Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three and nine months ended September 30, 2013 and 80-day period from July 13, 2012 (commencement of operations) to September 30, 2012
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	September 30, 2013	December 31, 2012
Assets		
Non-current assets:		
Investment properties (note 4)	$ 170,099	$ 14,554
Deposits	262	–
Total non-current assets	170,361	14,554
Current assets:		
Derivative instrument (note 12)	335	–
Tenant and other receivables (note 5)	706	103
Prepaid expenses and other assets (note 6)	1,585	55
Restricted cash (note 7)	454	–
Cash and cash equivalents	911	907
Total current assets	3,991	1,065
Total assets	$ 174,352	$ 15,619
Liabilities and Unitholders' Equity (Deficiency)		
Non-current liabilities:		
Mortgages payable (note 8)	$ 93,323	$ 10,149
Class B LP units (note 10)	13,020	16,008
Total non-current liabilities	106,343	26,157
Current liabilities:		
Mortgages payable (note 8)	4,001	2
Tenant rental deposits and prepayments	426	17
Accounts payable and accrued liabilities (note 11)	3,786	1,190
Total current liabilities	8,213	1,209
Total liabilities	114,556	27,366
Unitholders' equity (deficiency) (note 13)	59,796	(11,747)
Total liabilities and unitholders' equity	$ 174,352	$ 15,619

Subsequent event (note 21)

See accompanying notes to unaudited condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on November 13, 2013:

"William J. Biggar" Director

"Roland A. Cardy" Director

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	Three months ended September 30, 2013	Nine months ended September 30, 2013	80-day period from July 13, 2012 (commencement of operations) to September 30, 2012
Revenue	$ 4,881	$ 12,141	$ –
Expenses:			
Property operating	1,064	2,516	–
Realty taxes	810	1,947	–
Trust	408	1,422	295
Fair value adjustment of investment properties (note 4)	(989)	(13,947)	–
	1,293	(8,062)	295
Income (loss) before finance income and finance costs	3,588	20,203	(295)
Finance income	–	6	–
Finance costs (note 15)	(898)	(2,304)	–
Finance costs - fair value adjustment of Class B LP Units (notes 10 and 15)	533	2,988	–
Finance costs - distributions on Class B LP Units (note 15)	(317)	(1,009)	–
Unrealized gain (loss) on change in fair value of derivative instrument (note 12)	(132)	335	–
Income (loss) for the period and comprehensive income (loss)	$ 2,774	$ 20,219	$ (295)

See accompanying notes to unaudited condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Nine months ended September 30, 2013 and period from July 13, 2012
(commencement of operations) to December 31, 2012
(Unaudited)

	Unit capital (note 13(c))	Equity (deficiency)	Total
Unitholders' equity, July 13, 2012	$ –	$ –	$ –
Changes during the period:			
Common shares issued, net of issue costs	4,778	–	4,778
Loss for the period and comprehensive loss	–	(295)	(295)
Fair value adjustment on share options	–	8	8
Unitholders' equity, September 30, 2012	4,778	(287)	4,491
Changes during the period:			
Common shares exchanged for Class B LP Units	(3,080)	–	(3,080)
Additional issue costs	30	–	30
Units issued, net of issue costs	500	–	500
Loss for the period and comprehensive loss	–	(13,488)	(13,488)
Fair value adjustment on conversion of share options to unit options (note 13(d))	–	(200)	(200)
Unitholders' equity (deficiency), December 31, 2012	2,228	(13,975)	(11,747)
Changes during the period:			
Units issued, net of issue costs	54,028	–	54,028
Income for the period and comprehensive income	–	20,219	20,219
Fair value adjustment on warrant options exercised (note 13(d)(ii))	–	7	7
Distributions	–	(3,719)	(3,719)
Issue of units under Distribution Reinvestment Plan (note 13(e))	1,008	–	1,008
Unitholders' equity, September 30, 2013	$ 57,264	$ 2,532	$ 59,796

