained financing from the vendor, in the amount of $1,662. Subsequent to the acquisition, this vendor take back was sold to a third party as a secured promissory note (“Note”). A partial repayment of $897 was made on November 8, 2013 as the REIT received a signed renewal of the specified portion of the property for a two-year term. As at December 31, 2014 and 2013, the balance outstanding on the Note is $765. The Note bears interest at an annual stated fixed rate of 2.0%, is interest-only, secured by a second charge on the 410 King George Highway property and repayable no later than February 12, 2018.

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

9. Mortgages and notes payable (continued):

As at December 31, 2014, mortgages and notes are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2015	$ 5,247	$ –	$ 5,247	$ 6,647
2016	5,547	765	6,312	6,494
2017	5,392	21,248	26,640	5,938
2018	2,950	85,594	88,544	3,300
2019	2,061	20,474	22,535	2,039
Thereafter	4,486	34,000	38,486	3,410
Face value	$ 25,683	$ 162,081	$ 187,764	$ 27,828
Unamortized mark to market mortgage adjustments (2013 - $nil)			700	
Unamortized financing costs (2013 - $729)			(1,174)	
Total mortgages payable			$ 187,290	

As at December 31, 2013, mortgages and notes are repayable as follows:

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

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

9. Mortgages and notes payable (continued):

The following table provides a breakdown of current and non-current portions of mortgages payable as at December 31, 2014 and 2013:

	2014	2013
Current:		
Mortgages payable	$ 5,240	$ 2,871
Unamortized mark to market mortgage adjustments	131	–
Unamortized financing cost	(274)	(192)
	5,097	2,679
Non-current:		
Mortgages payable	182,524	105,547
Unamortized mark to market mortgage adjustments	569	–
Unamortized financing cost	(900)	(537)
	182,193	105,010
	$ 187,290	$ 107,689

10. Credit facilities:

The REIT has a credit agreement with a Canadian chartered bank for a $5,000 floating rate revolving credit facility (the "Credit Facility").

On March 31, 2014, the REIT amended the Credit Agreement to include a second revolving credit facility of $10,000 (the “Second Credit Facility”). The Credit Facility and the Second Credit Facility, collectively the Credit facilities, are secured by the 410 King George Highway property and Laurier Avenue property and mature on February 12, 2015.

On January 15, 2015, the credit facilities were renewed for an additional two years and mature on February 12, 2017. The Credit 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 Second Credit 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.

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

10. Credit facilities (continued):

The following table provides a breakdown of the Credit facilities:

	2014	2013
Credit facilities	$ 1,500	$ 1,400
Unamortized financing cost	(27)	–
	$ 1,473	$ 1,400

11. Class B LP Units:

The Class B LP Units are indirectly exchangeable on a one-for-one basis for Units at the option of the holder, under the terms of an 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 years ended December 31, 2014 and 2013:

	Class B LP Units	Amount
Outstanding, January 1, 2013	2,134,369	$ 16,008
Issuance of Class B LP Units	454,545	3,000
Fair value adjustment	–	(3,475)
Outstanding, December 31, 2013	2,588,914	15,533
Issuance of Class B LP Units	833,333	5,500
Fair value adjustment	–	(500)
Outstanding, December 31, 2014	3,422,247	$ 20,533

On December 19, 2014, 833,333 Class B LP Units were issued as part of the consideration paid for the Ontario Portfolio (Note 3).

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

During the years ended December 31, 2014 and 2013, the distributions on Class B LP Units were $1,579 and $1,371, respectively, and have been recognized in the consolidated statements of income and comprehensive income. As at December 31, 2014, nil (December 31, 2013 – 321,877) Class B LP Units remained in escrow.

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

12. Accounts payable and accrued liabilities:

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

	2014	2013
Accounts payable and accrued liabilities	$ 2,767	$ 3,115
Finance costs payable	612	400
Distributions payable	836	481
Unit based compensation liability	426	423
	$ 4,641	$ 4,419

13. Derivative instrument:

The REIT entered into an interest rate swap on February 12, 2013 to limit its interest rate exposure from floating to fixed during the term of the mortgage on the Laurier Avenue property with a principal amount of $46,514 at December 31, 2014 (December 31, 2013 - $47,808). The interest rate swap will expire co-terminously upon maturity of the mortgage on March 1, 2018. The resulting annual fixed interest rate for this mortgage is 3.388%.

