Consolidated Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Period from July 13, 2012 (commencement of operations)
to December 31, 2012

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INDEPENDENT AUDITORS' REPORT

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, 2012, the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the period from July 13, 2012 (commencement of operations) to December 31, 2012, and notes, comprising 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.

Auditors' 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation 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 overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained 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 consolidated financial position of True North Commercial Real Estate Investment Trust as at December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the period from July 13, 2012 (commencement of operations) to December 31, 2012 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 5, 2013
Toronto, Canada

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

December 31, 2012

Assets

Non-current assets:	
Investment property (note 4)	$ 14,554
Current assets:	
Tenant and other receivables (note 5)	103
Prepaid expenses and other assets (note 6)	55
Cash and cash equivalents	907
Total current assets	1,065
Total assets	$ 15,619

Liabilities and Unitholders' Equity

Non-current liabilities:	
Mortgages payable (note 7)	$ 10,149
Class B LP units (note 8)	16,008
Total non-current liabilities	26,157
Current liabilities:	
Mortgages payable (note 7)	2
Tenant rental deposits	17
Accounts payable and accrued liabilities	1,181
Finance costs payable	9
Total current liabilities	1,209
Total liabilities	27,366
Unitholders' deficiency	(11,747)
Total liabilities and unitholders' equity	$ 15,619

Subsequent events (note 17)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board on March 5, 2013:

"William J. Biggar" Director

"Roland A. Cardy" Director

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Period from July 13, 2012 (commencement of operations) to December 31, 2012

Revenue from rental properties	$	73
Expenses:		
Rental property operating costs		6
Realty taxes		13
Trust (note 11)		790
Fair value adjustment of investment properties (note 4)		103
		912
Loss before finance income and finance costs		(839)
Finance income		28
Finance costs (note 12)		(44)
Finance costs - fair value adjustment of Class B LP Units (notes 8 and 12)		(12,928)
Loss for the period and comprehensive loss	$	(13,783)

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Period from July 13, 2012 (commencement of operations) to December 31, 2012

	Unit capital (note 9(c))	Deficit	Total
Unitholders' equity, July 13, 2012	$ –	$ –	$ –
Changes during the period:			
Units issued, net of issue costs	2,228	–	2,228
Loss for the period and comprehensive loss	–	(13,783)	(13,783)
Fair value adjustment on conversion of share options to unit options (note 9(d))	–	(192)	(192)
Unitholders' deficiency, December 31, 2012	$ 2,228	$ (13,975)	$ (11,747)

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Period from July 13, 2012 (commencement of operations) to December 31, 2012

Operating activities:	
Loss for the period	$ (13,783)
Adjustments for financing activities included in net income:	
Finance income	(28)
Finance costs (note 12)	12,972
Adjustments for items not involving cash:	
Fair value adjustment of investment properties (note 4)	103
Fair value adjustment on conversion of share options to unit options	(192)
Non-cash employee unit-based compensation expense	58
Change in non-cash operating working capital (note 13)	767
Cash used in operating activities	(103)
Investing activities:	
Acquisitions (note 3)	(14,442)
Cash used in investing activities	(14,442)
Financing activities:	
Proceeds from issuance of common shares and Units, net of costs of $192	5,308
Proceeds from new mortgage financing, net of financing costs of $101	10,149
Finance costs paid	(33)
Finance income received	28
Cash provided by financing activities	15,452
Increase in cash and cash equivalents, being cash and cash equivalents, end of period	$ 907
Supplemental cash flow information:	
Common shares exchanged for Class B LP Units	3,080

See accompanying notes to consolidated 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 Corporation ("TNCGP") on November 16, 2012 and, together with TNCGP, formed True North Commercial Limited Partnership ("TNCLP") on November 16, 2012.

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 55,000,000 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 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 8 common shares for 1 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 with its Units listed on the TSX Venture Exchange, under the symbol TNT.UN. The registered office of the REIT is 401 The West Mall, Suite 1100, Toronto, Ontario, Canada, M9C 5J5.

1. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards ("IFRS").

1. Basis of presentation (continued):

(b) Basis of presentation:

The REIT holds its interest in the investment property and other assets and liabilities related to the property 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 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, certain financial instruments and the Unit option plan, which are stated at their fair values.

2. Significant accounting policies:

(a) Investment property:

The REIT selected the fair value method to account for real estate classified as investment property. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at fair value. Gains or losses arising from changes in fair value are recognized in profit and loss during the period in which they arise.