See accompanying notes to unaudited condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	Three months ended September 30, 2013	Nine months ended September 30, 2013	80-day period from July 13, 2012 (commencement of operations) to September 30, 2012
Operating activities:			
Income (loss) for the period	$ 2,774	$ 20,219	$ (295)
Adjustments for financing activities included in income (loss):			
Finance income	–	(6)	–
Finance costs (note 15)	682	325	–
Adjustments for items not involving cash:			
Fair value adjustment of investment properties (note 4)	(989)	(13,947)	–
Unrealized gain (loss) on change in fair value of derivative instrument (note 12)	132	(335)	–
Non-cash employee unit-based compensation expense (note 13(d)(i))	83	331	8
Non-cash warrant option expense (note 13(d)(ii))	(6)	(11)	–
Straight-line rent adjustment	(14)	(690)	–
Change in non-cash operating working capital (note 16)	356	(1,366)	176
Cash provided by (used in) operating activities	3,018	4,520	(111)
Investing activities:			
Acquisitions (note 3)	–	(138,063)	–
Additions to investment properties	(943)	(952)	–
Leasing commissions	–	(10)	–
Cash used in investing activities	(943)	(139,025)	–
Financing activities:			
Proceeds from issuance of Units, net of costs	–	54,028	4,937
Proceeds from credit facilities	200	200	–
Proceeds from new mortgage financing, net of costs	–	86,523	–
Principal payments	(562)	(1,119)	–
Finance costs paid	(916)	(2,144)	–
Finance income received	–	6	–
Distributions to unitholders	(1,271)	(2,985)	–
Cash provided by (used in) financing activities	(2,549)	134,509	4,937
Increase (decrease) in cash and cash equivalents	(474)	4	4,826
Cash and cash equivalents, beginning of period	1,385	907	–
Cash and cash equivalents, end of period	$ 911	$ 911	$ 4,826
Supplemental cash flow information:			
Units issued under Distribution Reinvestment Plan - unitholders	$ 89	$ 279	$ –
Units issued under Distribution Reinvestment Plan - Class B LP Units	256	729	–

See accompanying notes to unaudited condensed consolidated interim financial statements.

True North Commercial Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to the Declaration of Trust ("DOT") dated November 16, 2012, and amended and restated on December 14, 2012, and governed by the laws of the Province of Ontario. The REIT incorporated True North Commercial General Partner Corp. ("TNCGP") on November 16, 2012 and, together with TNCGP, formed True North Commercial Limited Partnership ("TNCLP") on November 16, 2012. The registered office of the REIT is 401 The West Mall, Suite 1100, Toronto, Ontario, Canada, M9C 5J5.

Tanq Capital Corporation (the "Company") was formed as a capital pool company on July 13, 2012 and completed its initial public offering ("IPO") on August 28, 2012. Prior to entering into the Plan of Arrangement on December 14, 2012, there were 27,500,000 common shares of the Company issued and outstanding.

Pursuant to a Plan of Arrangement approved by the Company's shareholders and the TSX Venture Exchange ("TSXV") on December 14, 2012, the Company's shareholders either transferred their common shares to TNCLP in exchange for REIT Units ("Units"), and/or in the case of electing shareholders, for Class B LP Units of TNCLP and related special voting units of the REIT with exchange rights ("Special Voting Units"), at an exchange ratio of eight common shares for one Unit or Class B LP Unit ("Exchange Ratio"). In addition, outstanding share options to purchase common shares in the Company were exchanged for Unit options having identical terms, based on the Exchange Ratio. The REIT is the continuing public entity and its Units were listed on the TSXV, under the symbol TNT.UN.

On June 19, 2013, the REIT commenced trading on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN, at which time the Units were delisted from, and ceased trading on, the TSXV. Contemporaneously, with the listing on the TSX, the Units and the Class B LP Units (collectively, the "Voting Units") were consolidated on the basis of one (1) post-consolidation Voting Units for two (2) pre-consolidation Voting Units ("Unit Consolidation").

1. Basis of presentation:

(a) Statement of compliance:

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

(b) Basis of preparation:

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

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

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

The number of Units, common shares issued prior to the Plan of Arrangement, number of Class B LP Units, exercise price and number of Units issuable upon exercise of the outstanding options of the REIT, and the common shares issued prior to the Plan of Arrangement, have all been proportionally adjusted within these unaudited condensed consolidated interim financial statements for all periods presented to reflect the Unit Consolidation affected on June 19, 2013.

1. Basis of presentation (continued):

(c) Critical judgments and estimates:

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

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

2. Significant accounting policies:

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

2. Significant accounting policies (continued):

(a) Investments in subsidiaries:

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

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

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

The REIT has assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of TNCLP and other entities.

(b) Fair value measurements:

IFRS 13, Fair Value Measurement ("IFRS 13"), replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price.