Total unrealized loss on change in fair value of derivative instrument amounted to $585 in 2014 (2013 – unrealized gain of $159) and are included in finance costs (note 16).

14. Unitholders' equity:

(a) Units:

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

14. Unitholders' equity (continued):

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

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

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

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

The Trustees have discretion in respect to the timing and amounts of distributions.

(b) Special Voting Units:

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

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

14. Unitholders' equity (continued):

(c) Units outstanding:

The following table summarizes the changes in Units for the years ended December 31, 2014 and 2013:

	Units	Amount
Balance, December 31, 2012	1,369,970	$ 2,228
Units issued for cash	8,052,963	61,276
Issue of Units under DRIP	223,302	1,408
Issue of Units under the non-executive trustee unit issuance plan	9,305	56
Issue of Units from warrants exercised	3,721	18
Issue of Units from options exercised	52,083	276
Issuance costs	–	(5,188)
Balance, December 31, 2013	9,711,344	60,074
Units issued for cash	6,891,219	43,388
Issue of Units under DRIP	249,522	1,520
Issue of Units under the non-executive trustee unit issuance plan	18,582	115
Issue of Units from warrants exercised	11,903	74
Issue of Units from options exercised	60,416	374
Units repurchased and cancelled under NCIB	(52,700)	(322)
Issuance costs	–	(3,409)
Balance, December 31, 2014	16,890,286	$101,814

On July 31, 2014, the REIT issued 378,787 Units for cash of $2,500 in a private placement to an entity under the same common ownership as Starlight (note 15).

On August 27, 2014, the REIT completed a public offering and issued 1,920,917 Units for cash of $12,582.

On December 18, 2014, the REIT completed a public offering and issued 4,440,000 Units for cash of $27,306. Concurrent with the public offering, the REIT issued 151,515 Units for cash of $1,000 in a private placement to an entity under the same common ownership as Starlight (note 15).

As at December 31, 2014, nil (December 31, 2013 – 108,794) Units remained in escrow.

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

14. 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, 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.

(i) Options granted:

For the years ended December 31, 2014 and 2013, the number of Unit options outstanding changed as follows:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2012	343,750	$ 3.31	4.61	–
Unit options granted	427,500	7.66	–	–
Unit options exercised	(52,083)	1.60	–	–
Outstanding, December 31, 2013	719,167	6.02	3.97	62,500
Unit options exercised	(60,416)	1.60	–	–
Outstanding, December 31, 2014	658,751	6.43	3.00	259,157

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

14. Unitholders' equity (continued):

On March 11, 2014 and September 30, 2014, 8,333 and 52,083 Unit options were exercised at an exercise price of $1.60. Upon the exercise of these Unit options, $374 was recorded to Unit capital. Included in this amount is $277 which represents the fair value amount of the unit-based compensation liability settled upon issuance of Units.

For the years ended December 31, 2014 and 2013, compensation expense was $293 and $384, respectively and is included in general and administration expenses. The expense was determined using the Black-Scholes option pricing model with the following assumptions:

	2014	2013
Average expected Unit option holding period	1.59 years	2.54 years
Average expected volatility rate	20%	20%
Average dividend yield	9.90%	9.90%
Average risk-free interest rate	1.02%	1.45%

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

(ii) Warrants granted to non-employees:

For the years ended December 31, 2014 and 2013, the number of warrants outstanding changed as follows:

	Number of warrants	Weighted average exercise price	Remaining contractual life (in years)	Number of warrants exercisable
Outstanding, December 31, 2012	15,624	$4.80	1.66	15,625
Warrants exercised	(3,721)	4.80		
Outstanding, December 31, 2013	11,903	4.80	0.66	11,904
Warrants exercised	(11,903)	4.80		
Outstanding, December 31, 2014	–	–	–	–

14. Unitholders' equity (continued):

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

For the years ended December 31, 2014 and 2013, expenses related to these warrants were nominal and are included in general and administration expenses. The expenses were determined using the Black Scholes option pricing model.