Fair values are primarily determined by using the capitalized net operating income method which applies a capitalization rate to the future stabilized cash flows of the property. Subsequent capital expenditures are charged to investment property only when it is probable the future economic benefits of the expenditure will flow to the REIT and the cost can be measured reliably.

2. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, unrestricted cash and short-term investments. Short-term investments, comprising money market instruments, have an initial maturity of 90 days or less at their date of purchase and are stated at cost, which approximates fair value. As at December 31, 2012, there were no cash equivalents.

(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.

(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 International Accounting Standard ("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.

2. Significant accounting policies (continued):

(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) 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.

(g) 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.

2. Significant accounting policies (continued):

(h) 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.

	Classification	Measurement
Financial assets:		
Tenant and other receivables	Loans and receivable	Amortized cost
Cash and cash equivalents	FVTPL	Fair value
Financial liabilities:		
Mortgages payable	Other liabilities	Amortized cost
Class B LP Units	FVTPL	Fair value
Tenant rental deposits	Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Finance costs payable	Other liabilities	Amortized cost

2. Significant accounting policies (continued):

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.

Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

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.

(i) Unit-based compensation:

The REIT has a Unit option plan, which provides holders with the right to receive Units, which are puttable. The REIT measures these amounts at fair value at the grant date, and compensation expense is recognized over the vesting period. The amounts are fair valued at each reporting period and the change in fair value is recognized as compensation expense. The Unit-based compensation is classified as a liability.

(j) Estimates:

The preparation of the consolidated financial statements requires management to make estimates that affect the application of accounting policies and reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2. Significant accounting policies (continued):

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties we believe will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements. The estimates and judgments used in determining the recorded amount for assets and liabilities in the consolidated financial statements include the following:

(i) Investment property:

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

(ii) 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, reflecting of a period of time reflecting the Unit option's average expected unit option holding period. The average risk-free interest rate is based on zero-coupon Government of Canada bonds with terms consistent with the average expected Unit option holding period. Management determines the fair value internally, utilizing the aforementioned inputs, which are available in the forms of external market data and internal financial information.

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

2. Significant accounting policies (continued):

(iii) Other:

Critical judgments and estimates are also made in the determination of fair value of financial instruments and include assumptions and estimates regarding future interest rates, the relative creditworthiness of the REIT to its counterparties, the credit risk of the REIT's counterparties relative to the REIT, the estimated future cash flows and discount rates.

(k) Critical judgments:

Accounting for acquisitions:

Management must assess whether the acquisition of a property should be accounted for as an asset purchase or business combination. This assessment impacts the accounting treatment of transaction costs, the allocation of the costs associated with the acquisition and whether or not goodwill is recognized. The REIT's acquisitions are generally determined to be asset purchases as the REIT does not acquire an integrated set of processes as part of the acquisition transaction.

(l) Future accounting changes:

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the period ended December 31, 2012, and, accordingly, have not been applied in preparing these consolidated financial statements.

Standards	Effective date (annual period beginning on or after)
IAS 1, Presentation of Financial Statements (amendments)	July 1, 2012
IFRS 10, Consolidated Financial Statements	January 1, 2013
IFRS 12, Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13, Fair Value Measurement	January 1, 2013
IAS 32, Financial Instruments - Presentation (amendments)	January 1, 2014
IFRS 9, Financial Instruments (2010)	January 1, 2015

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

2. Significant accounting policies (continued):

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 consolidated financial statements.

3. Acquisitions:

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

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:

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 (note 7)	$ 10,149
Cash	4,293
	$ 14,442

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

4. Investment property:

The following table summarizes the changes in the investment property for the period ended December 31, 2012:

Balance, July 13, 2012	$	–
Acquisitions of investment property		14,657
Fair value adjustment		(103)
Balance, December 31, 2012	$	14,554

The following table reconciles the cost base of investment property to its fair value:

Cost	$	14,657
Cumulative fair value adjustment		(103)
Fair value	$	14,554

The fair value of the investment property is deemed to be the purchase price paid to an arm's-length party as no significant events have occurred to change the value from December 14, 2012 to December 31, 2012.

5. Tenant and other receivables:

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

Tenant receivables	$	7
Harmonized sales tax and other receivables		96
	$	103

As at the date specified, all tenant receivables that were past due but not impaired were outstanding for 90 days or less.

The REIT holds no collateral in respect of tenant and other receivables.