The REIT adopted IFRS 13 on January 1, 2013 on a prospective basis. The standard also requires disclosures which enable users to assess the methods and inputs used to develop fair value measurements. The adoption of IFRS 13 resulted in the REIT changing its methodology for determining fair value of Class B LP Units and resulted in additional disclosure of the REIT's various methods in estimating the fair values of assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position.

2. Significant accounting policies (continued):

(c) Future accounting changes:

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

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

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

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

3. Acquisitions:

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

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

	Carlingview	Century Park Place	340 Laurier West	Miramichi	Maple Grove	Net assets acquired
Net assets acquired:						
Investment properties (including acquisition costs of $3,591)	$ 5,105	$ 30,564	$ 69,413	$ 9,748	$ 25,116	$ 139,946
Restricted cash	454	–	–	–	–	454
Other receivables	(40)	37	24	13	35	69
Prepaid expenses and other assets	5	232	148	–	25	410
Tenant rental deposits	(98)	(36)	(9)	(54)	(134)	(331)
Accounts payable and accrued liabilities	(25)	(67)	(446)	(119)	(167)	(824)
Net assets acquired	$ 5,401	$ 30,730	$ 69,130	$ 9,588	$ 24,875	$ 139,724
Consideration:						
Proceeds from public offering and cash on hand	$ 2,235	$ 11,607	$ 20,656	$ 7,926	$ 9,063	$ 51,487
Proceeds from new mortgage financing, net of financing costs of $650	3,166	19,123	48,474	–	15,812	86,575
Vendor take-back mortgage	–	–	–	1,662	–	1,662
	$ 5,401	$ 30,730	$ 69,130	$ 9,588	$ 24,875	$ 139,724

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

3. Acquisitions (continued):

The REIT acquired the Carlingview property from an entity under the same common ownership as Starlight Investments Ltd. ("Starlight") (note 14).

On December 14, 2012, the REIT acquired Coronation Mall, located in Duncan, British Columbia. The acquisition was accounted for as an asset acquisition and the purchase price was allocated as follows:

Net assets acquired:	
Investment properties (including acquisition costs of $103)	$ 14,657
Tenant rental deposits	(17)
Accounts payable and accrued liabilities	(198)
Net assets acquired	$ 14,442
Consideration paid, funded by:	
New financing obtained, net of financing costs of $101	$ 10,149
Cash	4,293
	$ 14,442

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

4. Investment properties:

The following table summarizes the changes in investment properties for the nine months ended September 30, 2013 and the period from July 13, 2012 (commencement of operations) to December 31, 2012:

Balance, July 13, 2012	$ –
Acquisition of investment property	14,657
Fair value adjustment	(103)
Balance, December 31, 2012	14,554
Acquisitions of investment properties, including acquisition costs of $3,591	139,946
Additions to investment properties	952
Leasing commissions	10
Straight-line rent adjustment	690
Fair value adjustment	13,947
Balance, September 30, 2013	$ 170,099

The fair value adjustment of $13,947 includes $3,591 relating to the acquisition costs incurred during the first quarter, $9 of additional acquisition costs incurred in the second quarter relating to Coronation Mall, $57 of leasehold improvements incurred in the period, $690 relating to the straight-line rent adjustment, $10 relating to leasing commissions offset by an increase in the fair value of all properties of $18,304.

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

	September 30, 2013	December 31, 2012
Cost	$ 156,255	$ 14,657
Cumulative fair value adjustment	13,844	(103)
Fair value	$ 170,099	$ 14,554

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

4. Investment properties (continued):

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

Terminal capitalization rates - range	6.00% to 11.60%
Terminal capitalization rate - weighted average	6.67%
Discount rates - range	6.50% to 10.50%
Discount rate - weighted average	7.17%

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:

Weighted average terminal capitalization rate:	
25-basis points increase	$ (3,346)
25-basis points decrease	3,593
Weighted average discount rate:	
25-basis points increase	(3,061)
25-basis points decrease	3,139

5. Tenant and other receivables:

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

	September 30, 2013	December 31, 2012
Tenant receivables and charge backs	$ 689	$ 7
Harmonized sales tax and other receivables	17	96
	$ 706	$ 103

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

5. 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	$ 10,679
Later than one year and not longer than five years	29,558
Thereafter	1,765
	$ 42,002

6. Prepaid expenses and other assets:

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

	September 30, 2013	December 31, 2012
Prepaid expenses	$ 1,140	$ –
Pre-acquisition costs and deposits	445	55
	$ 1,585	$ 55

7. Restricted cash:

Restricted cash represents funds held in escrow in relation to the Carlingview acquisition. The funds were required to be held in escrow by the lender. The funds will be released on the first day of each month commencing November 1, 2013 in an amount equal to the minimum rent and additional rent of $57 that would otherwise be paid by the tenant until such time as these funds are exhausted.