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

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

For the years ended December 31, 2014 and 2013, the REIT declared distributions of $6,672 and $5,135.

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 year ended December 31, 2014, the REIT issued 249,522 Units (2013 – 223,302) under the DRIP for a stated value of $1,520 (2013 - $1,408).

(f) Normal course issuer bid ("NCIB"):

On December 4, 2013, the REIT announced the TSX had approved the REIT's notice of intention to make a NCIB. Under the NCIB, the REIT has the ability to purchase for cancellation up to a maximum of 746,358 of its Units, representing 10% of the REIT's public float of 7,463,586 Units on November 27, 2013 through the facilities of the TSX. The NCIB commenced on December 6, 2013 and remained in effect until December 5, 2014.

14. Unitholders' equity (continued):

On December 3, 2014, the REIT announced the TSX had approved the REIT's notice of its intention to renew its NCIB for a further twelve months. Under the renewal of the NCIB, the REIT has the ability to purchase for cancellation up to a maximum of 969,026 of its Units, representing 10% of the REIT's public float of 9,690,264 Units through the facilities of the TSX. The NCIB commenced on December 8, 2014 and expires on December 7, 2015.

As at December 31, 2014, 52,700 (December 31, 2013 – nil) units were repurchased under the NCIB.

(g) Short form base shelf prospectus:

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

As at December 31, 2014, 6,360,917 (December 31, 2013 – nil) Units were issued under the short from base shelf prospectus.

15. Transactions with related parties:

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

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

15. Transactions with related parties (continued):

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

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

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

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

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

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

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

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

15. Transactions with related parties (continued):

The following table presents the costs incurred for the years ended December 31, 2014 and 2013:

	2014	2013
Asset management fees	$ 680	$ 508
Acquisition fees	1,138	1,463

Of these amounts, $77 (December 31, 2013 - $53) is included in accounts payable and accrued liabilities.

No incentive fees or capital expenditure fees were charged for the years ended December 31, 2014 and 2013.

(e) Key management compensation:

Aggregate compensation for key management personnel was as follows:

	2014	2013
Short-term employee compensation	$ 573	$ 489
Unit-based compensation	112	338

Key management personnel includes Trustees. During the years ended December 31, 2014 and 2013, fees of $211 and $201, respectively, were paid to Trustees of the REIT.

Short-term employee compensation relate to key management personnel employed by Starlight. Short-term employee compensation was paid by Starlight to key management personnel for the years ended December 31, 2014 and 2013 of $362 and $288, respectively.

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

16. Finance costs:

The following table presents the financing costs incurred for the years ended December 31, 2014 and 2013:

	2014	2013
Interest on mortgages and notes payable	$ 4,134	$ 3,101
Other interest expense and standby fees	150	22
Amortization of mark to market mortgage adjustments	18	–
Amortization of financing costs	297	153
	4,599	3,276
Unrealized loss (gain) on change in fair value of derivative instrument (note 13)	585	(159)
	$ 5,184	$ 3,117

17. Change in non-cash operating working capital:

The change in non-cash operating working capital for the years ended December 31, 2014 and 2013:

	2014	2013
Deposits	$ 2	$ (289)
Tenant and other receivables	511	(1,448)
Prepaid expenses and other assets	(351)	292
Tenant rental deposits and prepayments	27	466
Accounts payable and accrued liabilities	(775)	1,209
	$ (586)	$ 230

18. Commitments and contingencies:

The REIT has entered into commitments for building renovations at its Laurier Avenue property. The commitments as at December 31, 2014 and 2013 were $562 and $nil, respectively.

At December 31, 2014, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

19. Segmented disclosure:

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

20. Capital management:

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

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

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

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

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

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

The REIT was in compliance with the above requirements as at December 31, 2014 and 2013.

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

21. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

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

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

	Carrying value 2014	2013
Fixed-rate instruments:		
Mortgages and notes payable	$ 187,067	$ 108,418
Variable-rate instruments:		
Mortgages payable	$ 697	$ -
Credit facility	1,500	1,400

The REIT is exposed to interest rate risk on its floating-rate debt on its Laurier Avenue property which was mitigated by entering into an interest rate swap (note 13). The REIT is also exposed to interest rate risk on its construction financing of $697 relating to Coronation Mall.

