



**TRUE NORTH APARTMENT REAL ESTATE  
INVESTMENT TRUST**

**NOTICE OF ANNUAL AND SPECIAL MEETING OF UNITHOLDERS**

**TO BE HELD ON JUNE 26, 2014**

**AND**

**MANAGEMENT INFORMATION CIRCULAR**

**May 30, 2014**

## NOTICE OF ANNUAL AND SPECIAL MEETING OF UNITHOLDERS

**NOTICE IS HEREBY GIVEN** that the Annual and Special Meeting (the “**Meeting**”) of the holders of trust units and special voting units (collectively, “**Unitholders**”) of True North Apartment Real Estate Investment Trust (the “**REIT**”) will be held at Cassels Brock & Blackwell LLP, Suite 2100, Scotia Plaza, 40 King Street West, Toronto, Ontario, M5H 3C2 on June 26, 2014 at the hour of 4:30 p.m. (Toronto time) for the following purposes:

- (a) to receive the audited consolidated annual financial statements of the REIT for the year ended December 31, 2013, together with the auditors’ report thereon;
- (b) to elect members of the Board of Trustees of the REIT (the “**Board**”);
- (c) to re-appoint the auditors of the REIT for the ensuing year and authorize the Board to fix such auditors’ remuneration;
- (d) to consider, and if deemed advisable, to approve a resolution authorizing certain amendments to the REIT’s amended and restated declaration of trust dated September 28, 2012 to permit the REIT to use the notice-and-access provisions under applicable securities laws, as described in the accompanying management information circular dated May 30, 2014 (the “**Circular**”);
- (e) to consider and, if deemed advisable, to pass a resolution (together, the “**Acquisition and VTB Resolution**”) approving:
  - (i) the indirect acquisition (the “**Acquisition**”), through limited partnerships, by the REIT of a portfolio of 29 properties and instalment notes from entities (collectively, the “**Vendors**”) controlled by Daniel Drimmer, the Chairman of the Board and a significant Unitholder of the REIT, for an aggregate purchase price of approximately \$286.0 million (inclusive of an issue price premium of approximately \$8.4 million on the Class B limited partnership units (“**Class B LP Units**”) of True North 4 Limited Partnership, True North 5 Limited Partnership and True North 6 Limited Partnership (collectively, the “**New Partnerships**”) to be issued as partial consideration to the Vendors) to be satisfied by a combination of:
    - (I) approximately \$12.9 million in cash;
    - (II) the assumption of approximately \$65.6 million aggregate principal amount of existing mortgage debt;
    - (III) approximately \$127.5 million aggregate principal amount of new mortgage debt, including \$0.75 million represented by a vender take-back mortgage (the “**VTB**”) from certain of the Vendors;
    - (IV) the issuance to the Vendors of an aggregate of 8,890,466 Class B LP Units of the New Partnerships (which are economically equivalent to and exchangeable for trust units of the REIT) at a deemed issue price of \$9.00 per Class B LP Unit, and accompanying special voting units of the REIT (which provide the holder thereof with voting rights in respect of the REIT);
    - (V) the VTB to be provided to the REIT from certain of the Vendors; and
    - (VI) all other matters related to the Acquisition;
- (f) to transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

The Circular provides additional information relating to proxies and the matters to be dealt with at the Meeting and forms part of this Notice.

**The Acquisition and the VTB each constitute a “related party transaction” pursuant to Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* and, accordingly, a special committee of the Board (the “Special Committee”) was formed to consider the Acquisition and the VTB. On May 28, 2014, the Special Committee unanimously recommended to the Board that they recommend that Unitholders vote FOR the Acquisition and VTB Resolution at the Meeting. The Trustees (other than Mr. Drimmer who recused himself) unanimously recommend that Unitholders vote FOR the Acquisition and VTB Resolution at the Meeting.**

The Board has fixed May 5, 2014 as the record date for determining those Unitholders entitled to receive notice of and vote at the Meeting.

Whether or not you expect to attend the Meeting, please exercise your right to vote. Unitholders who have voted by proxy may still attend the Meeting.

Unitholders should complete, sign, date and return the enclosed form of proxy to the REIT’s transfer agent, Equity Financial Trust Company, in the envelope provided or otherwise, by mail or hand delivery to Equity Financial Trust Company, Suite 300, 200 University Avenue, Toronto, Ontario, M5H 4H1, or by facsimile at (416) 595-9593. In order to be effective, proxies must be received not later than 4:30 p.m. (Toronto time) on June 24, 2014 or, if the Meeting is adjourned or postponed, the second last business day preceding the day of any adjournment or postponement thereof. The time limit for deposit of proxies may be waived or extended by the chairman of the Meeting at his discretion without notice.

Dated at Toronto, Ontario, this 30<sup>th</sup> day of May, 2014.