8. Mortgages payable:

As at September 30, 2013, the REIT had $98,018 (December 31, 2012 - $10,250) of principal balance of mortgages payable. The REIT obtained new financing in the amount of $88,237 (net of financing costs of $650) to fund the acquisitions that occurred in the first quarter of 2013. The mortgages carry a weighted average fixed interest rate of 3.48% (December 31, 2012 - 3.92%), and a weighted average term to maturity of 4.33 years (December 31, 2012 - 5.00 years). All interest rates are fixed for the term of the respective mortgages. One mortgage has fixed its floating interest rate through the use of an interest rate swap (note 12). The mortgages are secured by first charges on the respective properties, except for a secured promissory note, which has a second charge on the Miramichi property.

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

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

8. Mortgages payable (continued):

The mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2013 - remainder of year	$ 588	$ –	$ 588	$ 848
2014	2,579	1,662	4,241	3,323
2015	2,671	–	2,671	3,214
2016	2,765	–	2,765	3,121
2017	2,838	9,136	11,974	2,992
Thereafter	493	75,286	75,779	651
Face value	$ 11,934	$ 86,084	98,018	$ 14,149
Unamortized financing costs (December 31, 2012 - $99)			(694)	
Total mortgages payable			$ 97,324	

The following table provides a breakdown of current and non-current portions of mortgages payable as at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Current:		
Mortgages payable	$ 4,176	$ 22
Unamortized financing cost	(175)	(20)
	4,001	2
Non-current:		
Mortgages payable	93,842	10,228
Unamortized financing cost	(519)	(79)
	93,323	10,149
	$ 97,324	$ 10,151

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

9. Revolving credit facility:

On February 12, 2013, the REIT entered into a credit agreement with a Canadian chartered bank to obtain a $5,000 floating rate revolving credit facility (the "Credit Facility"). The Credit Facility bears interest on cash advances 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. The Credit Facility expires on February 12, 2015. As at September 30, 2013, $200 was drawn on the Credit Facility. The revolving Credit Facility is secured by a first charge on the Miramichi property.

Total financing costs incurred with obtaining the revolving Credit Facility amounted to $52.

10. Class B LP Units:

Pursuant to a Plan of Arrangement which was completed on December 14, 2012, 17,075,000 common shares of the Company were exchanged for Class B LP Units in TNCLP on the basis of one Class B LP Unit for every eight common shares of the Company, resulting in 2,134,375 Class B LP Units being issued at a value of $3,080, which represented the carrying value of these Units at the date of the Plan of Arrangement.

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

The following table summarizes the changes in Class B LP Units for the nine months ended September 30, 2013 and the period from July 13, 2012 (commencement of operations) to December 31, 2012:

	Class B LP Units	Amount
Outstanding, July 13, 2012	–	$ –
Issuance of Class B LP Units - Plan of Arrangement	2,134,375	3,080
Fair value adjustment	–	12,928
Outstanding, December 31, 2012	2,134,375	16,008
Fair value adjustment	–	(2,988)
Outstanding, September 30, 2013	2,134,375	$ 13,020

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

10. Class B LP Units (continued):

The following table reconciles the cost base of the Class B LP Units to their fair value at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Cost	$ 3,080	$ 3,080
Cumulative fair value adjustment	9,940	12,928
Fair value	$ 13,020	$ 16,008

During the three and nine months ended September 30, 2013 and 80-day period from July 13, 2012 (commencement of operations) to September 30, 2012, the distributions on Class B LP Units were $317; $1,009 and nil, respectively, and have been recognized in finance costs in the unaudited condensed consolidated interim statements of income (loss) and comprehensive income (loss).