5. Tenant and other receivables (continued):

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

Within one year	$ 1,093
Later than one year and not longer than five years	3,392
Thereafter	2,396
	$ 6,881

6. Prepaid expenses and other assets:

Prepaid expenses and other assets consist of future acquisition and offering related expenses such as legal, audit, environmental, appraisals and other costs associated with acquisitions completed subsequent to December 31, 2012 (note 17).

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

7. Mortgages payable:

On November 23, 2012, the REIT obtained a mortgage in the amount of $10,250, to fund the acquisition of Coronation Mall (note 3). The mortgage bears interest at a fixed rate of 3.92% and has a term to maturity of five years. The mortgage repayments consist of interest only in the first year and blended installments for the remaining four years. The mortgage is secured by first charge on Coronation Mall and is repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2013	$ 22	$ –	$ 22	$ 402
2014	264	–	264	396
2015	274	–	274	386
2016	284	–	284	376
2017	271	9,135	9,406	334
Face value	$ 1,115	$ 9,135	10,250	$ 1,894
Unamortized financing costs			(99)	
			$ 10,151	

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

Current:	
Mortgages payable	$ 22
Unamortized financing cost	(20)
	2
Non-current:	
Mortgages payable	10,228
Unamortized financing cost	(79)
	10,149
	$ 10,151

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

8. Class B LP units:

Pursuant to a Plan of Arrangement which was completed on December 14, 2012, 34,150,000 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 4,268,750 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 during the period ended December 31, 2012:

	Class B LP Units	Amount
Outstanding, July 13, 2012	–	$ –
Issuance of Class B LP Units - Plan of Arrangement	4,268,750	3,080
Fair value adjustment	–	12,928
Outstanding, December 31, 2012	4,268,750	$ 16,008

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

Cost	$ 3,080
Fair value adjustment	12,928
Fair value	$ 16,008

No distributions on Class B LP Units were declared during the period ended December 31, 2012.

9. Unitholders' equity:

(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.

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.

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

9. Unitholders' equity (continued):

(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.

(c) Units outstanding:

The following table summarizes the changes in common shares and Units for the period ended December 31, 2012:

	Common shares	Units	Amount
Balance, July 13, 2012	–	–	$ –
Common shares issued for cash (seed financing - July 13, 2012)	10,000,000	–	500
Common shares issued for cash (private placement - July 24, 2012)	41,000,000	–	4,100
Common shares issued for cash (IPO - August 28, 2012), net of issuance costs of $192	4,000,000	–	208
	55,000,000	–	4,808
Common shares exchanged for REIT Units (one Unit for every eight common shares)	(20,850,000)	2,606,250	–
Common shares exchanged for Class B LP Units (one Class B LP Unit for every eight common shares)	(34,150,000)	–	(3,080)
	–	2,606,250	1,728
Units issued for cash (private placement - December 14, 2012)	–	133,690	500
Balance, December 31, 2012	–	2,739,940	$ 2,228

9. Unitholders' equity (continued):

On July 23, 2012, the Company issued 10,000,000 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 41,000,000 common shares for cash of $4,100 in a private placement. Of these 41,000,000 common shares, 17,100,000 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, the Company completed its IPO, with the issuance of 4,000,000 common shares for cash of $400. Costs related to the issuance including the agents 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 20,850,000 common shares of the Company were exchanged for Units on the basis of one Unit for every eight common shares of the Company (2,606,250 Units at a value of $1,728). The remaining 34,150,000 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 (4,268,750 Class B LP Units at a value of $3,080).

As at December 31, 2012, 870,356 Units and 2,575,000 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.

9. Unitholders' equity (continued):

(d) Unit-based compensation plan:

The REIT has adopted a Unit-based compensation plan (the "Plan") effective December 14, 2012. Under the terms of the Plan, Trustees may, from time to time, at their discretion, and in accordance with Exchange requirements, grant certain Trustees and officers of the REIT, employees of Starlight Investments Ltd. ("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 3,900,000 common shares at $0.10 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, 3,900,000 of outstanding share options have been exchanged for 487,500 Unit options at an exercise of $0.80 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 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 200,000 unit options at an exercise price of $3.74 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)

9. Unitholders' equity (continued):

For the period ended December 31, 2012, compensation expense of $58 for these Unit options was determined using the Black-Scholes option pricing model with the following assumptions:

Average expected Unit option holding period	3.36 years
Average expected volatility rate	20%
Average dividend yield	7.92%
Average risk-free interest rate	1.23%

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.

(ii) Options granted to non-employees:

On August 27, 2012, the Company granted warrants to agents underwriting the IPO to purchase 250,000 common shares at a price of $0.30 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 250,000 warrants have been exchanged for 31,250 Unit options at an exercise of $2.40 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 warrants using the Black-Scholes option pricing model was $30, which was recognized through equity.