BY ORDER OF THE BOARD OF TRUSTEES

(signed) LESLIE VEINER  
President and Chief Executive Officer

## MANAGEMENT INFORMATION CIRCULAR

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## MEANING OF CERTAIN REFERENCES

Certain terms used in this Circular are defined under “Glossary”. References to dollars or “\$” are to Canadian currency. Unless the context otherwise requires, all references in this Circular to the “REIT” refer to the REIT and its subsidiary entities, including the Partnerships, on a consolidated basis.

References to “management” in this Circular include the persons acting in the capacity of the REIT’s President and CEO and CFO, who are employed by Starlight. Any statements in this Circular made by or on behalf of management are made in such persons’ capacities as officers of the REIT and not in their personal capacities.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Circular constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking statements are provided for the purposes of assisting the reader in understanding the REIT’s financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management’s current expectations and plans relating to the future and readers are cautioned such statements may not be appropriate for other purposes. Forward-looking information may relate to future results, performance, achievements, events, prospects or opportunities for the REIT or the real estate industry and may include statements regarding: the REIT’s financial position; business strategy; budgets; litigation; projected costs; capital expenditures; financial results; occupancy levels; average monthly rent; taxes; the REIT’s intention with respect to, and ability to execute, its internal and external growth strategies; the REIT’s distribution policy and the distributions to be paid to holders of Units; the distributions to be paid to holders of Class B LP Units; the REIT’s debt strategy; plans and policies regarding capital expenditures; the REIT’s payout ratio; the REIT’s use of its normal course issuer bid; and the ability of the REIT to qualify as a “mutual fund trust”, as defined in the Tax Act, and as a “real estate investment trust”, as defined in the SIFT Rules. In some cases, forward-looking information can be identified by such terms such as “may”, “might”, “will”, “could”, “should”, “would”, “occur”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “seek”, “aim”, “estimate”, “target”, “goal”, “project”, “predict”, “forecast”, “potential”, “continue”, “likely”, “schedule”, or the negative thereof or other similar expressions concerning matters are not historical facts. Some of the specific forward-looking statements in this Circular include, but are not limited to, those statements identified under “Forward-Looking Statements” in the AIF and the Prospectus and statements with respect to the following:

- the expected completion of the Acquisition;
- the effect of the Acquisition on the financial performance of the REIT;
- the REIT’s capital expenditure requirements for the Acquisition Properties and capital expenditures to be made on the Acquisition Properties by the REIT and certain of the Vendors;
- the use of the net proceeds of the Offering to be received by the REIT (including on the exercise of the Over-Allotment Option, if exercised);
- the REIT’s organizational structure;
- the REIT’s arrangements with Starlight;
- the retained interest of the Vendors;
- the REIT’s intention with respect to, and ability to execute, its internal and external growth strategies;
- the REIT’s distribution policy and the distributions to be paid to holders of Units and Class B LP Units;
- the REIT’s debt strategy, including its use of CMHC debt;
- the REIT’s payout ratio; and

- the ability of the REIT to qualify as a “mutual fund trust”, as defined in the Tax Act, and as a “real estate investment trust”, as defined in the SIFT Rules.

Forward-looking statements necessarily involve known and unknown risks and uncertainties, that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, assumptions may not be correct and objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the REIT’s control, affect the operations, performance and results of the REIT and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the risks discussed in the REIT’s materials filed with Canadian securities regulatory authorities from time to time, risks related to the Offering, risks related to the Acquisition, risks related to the Debentures, risks related to the Units issuable upon conversion of the Debentures and risks related to the REIT and its business, including the risks discussed in “Risk Factors” in this Circular and “Risk Factors” in the AIF and the Prospectus and risks disclosed in the REIT’s most recent MD&A. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance actual results will be consistent with such forward-looking statements.

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

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

#### NON-IFRS MEASURES

Certain terms used or incorporated by reference in this Circular such as FFO, AFFO, NOI, Indebtedness to Gross Book Value ratio, Gross Book Value, Indebtedness and earnings coverage ratio are not measures defined under IFRS, do not have standardized meanings prescribed by IFRS and should not be compared to or construed as alternatives to profit/loss, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. FFO, AFFO, NOI, Indebtedness to Gross Book Value ratio, Gross Book Value, Indebtedness, and earnings coverage ratio as computed by the REIT may not be comparable to similar measures as reported by other reporting issuers in similar or different industries.

FFO is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for other capital needs. Management considers this non-GAAP measure to be an important measure of the REIT’s operating performance.

AFFO is calculated as FFO subject to certain adjustments. Management considers AFFO to be an important performance measure to determine the sustainability of future distributions paid to holders of Units and Class B LP Units. AFFO should not be interpreted as an indicator of cash generated from operating activities as it does not consider changes in working capital.