11. Accounts payable and accrued liabilities:

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

	September 30, 2013	December 31, 2012
Accounts payable and accrued liabilities	$ 2,990	$ 1,181
Finance costs payable	341	9
Distributions payable	455	–
	$ 3,786	$ 1,190

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

12. Derivative instrument:

	Three months ended September 30, 2013		Nine months ended September 30, 2013		80-day period from July 13, 2012 (commencement of operations) to September 30, 2012	
	Fair value receivable	Unrealized loss on derivative	Fair value receivable	Unrealized gain on derivative	Fair value receivable	Unrealized gain on derivative
Mortgage interest rate swap	$ 335	$ (132)	$ 335	$ 335	$ –	$ –

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 property with a principal value of $48,125 at September 30, 2013. The interest rate swap was required to be entered into by the lender and will expire coterminously upon maturity of the mortgage on March 1, 2018. The annual fixed interest rate for this mortgage is 3.388%.

13. Unitholders' equity (deficiency):

(a) Units:

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

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

13. Unitholders' equity (deficiency) (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 or market on which the Units are listed or quoted for trading during the ten consecutive trading days ending immediately prior to the date on which the Units were surrendered for redemption; and

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

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

(b) Special Voting Units:

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

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

13. Unitholders' equity (deficiency) (continued):

(c) Units outstanding:

The following table summarizes the changes in common shares and Units for the nine months ended September 30, 2013 and the period from July 13, 2012 (commencement of operations) to December 31, 2012:

	Common shares	Units	Amount
		(note 1(b))	
Balance, July 13, 2012	–	–	$ –
Common shares issued for cash (seed financing - July 23, 2012)	5,000,000	–	500
Common shares issued for cash (private placement - July 24, 2012)	20,500,000	–	4,100
Common shares issued for cash (IPO - August 28, 2012), net of issuance costs of $192	2,000,000	–	208
	27,500,000	–	4,808
Common shares exchanged for REIT Units (one Unit for every eight common shares)	(10,425,000)	1,303,125	–
Common shares exchanged for Class B LP Units (one Class B LP Unit for every eight common shares)	(17,075,000)	–	(3,080)
	–	1,303,125	1,728
Units issued for cash (private placement - December 14, 2012)	–	66,845	500
Balance, December 31, 2012	–	1,369,970	2,228
Units issued for cash (February 12, 2013), net of issuance costs of $4,716	–	7,274,957	51,010
Units issued for cash (private placement - February 12, 2013)	–	391,645	3,000
Issue of Units under Distribution Reinvestment Plan ("DRIP")	–	153,850	1,008
Issue of Units from warrants exercised	–	3,721	18
Balance, September 30, 2013	–	9,194,143	$ 57,264

13. Unitholders' equity (deficiency) (continued):

On July 23, 2012, the Company issued 5,000,000 common shares for cash of $500 in its seed financing. These shares were initially held in escrow to be released in future periods in accordance with the Escrow Agreement entered into between the Company and the seed shareholders.

On July 24, 2012, the Company issued 20,500,000 common shares for cash of $4,100 in a private placement. Of these 20,500,000 common shares, 8,550,000 common shares were initially held in escrow to be released in future periods in accordance with the Escrow Agreement entered into between the Company and the shareholders of the private placement.

On August 28, 2012, the Company completed its IPO, with the issuance of 2,000,000 common shares for cash of $400. Costs related to the issuance including the agent's commission, legal, audit and filing fees were approximately $192 and charged directly to share capital.

The Qualifying Transaction and Plan of Arrangement were completed on December 14, 2012, whereby 10,425,000 common shares of the Company were exchanged for Units on the basis of one Unit for every eight common shares of the Company (1,303,125 Units at a value of $1,728). The remaining 17,075,000 common shares were exchanged for Class B LP Units in TNCLP on the basis of one Class B LP Unit for every eight common shares of the Company (2,134,375 Class B LP Units at a value of $3,080).

Concurrent with the Qualifying Transaction on December 14, 2012, the REIT issued 66,845 units by a way of private placement at $7.48 per unit for gross proceeds of $500. There were no costs associated with the private placement.

On February 12, 2013, the REIT completed a public offering and issued 7,274,957 Units for cash of $55,726. Costs related to the issuance including the agent's commission, legal, audit and filing fees were approximately $4,716 and charged directly to share capital.

On February 12, 2013, the REIT issued 391,645 Units for cash of $3,000 in a private placement. There were no costs associated with the private placement.

13. Unitholders' equity (deficiency) (continued):

As at September 30, 2013, 220,230 (December 31, 2012 - 435,178) Units and 643,750 (December 31, 2012 - 1,287,500) Class B LP Units related to the July 13, 2012 seed financing and the July 24, 2012 private placement, remain in escrow to be released in future periods in accordance with the Escrow Agreement entered into between the REIT and the respective shareholders.