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

21. Risk management and fair values (continued):

An increase (decrease) of 100 basis points in interest rates at December 31, 2014 for the variable-rate financial instruments would have increased (decreased) net income for the year by $24 (on a pre-tax basis) (2013 - $14).

(ii) Credit risk:

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

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

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits as permitted by legislation, and geographically diversifying its portfolio. The REIT monitors outstanding receivables on a month-to-month basis to ensure a reasonable allowance is provided for all uncollectible amounts. An aging of billed trade receivables, including billed trade receivables past due but not impaired can be shown as follows:

	2014	2013
0 to 30 days	$ 161	$ 915
31 to 90 days	47	108
Over 90 days	59	122
Total	$ 267	$ 1,145

For the year ended December 31, 2014, the Federal Government of Canada provided 50% (2013 – 55%) of the REIT's rental revenue.

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

21. Risk management and fair values (continued):

(iii) Liquidity risk:

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

The REIT's debt obligations excluding Class B LP Units are due as follows:

	Total	2015	2016	2017	2018	2019	Thereafter
Mortgages and notes payable (note 9)	$ 187,764	$ 5,247	$ 6,312	$ 26,640	$ 88,545	$ 22,534	$ 38,486
Revolving credit facilities (note 10)	1,500	1,500	–	–	–	–	–
Tenant rental deposits	1,243	1,243	–	–	–	–	–
Accounts payable and accrued liabilities (note 12)	4,641	4,641	–	–	–	–	–
	$ 195,148	$ 12,631	$ 6,312	$ 26,640	$ 88,545	$ 22,534	$ 38,486

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

(iv) Market risk:

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

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

21. Risk management and fair values (continued):

(b) Fair values:

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

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

The tables below presents the REIT's assets and liabilities measured at fair value on the consolidated statements of financial position or disclosed in the notes to the consolidated financial as at December 31, 2014 and 2013:

2014	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 311,480	$ 311,480
Instalment notes receivable	–	1,592	–	1,592
	$ –	$ 1,592	$ 311,480	$ 313,072
Liabilities:				
Mortgages and notes payable	$ –	$ 191,200	$ –	$ 191,200
Class B LP Units	20,533	–	–	20,533
Unit options and warrants	–	–	426	426
Derivative instrument, net	–	427	–	427
	$ 20,533	$ 191,627	$ 426	$ 212,586

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

21. Risk management and fair values (continued):

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

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

(a) 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.

(b) Instalment notes receivable:

The fair value of instalment notes receivable is estimated based on the present value of future receipts, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying instalment note, plus an estimated credit spread at the reporting date for a comparable financial instrument. The estimated fair value of instalment notes receivable at December 31, 2014 is approximately $1,592 (December 31, 2013 - $nil).

21. Risk management and fair values (continued):

(c) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at December 31, 2014 is approximately $191,200 (December 31, 2013 - $107,900).

(d) 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 as a practical measure for fair value measurement of its Class B LP Units.

(e) Unit option liabilities:

Unit options granted and warrants granted are carried at fair value, estimated using the Black-Scholes option pricing model for option valuation using level 3 inputs as described in note 14(d)(i) and 14(d)(ii).

(f) 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.

21. Risk management and fair values (continued):

(g) Other financial assets and financial liabilities:

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

22. Subsequent events:

On January 8, 2015, the REIT granted 495,000 Unit options at an exercise price of $6.15 per Unit option, expiring on January 8, 2020. These Unit options vest equally over a three-year period beginning one year from the date of grant.

On January 15, 2015, both credit facilities were renewed for an additional two years and mature on February 12, 2017.

On March 11, 2015, the REIT announced it has agreed to acquire an office property for an aggregate purchase price of $5,900 plus closing costs. The purchase price is expected to be satisfied by a new mortgage of $4,130 and the remainder funded through the REIT’s credit facilities. The acquisition is expected to close on March 25, 2015.