NOI is presented in this Circular because management considers this non-IFRS measure to be an important measure of the REIT’s operating performance and uses this measure to assess the REIT’s property operating performance on an unlevered basis.



Indebtedness to Gross Book Value ratio is a compliance measure in the Declaration of Trust and establishes the limit for financial leverage of the REIT. Indebtedness to Gross Book Value ratio is presented in this Circular because management considers this non-IFRS measure to be an important measure of the REIT's financial position.

Gross Book Value is defined in the Declaration of Trust and is a measure of the value of the REIT's assets. Gross Book Value is presented in this Circular because management considers this non-IFRS measure to be an important measure of the REIT's asset base and financial position.

Indebtedness is defined in the Declaration of Trust and is a measure of the amount of debt financing utilized by the REIT. Indebtedness is presented in this Circular because management considers this non-IFRS measure to be an important measure of the REIT's financial position.

Earnings coverage ratio refers to earnings before borrowing costs and income taxes divided by borrowing costs, and is presented in this Circular in accordance with applicable securities laws.

## GLOSSARY

The following terms used in this Circular have the meanings set out below:

**“Acquisition”** means the indirect acquisition by the REIT of the Acquisition Properties and the Instalment Notes pursuant to the terms of the Acquisition Agreement.

**“Acquisition Agreement”** means the agreement of purchase and sale between the Vendors, True North General Partner and the REIT dated May 29, 2014, pursuant to which the REIT will indirectly acquire the Acquisition Properties and the Instalment Notes as described under “The Acquisition”.

**“Acquisition Closing Date”** means the date upon which the REIT completes the Acquisition, which is expected to occur on or about June 27, 2014.

**“Acquisition Properties”** or **“Private Portfolio II”** means, collectively, the 29 properties containing 2,824 residential suites located in Ontario and Alberta to be acquired by the REIT pursuant to the Acquisition Agreement as described under “Special Business – The Acquisition”.

**“Affiliate”** means any person that would be deemed to be an affiliated entity of such person within the meaning of National Instrument 45-106 – *Prospectus and Registration Exemptions*.

**“AFFO”** means FFO subject to certain adjustments, including: (i) amortization of fair value mark-to-market adjustments on mortgages acquired, amortization of deferred financing costs, amortization of CMHC premium, and compensation expense related to unit-based incentive plans; and (ii) deducting a reserve for normalized maintenance capital expenditures, as determined by the REIT. Other adjustments may be made to adjusted funds from operations as determined by the Trustees in their discretion.

**“AIF”** means the REIT's annual information form for the year ended December 31, 2013.

**“AIC Standards”** has the meaning ascribed thereto in “Special Business – The Acquisition – Independent Appraisals”.

**“Amount”** has the meaning ascribed thereto in “Annual Matters to be Acted Upon at the Meeting – Remuneration of Management of the REIT – Non-Executive Trustee Unit Issuance Plan”.

**“Annual Materials”** has the meaning ascribed thereto in “Special Business – Amendments to the Declaration of Trust – Notice-and-Access”.

**“Asset Management Agreement”** means the amended and restated asset management agreement effective as of January 1, 2013 among Starlight and the REIT, pursuant to which Starlight provides asset management, advisory and administrative services to the REIT and its Subsidiaries.

“**Assumed Mortgages**” means the mortgages and related security to be assumed by the REIT as described under “Debt Financing for the Acquisition – Assumed Mortgages”.

“**Blue-Starlight LP**” means Blue-Starlight LP, a partnership duly existing and governed by the laws of Ontario.

“**Board**” or “**Board of Trustees**” means the board of Trustees of the REIT.

“**CBRE**” means CBRE Limited, the appraiser that prepared the Independent Appraisals and the Original Appraisals for each of the Acquisition Properties.

“**CDS**” means CDS Clearing and Depository Services Inc.

“**CEO**” means the chief executive officer of the REIT.

“**CFO**” means the chief financial officer of the REIT.

“**Chairman of the Board**” means the chairman of the Board, being Mr. Drimmer.

“**Change of Control**” means the acquisition by any person, or group of persons acting jointly or in concert, of voting control or direction over an aggregate of 66<sup>2</sup>/<sub>3</sub>% or more of the outstanding Units (on a fully-diluted basis).

“**Circular**” means this management information circular of the REIT dated May 30, 2014.

“**Class A LP Units of the New Partnerships**” means the Class A limited partnership units in the capital of the New Partnerships.

“**Class B LP Units**” means, collectively, the Class B limited partnership units in the capital of True North LP, Blue-Starlight LP, Rocky LP and the New Partnerships and “**Class B LP Unit**” means any one of the foregoing, as the context requires.

“**CMHC**” means Canada Mortgage and Housing Corporation.

“**Code**” means the REIT’s code of business conduct and ethics.

“**Conversion Price**” means \$9.30 per Unit.