(d) Unit-based compensation plan:

The REIT has adopted a Unit-based compensation plan (the "Plan") effective December 14, 2012, 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 outstanding.

(i) Options granted to employees:

On August 27, 2012, the Company granted share options to directors, officers and key employees of the Company to purchase 1,950,000 common shares at $0.20 per share. The share options will expire five years from the date the options are granted. Pursuant to a Plan of Arrangement approved by the Company's shareholders on December 14, 2012, 1,950,000 of outstanding share options have been exchanged for 243,750 Unit options at an exercise of $1.60 per Unit option on the basis of one Unit option for every eight share options of the Company. The Unit options have terms identical to the share options. As part of this exchange, the fair value adjustment on conversion of the share options to Unit options using the Black-Scholes option pricing model was $162, which was recognized through equity.

On December 14, 2012, the REIT granted 100,000 Unit options at an exercise price of $7.48 per Unit option. These Unit options will expire five years from the date the options are granted.

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

13. Unitholders' equity (deficiency) (continued):

On February 12, 2013, the REIT granted 427,500 Unit options at an exercise price of $7.66 per Unit option. These Unit options will expire five years from the date the options are granted.

For the three and nine months ended September 30, 2013 and 80-day period from July 13, 2012 (commencement of operations) to September 30, 2012, compensation expense was $83; $331 and $8, respectively. The expense was determined using the Black-Scholes option pricing model with the following assumptions:

	Three months ended September 30, 2012	80-day period from July 13, 2012 (commencement of operations) to September 30, 2012
Average expected Unit option holding period	2.67 years	3.38 years
Average expected volatility rate	20%	75%
Average dividend yield	9.74%	7.00%
Average risk-free interest rate	1.48%	0.98%

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

13. Unitholders' equity (deficiency) (continued):

(ii) Warrant options granted to non-employees:

On August 27, 2012, the Company granted warrant options to agents to purchase 125,000 common shares at a price of $0.60 per share. The warrants will expire two years from the date the warrants are granted. Pursuant to a Plan of Arrangement approved by the Company's shareholders on December 14, 2012, the 125,000 warrants have been exchanged for 15,625 Unit options at an exercise price of $4.80 per Unit option on the basis of one Unit option for every eight share options of the Company. The Unit options have terms identical to the warrants. As part of this exchange, the fair value adjustment on conversion of the share warrants to Unit options using the Black-Scholes option pricing model was $30, which was recognized through equity.

On March 18, 2013, 3,721 Unit options were exercised at an exercise price of $4.80. The fair value adjustment on the Unit options exercised of $7 was recognized through unitholders' equity.

For the three and nine months ended September 30, 2013 and 80-day period from July 13, 2012 (commencement of operations) to September 30, 2012, respectively, expenses related to these warrants were nominal and are included in trust expenses.

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

13. Unitholders' equity (deficiency) (continued):

For the nine months ended September 30, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012, the number of options and warrants outstanding changed as follows:

	Number of share options	Number of Unit options	Weighted average exercise price	Remaining contractual life (in years)
Balance, July 13, 2012	–	–	$ –	–
Share options granted	1,950,000	–	–	–
Warrants granted	125,000	–	–	–
Exchange of share options for Unit options	(1,950,000)	243,750	1.60	4.16
Exchange of share warrants for Unit warrants	(125,000)	15,625	4.80	1.16
Unit options granted	–	100,000	7.48	4.46
Outstanding, December 31, 2012	–	359,375	3.38	–
Unit options granted	–	427,500	7.66	4.37
Unit warrants exercised	–	(3,721)	4.80	–
Outstanding, September 30, 2013	–	783,154	5.71	
Exercisable, September 30, 2013		93,154		

13. Unitholders' equity (deficiency) (continued):

(e) DRIP:

The REIT adopted a DRIP on January 1, 2013. Unitholders can elect to reinvest cash distributions into additional Units at a 3% discount to the weighted average closing price of the Units on the Exchange for the five trading days immediately preceding the applicable date of distribution. For the three and nine months ended September 30, 2013 and 80-day period from July 13, 2012 (commencement of operations) to September 30, 2012, the REIT issued 57,361, 153,850 and nil Units under the DRIP for a stated value of $345; $1,008 and nil, respectively.

14. Transactions with related parties:

The unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2013 and period from July 13, 2012 (commencement of operations) to December 31, 2012, include the accounts of the REIT and all its subsidiaries.