For the period ended December 31, 2012, expenses related to these warrants were nominal and are included in trust expenses.

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

9. Unitholders' equity (continued):

For the period ended 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	3,900,000	–	–	–
Warrants granted	250,000	–	–	–
Exchange of share options for Unit options	(3,900,000)	487,500	0.80	4.66
Exchange of share warrants for Unit warrants	(250,000)	31,250	2.40	1.66
Unit options granted	–	200,000	3.74	4.96
Outstanding, December 31, 2012	–	718,750	1.69	
Exercisable, December 31, 2012	–	31,250	–	–

10. Transactions with related parties:

The consolidated financial statements as at December 31, 2012 include the accounts of the REIT and all its subsidiaries.

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

The REIT 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 period ended December 31, 2012, the costs of these services, aggregating $3, were charged to TNCLP expenses. The total amount is included in accounts payable and accrued liabilities.

(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.

No acquisition fee was paid to Starlight for the Coronation Mall acquisition under the terms of the Asset Management Agreement.

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

10. Transactions with related parties (continued):

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

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

There were no capital expenditure fees incurred for the period ended December 31, 2012.

(e) Key management compensation:

Aggregate compensation for key management personnel was as follows:

Short-term employee benefits	$	53
Unit-based compensation		58

Key management personnel includes Trustees. There were no Trustee fees paid during the period ended December 31, 2012.

Short-term employee benefits relate to key management personnel employed by Starlight. Short-term employee benefits of $53 was paid by Starlight to key management personnel, of which $43 relates to the period prior to the completion of the Plan of Arrangement.

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

11. Trust expenses:

Trust expenses include professional fees and other costs incurred in connection with the Plan of Arrangement for the period ended December 31, 2012.

12. Finance costs:

The following table presents the financing costs incurred for the period ended December 31, 2012:

Interest on mortgages payable	$	42
Amortization of financing costs		2
		44
Fair value adjustment of Class B LP Units		12,928
	$	12,972

13. Change in non-cash operating working capital:

The changes in non-cash operating working capital for the period ended December 31, 2012 are as follows:

Tenant and other receivables	$	(103)
Prepaid expenses and other assets		(55)
Accounts payable and accrued liabilities		925
	$	767

14. Commitments and contingencies:

At December 31, 2012, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

15. Capital management:

The REIT defines its capital as the aggregate of unitholders' equity, Class B LP Units, and mortgages payable. 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 of the above requirements as at December 31, 2012.

16. 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. At December 31, 2012, the REIT's mortgage did not bear interest at floating rates.

(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 (Canadian chartered banks) through the regular assessment of counterparties' credit positions.

16. Risk management and fair values (continued):

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits 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.

(iii) Liquidity risk:

Liquidity risk is the risk that the REIT may encounter difficulty in meeting its financial obligations when they come due. Management's strategy to managing liquidity risk is to ensure, to the extent possible, that it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities. To mitigate the risk associated with the refinancing of maturing debt, the REIT staggers the maturity dates of its mortgage portfolio over a number of years. In addition, the REIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its ongoing operational and capital commitments, distributions and provide 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 the commercial properties located in Canada. All of the REIT's operations are denominated in Canadian dollars, resulting in no direct foreign exchange risk.

(b) Fair values:

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

16. Risk management and fair values (continued):

The estimated fair value of the mortgages payable approximates its carrying value.

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

Unit options granted and warrants granted are carried at fair value estimated using a Black-Scholes option pricing model for option valuation.

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

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).

17. Subsequent events:

The REIT adopted a Distribution Reinvestment Plan 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.

On February 12, 2013, the REIT completed a public offering of 14,549,914 Units at a price of $3.83 per Unit for gross proceeds of $55,726. On February 12, 2013, the REIT completed a private placement of 783,290 Units at a price of $3.83 per Unit for gross proceeds of $3,000.

Concurrent with the closing of the offering, the REIT granted Unit options to certain officers and trustees of the REIT and certain employees of Starlight to purchase 855,000 units at $3.83 per Unit. The Unit options will vest evenly over a three-year period and will expire five years from the date the options are granted.

On February 12, 2013, the REIT acquired four commercial properties for an aggregate purchase price of $114,300. One of the properties was acquired from a related party for a purchase price of $5,250.

On February 14, 2013, the REIT acquired one commercial property for a purchase price of $30,400.