“**CPI Adjustment**” has the meaning ascribed thereto in “Arrangements with Starlight – Asset Management Agreement”.

“**CRA**” means the Canada Revenue Agency.

“**Credit Facility**” means the \$25 million floating rate revolving credit facility renewed by the REIT on September 27, 2013 with a Canadian chartered bank.

“**Current Market Price**” means the volume-weighted average trading price of the Units on the TSX (if the Units are then listed on the TSX) for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event.

“**Deadline**” means 5:00 p.m. (Toronto time) on August 29, 2014.

“**Debenture Trustee**” means Equity Financial Trust Company, as the trustee under the Indenture.

“**Debentureholder**” means a holder of Debentures.

“**Debentures**” means the 5.75% extendible convertible unsecured subordinated debentures of the REIT offered hereunder.

“**Declaration of Trust**” means the amended and restated declaration of trust of the REIT dated as of September 28, 2012, as it may be further amended, supplemented or amended and restated from time to time.

“**Disclosure Policy**” means the disclosure policy of the REIT.

“**DPSP**” means deferred profit sharing plan within the meaning of the Tax Act.

“**DRIP**” means the REIT’s distribution reinvestment plan effective July 18, 2012, and as amended and restated as of May 28, 2013.

“**Election**” has the meaning ascribed thereto in “Annual Matters to be Acted Upon at the Meeting – Remuneration of Management of the REIT – Non-Executive Trustee Unit Issuance Plan”.

“**Environmental Site Reconnaissance Letters**” means the site reconnaissance letters dated April 2014 prepared by the Independent Property Consultant, for the purpose of providing the REIT with a summary of any changes of environmental significance at the Acquisition Properties since completion of the previous report.

“**Event of Default**” has the meaning ascribed thereto under “Description of the Debentures – Events of Default”.

“**Exchange Agreement**” means the exchange agreement dated as of June 5, 2012, among Starlight (which for the purposes of such agreement includes Affiliates of Starlight), the REIT and True North General Partner, amongst others.

“**Fairness Opinion**” means the opinion of Origin that the Acquisition is fair, from a financial point of view, to the Unitholders (other than Daniel Drimmer and his Affiliates).

“**FFO**” means net income calculated in accordance with IFRS, excluding: (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) fair value adjustments and other effects of redeemable units classified as liabilities; (iv) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; and (v) deferred income tax expense and certain other non-cash adjustments, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect funds from operations on the same basis as consolidated properties.

“**Final Maturity Date**” means 5:00 p.m. (Toronto time) on June 30, 2019, being the maturity date of the Debentures if the completion of the Acquisition occurs prior to the occurrence of a Termination Event.

“**GC&N Committee**” means the Governance, Compensation and Nominating Committee of the Board.

“**Global Debenture Certificates**” means one or more Debenture certificates registered in the name of CDS or its nominee and held by, or on behalf of, CDS, as depositary of the Debenture certificates.

“**Gross Book Value**” means the acquisition cost of the assets of the REIT plus: (i) the cumulative impact of fair value adjustments; (ii) acquisition related costs in respect of completed investment property acquisitions that were expensed in the period incurred; (iii) accumulated amortization on property, plant and equipment, and other assets; and (iv) deferred loan costs.

“**High-Rise**” means a building with more than seven storeys.

“**Holder**” has the meaning ascribed thereto in “Certain Canadian Federal Income Tax Considerations”.

“**Hurdle Amount**” has the meaning ascribed thereto in “Arrangements with Starlight – Asset Management Agreement”.

“**IFRS**” means International Financial Reporting Standards, as issued by the International Accounting Standards Board and as adopted by the Chartered Professional Accountants Canada, as amended from time to time.

“**Indebtedness**” means (without duplication) on a consolidated basis:

- (i) any obligation of the REIT for borrowed money (other than the impact of any net discount or premium on Indebtedness at the time assumed from vendors of properties at rates of interest less or greater than, respectively, fair value and any undrawn amounts under any acquisition or operating facility);
- (ii) any obligation of the REIT (other than the impact of any net discount or premium on Indebtedness at the time assumed from vendors of properties at rates of interest less or greater than, respectively, fair value and any undrawn amounts under any acquisition or operating facility) incurred in connection with the acquisition of property, assets or businesses other than the amount of future income tax liability arising out of indirect acquisitions;
- (iii) any obligation of the REIT issued or assumed as the deferred purchase price of property;
- (iv) any capital lease obligation of the REIT; and
- (v) any obligation of the type referred to in subsections (i) through (ii) of another person, the payment of which the REIT has guaranteed or for which the REIT is responsible for or liable, other than such an obligation in connection with a property that has been disposed of by the REIT for which the purchaser has assumed such obligation and provided the REIT with an indemnity or similar arrangement therefor;

provided that (a) for the purposes of subsections (i) through (iv), an obligation (other than convertible debentures) will constitute Indebtedness only to the extent that it would appear as a liability on the consolidated balance sheet of the REIT in accordance with IFRS; (b) obligations referred to in subsections (i) through (iii) exclude trade accounts payables, security deposits, distributions payable to holders of Units and accrued liabilities arising in the ordinary course of business; (c) convertible debentures will constitute Indebtedness to the extent of the principal amount thereof outstanding; and (d) Units and exchangeable securities, including Class B LP Units, will not constitute Indebtedness.