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

The REIT has engaged Starlight to perform certain services, as outlined below. Starlight is controlled by the chief executive officer of the REIT, who is also a significant unitholder of the REIT.

(a) Pursuant to the Asset Management Agreement, Starlight is to perform asset management services for fees equal to 0.35% of the sum of: (i) the historical purchase price of the properties; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties from the effective date.

For the three and nine months ended September 30, 2013 and 80-day period from July 13, 2012 (commencement of operations) to September 30 2012, the costs of these services, aggregating $140; $358 and nil, respectively, were charged to the REIT. Of these amounts, $46 (December 31, 2012 - $3) is included in accounts payable and accrued liabilities.

14. Transactions with related parties (continued):

(b) Pursuant to the Asset Management Agreement, Starlight is entitled to receive an acquisition fee in respect of properties announced to be acquired, directly or indirectly, by the REIT. The asset management fee is calculated as follows:

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

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

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

For the three and nine months ended September 30, 2013 and 80-day period from July 13, 2012 (commencement of operations) to September 30, 2012, the REIT incurred nil; $1,335 and nil, respectively, for acquisition services under the agreement, which were paid at the time of acquisition. These costs were initially capitalized to investment properties on acquisition. The REIT acquired the Carlingview property from an entity under the same common ownership as Starlight.

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

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

14. Transactions with related parties (continued):

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

There were no capital expenditure fees incurred for the three and nine months ended September 30, 2013 and 80-day period from July 13, 2012 (commencement of operations) to September 30, 2012, respectively.

15. Finance costs:

The following table presents the financing costs incurred for the three and nine months ended September 30, 2013 and 80-day period from July 13, 2012 (commencement of operations) to September 30, 2012:

	Three months ended September 30, 2013	Nine months ended September 30, 2013	80-day period from July 13, 2012 (commencement of operations) to September 30, 2012
Interest on mortgages payable	$ 852	$ 2,195	$ –
Other interest expense	1	1	–
Amortization of financing costs	45	108	–
	898	2,304	–
Distributions on Class B LP Units	317	1,009	–
Fair value adjustment of Class B LP Units	(533)	(2,988)	–
	$ 682	$ 325	$ –

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

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three and nine months ended September 30, 2013 and 80-day period from July 13, 2012 (commencement of operations) to September 30, 2012 and is as follows:

	Three months ended September 30, 2013	Nine months ended September 30, 2013	80-day period from July 13, 2012 (commencement of operations) to September 30, 2012
Deposits	$ –	$ (262)	$ –
Tenant and other receivables	(295)	(534)	
Prepaid expenses and other assets	153	(1,120)	(100)
Tenant rental deposits	8	78	–
Accounts payable and accrued liabilities	490	472	276
	$ 356	$ (1,366)	$ 176

17. Commitments and contingencies:

At September 30, 2013, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

18. Segmented disclosure:

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

19. Capital management:

The REIT's capital management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the period from July 13, 2012 (commencement of operations) to December 31, 2012.

The REIT was in compliance with all financial covenants and the DOT as at September 30, 2013.

20. Risk management and fair values:

(a) Risk management:

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are consistent with those disclosed in the consolidated financial statements as at and for the period from July 13, 2012 (commencement of operations) to December 31, 2012.

(b) Fair values:

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

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

20. Risk management and fair values (continued):

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

(i) Class B LP Units:

The fair value of the Class B LP Units is estimated based on the market trading prices of the Units (Level 2). As allowed under IFRS 13, 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 expedient for fair value measurement for its Class B LP Units (Level 2).

(ii) Investment properties:

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

(iii) Derivative instrument:

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

(iv) Unit options and warrants:

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

20. Risk management and fair values (continued):

(v) Mortgages payable:

The fair value of mortgages payable is estimated based on the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage (Level 2). The estimated fair value of mortgages payable is approximately $96,700 (December 31, 2012 - $10,250).

(vi) Other financial assets and financial liabilities:

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

21. Subsequent event:

On November 13, 2013, the REIT completed the acquisition of one commercial property for an aggregate purchase price of $17,000 plus closing costs. The purchase price was funded through a new mortgage of $11,885, issuance of 454,545 Class B LP Units to the vendor for gross proceeds of $3,000, and issuance of 386,364 Units for gross proceeds of $2,550 through a private placement of which $2,500 is to a related party.