“**Indenture**” means the trust indenture to be entered into between the REIT and the Debenture Trustee which will create and govern the Debentures, as described under “Description of the Debentures”.

“**Independent Appraisals**” means the appraisals conducted by CBRE on the Acquisition Properties dated September 30, 2013, as confirmed by CBRE as of May 23, 2014 pursuant to a letter from CBRE to the Special Committee dated May 28, 2014.

“**Independent Property Consultant**” means the independent consultant that prepared the Environmental Site Reconnaissance Letters and the Property Condition Site Assessments.

“**Independent Trustee**” means a Trustee who, in relation to the REIT, is “independent” within the meaning of National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

“**Initial Maturity Date**” means the date upon which a Termination Event occurs, being the initial maturity date of the Debentures.

“**Instalment Note Valuation**” means the valuation of the Instalment Notes by Origin, as discussed under “Background and Recommendations – Instalment Note Valuation”.

“**Instalment Notes**” means the promissory notes in the aggregate amount of \$1,692,242 pursuant to which certain of the Vendors will provide instalment payments to the REIT upon completion of the Acquisition, in consideration of the REIT assuming the Assumed Mortgages, in order for the REIT to achieve an effective interest rate equivalent to 2.5% per annum in respect of the Assumed Mortgages, as described under “The Acquisition – Instalment Notes”.

“**Interest Payment Date**” means June 30 and December 31 in each year.

“**Interested Parties**” has the meaning ascribed thereto under “Background and Recommendations – Fairness Opinion”.

“**Intermediary**” has the meaning ascribed thereto in “General Information Regarding the Meeting – Non-Registered Unitholders”.

“**Lead Trustee**” means the lead trustee of the Board, being Graham L. Rosenberg.

“**Lead Underwriters**” means, collectively, CIBC World Markets Inc. and Raymond James Ltd.

“**Low-Rise**” means a building with fewer than four storeys.

“**Management Proxyholders**” means the persons named in the form of proxy accompanying this Circular.

“**MD&A**” means management’s discussion and analysis.

“**Meeting**” means the annual and special meeting of Unitholders of record as of May 5, 2014 for the purpose of, among other things, approving the Acquisition, expected to be held on June 26, 2014. See “The Acquisition – Transaction Approvals – Unitholder Approval”.

“**meeting materials**” means collectively, the Notice, the Circular and the form of proxy.

“**MI 61-101**” means Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*.

“**Mid-Rise**” means a building with no fewer than four storeys and no more than seven storeys.

“**Minority Unitholders**” means Unitholders other than: (i) Starlight; (ii) any other party that is an “interested party” in respect of the Acquisition; (iii) any party that is a “related party” of (i) or (ii); and (iv) any other party that is a “joint actor” with any of (i), (ii) or (iii) in respect of the Acquisition, as determined pursuant to MI 61-101 and subject to the exceptions noted therein.

“**Montréal Acquisition**” means the acquisition by the REIT from an affiliate of Mr. Drimmer of 148 residential suites, comprised of eleven low-rise buildings located in Montréal, Québec.

“**Named Executive Officers**” has the meaning ascribed thereto in “Remuneration of Management of the REIT – Compensation Discussion and Analysis”.

“**New Mortgages**” means those mortgages on certain of the Acquisition Properties to be entered into by the REIT as described under “Debt Financing for the Acquisition – New Mortgages”.

“**New Partnerships**” means True North 4 Limited Partnership, True North 5 Limited Partnership and True North 6 Limited Partnership, each a partnership duly existing and governed by the laws of Ontario.

“**New Partnership LP Agreements**” means the limited partnership agreements of each of the New Partnerships between True North General Partner, as general partner and each person who is admitted to one of the New Partnerships in accordance with the terms of the applicable limited partnership agreement, as the same may be amended and/or restated from time to time.

“**NI 51-102**” has the meaning ascribed thereto in “Special Business – Amendments to the Declaration of Trust – Notice-and-Access”.

“**NI 54-101**” means National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer*. “**NOA Notice Package**” has the meaning ascribed thereto in “Special Business – Amendments to the Declaration of Trust – Notice-and-Access”.

“**NOI**” means net operating income.

“**Nominees**” has the meaning ascribed thereto in “Annual Matters to be Acted Upon at the Meeting – Election of Trustees”.

“**Non-Registered Unitholder**” has the meaning ascribed thereto in “General Information Regarding the Meeting – Non-Registered Unitholders”.

“**Notice**” means the notice of meeting accompanying the Circular.

“**Offering**” means the offering of the Debentures pursuant to the Prospectus.

“**Option Plan**” means the amended and restated 2013 unit option plan of the REIT adopted with effect from May 28, 2013.

“**Options**” means those unit purchase options granted pursuant to the Option Plan.

“**Origin**” means Origin Merchant Partners.

“**Original Appraisals**” means the appraisals conducted on the Acquisition Properties dated between February 5, 2012 and June 30, 2013, as described under “The Acquisition – Prior Valuations”.

“**Over-Allotment Option**” means the option granted to the Underwriters by the REIT, exercisable in whole or in part and at any time not later than the earlier of: (i) the 30<sup>th</sup> day following the closing of the Offering; and (ii) the occurrence of a Termination Event, to purchase up to an additional \$3,000,000 aggregate principal amount of Debentures solely to cover over-allocations, if any, and for market stabilization purposes, as described under “Plan of Distribution”.

“**Partnerships**” means, collectively, True North LP, Blue-Starlight LP, Rocky LP and the New Partnerships.

“**person**” means an individual, firm, trust, trustee, syndicate, corporation, partnership, limited partnership, association, government, governmental agency or other entity.

“**Plan Maximum**” has the meaning ascribed thereto in “Annual Matters to be Acted Upon at the Meeting – Remuneration of Management of the REIT – Non-Executive Trustee Unit Issuance Plan”.

“**Plans**” means, collectively, RRSPs, RRIFs, DPSPs, registered education savings plans, registered disability savings plans and TFSAs, in each case within the meaning of the Tax Act.

“**Property Condition Assessments**” means the baseline property condition assessments prepared by the Independent Property Consultant dated September, 2013.

“**Prospectus**” means the preliminary or final short-form prospectus filed by the REIT in connection with the Offering, as the context requires.

“**Put Date**” has the meaning ascribed thereto in “Description of the Debentures – Put Right Upon a Change of Control”.

“**Put Price**” has the meaning ascribed thereto in “Description of the Debentures – Put Right Upon a Change of Control”.

“**Put Right**” has the meaning ascribed thereto in “Description of the Debentures – Put Right Upon a Change of Control”.

“**Record Date**” means May 5, 2014, being the date determined by the REIT for determining the Unitholders entitled to receive notice of, and to attend and to vote at, the Meeting.

“**REIT**” means True North Apartment Real Estate Investment Trust and references in this Circular to the “REIT” should be interpreted as described under “Meaning of Certain References”.

“**REIT Exception**” has the meaning ascribed thereto in the Prospectus.

“**Rocky Instalment Note**” means the promissory note in the aggregate principal amount of \$922,389 provided by D.D. Acquisitions Partnership to the REIT in connection with the REIT’s acquisition of the Rocky Properties.

“**Rocky LP**” means Rocky (2013) Limited Partnership, a partnership duly existing and governed by the laws of Ontario.

“**Rocky Properties**” means, collectively, the 17 properties owned by Rocky LP as at the date of acquisition thereof by the REIT, containing 1,570 residential suites located in Ontario, Québec, Alberta and British Columbia.

“**RRIF**” means registered retirement income fund within the meaning of the Tax Act.

“**RRSP**” means registered retirement savings plan within the meaning of the Tax Act.

“**Senior Indebtedness**” of the REIT will be defined in the Indenture as the principal of and the interest and premium (or any other amounts payable thereunder), if any, on: (i) all indebtedness, liabilities and obligations of the REIT, or of others for payment of which the REIT is responsible or liable, whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed in connection with the acquisition of any businesses, properties or other assets or for monies borrowed or raised by whatever means; and (ii) renewals, extensions, restructurings, refinancings and refundings of any such indebtedness, liabilities or obligations, unless in each case it is provided by the terms of the instrument creating or evidencing such indebtedness, liabilities or obligations that such indebtedness, liabilities or obligations are not superior in right of payment to debentures issued under the Indenture which by their terms are subordinated, which for greater certainty includes the Debentures.

“**SIFT**” means specified investment flow-through trust or specified investment flow-through partnership, as the case may be, within the meaning of the SIFT Rules.

“**SIFT Rules**” means the rules applicable to “SIFT trusts” and “SIFT partnerships” (each as defined in the Tax Act) in the Tax Act (including any proposed amendments contained in the Tax Proposals) as described under “Certain Canadian Federal Income Tax Considerations – SIFT Rules”.

“**Special Committee**” means the committee of Independent Trustees of the REIT, consisting of J. Michael Knowlton (Chair), Graham L. Rosenberg and Denim Smith, established by the REIT for the purposes of supervising the process to be carried out by the REIT and its professional advisors in connection with the Acquisition and making recommendations to the Trustees in respect of matters that it considers relevant with respect to the Acquisition and ensuring that the REIT completes such acquisition in compliance with the requirements of MI 61-101, the applicable policies of the TSX and applicable law.

“**Special Voting Unit**” means a special voting unit in the capital of the REIT.

“**Starlight**” means Starlight Investments Ltd., a company incorporated under the laws of Ontario and controlled by Mr. Drimmer, being the asset manager of the REIT, and any reference to Starlight in the context of ownership of Units, Class B LP Units or Class B LP Units of the New Partnerships means, collectively, Starlight and/or certain or all of the other entities directly or indirectly beneficially owned or controlled by Mr. Drimmer that currently own

Units or Class B LP Units and those that will hold Class B LP Units of the New Partnerships as a result of the Acquisition.

“**Starlight Appointed Trustees**” has the meaning ascribed thereto in “Annual Matters to be Acted Upon at the Meeting – Election of Trustees”.

“**Subject Debentures**” has the meaning ascribed thereto in “Description of the Debentures – Limitation on Non-Resident Ownership”.

“**Subsidiary**” means, with respect to any person, company, partnership, limited partnership, trust or other entity, any company, partnership, limited partnership, trust or other entity controlled, directly or indirectly, by such person, company, partnership, limited partnership, trust or other entity.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder, as amended.

“**Tax Proposals**” means all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof.

“**TC2 Portfolio**” means the properties owned by affiliates of Timbercreek Asset Management Inc. from the date of the privatization of TransGlobe on June 29, 2012 to October 14, 2013, being 915 44th Street SE, Calgary, Alberta, 740 - 758 Kipps Lane, London, Ontario and 7-11 Manhattan Court, Guelph, Ontario.

“**Termination Event**” means the earliest to occur of any of: (i) the completion of the Acquisition not occurring on or before the Deadline; (ii) the REIT delivering to the Underwriters a notice, executed by the REIT, declaring that the Acquisition Agreement has been terminated or that the REIT will not be proceeding with the Acquisition; or (iii) the REIT formally announcing to the public by way of a press release that it does not intend to proceed with the Acquisition.

“**TFSA**” means tax-free savings account within the meaning of the Tax Act.

“**TGA3 Portfolio**” means the properties owned by TransGlobe from May 14, 2010, being 37 Berkeley Place West, Lethbridge, Alberta, 590 & 600 Columbia Boulevard West, Lethbridge, Alberta, 1304-1310 23rd Avenue North, Lethbridge, Alberta, 3210 & 3310 23rd Avenue South, Lethbridge, Alberta, 1603, 1607, 1611 & 1615 Scenic Heights South, Lethbridge, Alberta, 2201 32nd Street South, Lethbridge, Alberta, 175 Columbia Boulevard West, Lethbridge, Alberta, 256 Mayor Magrath Drive North, Lethbridge, Alberta, 2014 15th Avenue North, Lethbridge, Alberta, 915 44th Street SE, Calgary, Alberta, 286 Chandler Drive, Kitchener, Ontario, 294 Chandler Drive, Kitchener, Ontario, 7-11 Manhattan Court, Guelph, Ontario and 131 Maxwell Street, Sarnia, Ontario, and, properties owned by TransGlobe from September 1, 2011, being 1219 Centre Street, Brooks, Alberta, 740 - 758 Kipps Lane, London, Ontario, 135 Connaught Avenue and 543 Mornington Avenue, London, Ontario, in each case, to the date of the privatization of TransGlobe on June 29, 2012.

“**TransGlobe**” means TransGlobe Apartment Real Estate Investment Trust.

“**True North General Partner**” means True North General Partner Corp., a company incorporated under the laws of Ontario, a wholly-owned Subsidiary of the REIT, the general partner of True North LP, Blue-Starlight LP, Rocky LP and, upon completion of the Acquisition, the general partner of the New Partnerships.

“**True North LP**” means True North Limited Partnership, a partnership duly existing and governed by the laws of Ontario.

“**True North LP Agreement**” means the limited partnership agreement of True North LP between the True North General Partner, as general partner and each person who is admitted to the partnership in accordance with the terms of the agreement, as the same may be amended and/or restated from time to time.

“**Trustees**” means the trustees from time to time of the REIT.



“**TSX**” means the Toronto Stock Exchange.

“**TSXV**” means the TSX Venture Exchange.

“**Underwriters**” means, collectively, the Lead Underwriters, National Bank Financial Inc., TD Securities Inc., BMO Nesbitt Burns Inc., Scotia Capital Inc., Dundee Securities Ltd., GMP Securities L.P., Canaccord Genuity Corp. and Desjardins Securities Inc.

“**Underwriting Agreement**” means the agreement to be entered into among the REIT and the Underwriters in respect of the Offering.

“**Unit Interest Payment Election**” means an election by the REIT pursuant to the Indenture.

“**Unit Issuance Plan**” means the non-executive Trustee unit issuance plan of the REIT adopted with effect from May 28, 2013 and amended and restated as of January 1, 2014.

“**Unitholder**” means a holder of Voting Units.

“**Units**” means trust units in the capital of the REIT, other than Special Voting Units.

“**Vendors**” means D.D. Acquisitions Partnership, Mustang DDAP Partnership, Green-Starlight LP, Yellow-Starlight LP, Red-Starlight LP and PD Kanco LP.

“**Voting Units**” means, collectively, the Units and the Special Voting Units.

“**VTB**” means the vendor take-back mortgage provided by the Vendors to the REIT as described under “The Acquisition – VTB”.

## GENERAL INFORMATION REGARDING THE MEETING

**This Circular is furnished in connection with the solicitation of proxies by and on behalf of the management of the REIT for use at the Meeting of Unitholders to be held on June 26, 2014 and any adjournment or postponement thereof for the purposes set forth in the Notice.** It is expected that the solicitation will be primarily by mail, but proxies may also be solicited by telephone, or other personal contact, by regular employees of the REIT, without special compensation. The costs of solicitation will be borne by the REIT. The information contained herein is given as at May 30, 2014, except where otherwise indicated.

### Registered Unitholders

#### *Holders of Units*

A holder of Units is a registered Unitholder if shown on the Record Date on the list of holders of Units kept by Equity Financial Trust Company, as registrar and transfer agent of the REIT, in which case a Unit certificate will have been issued to the Unitholder which indicates the Unitholder's name and the number of Units owned by the Unitholder. Registered holders of Units will receive with this Circular a form of proxy from Equity Financial Trust Company representing the Units held by such holder.

#### *Holders of Class B LP Units*

Holders of Class B LP Units shown on the Record Date on the list of holders of Class B LP Units kept by Equity Financial Trust Company, as registrar and transfer agent of the REIT, will receive with this Circular a form of proxy from Equity Financial Trust Company representing the Special Voting Units held by such holder of Class B LP Units. Holders of Class B LP Units have automatically been issued Special Voting Units which entitle such holder to one Special Voting Unit per Class B LP Unit held. The Special Voting Units are entitled to one vote per Special Voting Unit at any meeting of the Unitholders. Special Voting Units are evidenced only by the certificates representing the Class B LP Units to which they relate. Holders of Special Voting Units will receive with this Circular a form of proxy from Equity Financial Trust Company representing the Special Voting Units held by such holder.

#### *Appointment of Proxy*

A form of proxy is enclosed and, whether or not you expect to attend the Meeting, please exercise your right to vote. Unitholders who have voted by proxy may still attend the Meeting. Please complete and return the form of proxy in the envelope provided. The form of proxy must be executed by the registered Unitholder or the attorney of such Unitholder, duly authorized in writing. Proxies to be used at the Meeting must be deposited with the REIT's transfer agent, Equity Financial Trust Company, in the envelope provided or otherwise, by mail or hand delivery to Equity Financial Trust Company, Suite 300, 200 University Avenue, Toronto, Ontario, M5H 4H1, or by facsimile at (416) 595-9593, not later than 4:30 p.m. (Toronto time) on June 24, 2014 or, if the Meeting is adjourned or postponed, the second last business day preceding the day of any adjournment or postponement thereof. The limit for deposit of proxies may be waived or extended by the chairman of the Meeting at his discretion without notice.

The persons named in the enclosed form of proxy (the "**Management Proxyholders**") are Trustees or officers of the REIT. **A Unitholder may appoint a proxyholder (who is not required to be a Unitholder), other than the Management Proxyholders, to attend and act on such Unitholder's behalf at the Meeting, either by inserting such other desired proxyholder's name in the blank space provided on the form of proxy or by substituting another proper form of proxy.**

#### *Revocation of Proxy*

A registered Unitholder who has given a proxy pursuant to this solicitation may revoke it as to any matter on which a vote has not already been cast pursuant to its authority by an instrument in writing executed by the Unitholder or by the attorney of such Unitholder authorized in writing or, if the registered Unitholder is a corporation, by a duly authorized officer or attorney thereof, and deposited either at the head office of the REIT not later than 4:30 p.m. (Toronto time) on June 24, 2014 or, if the Meeting is adjourned or postponed, the second last business day preceding any adjournment or postponement thereof at which the form of proxy is to be used or with

the chairman of the Meeting on the day of the Meeting or any adjournment or postponement thereof, or in any other manner permitted by law.

### **Non-Registered Unitholders**

A holder of Units is a non-registered (or beneficial) Unitholder (a “**Non-Registered Unitholder**”) if the Unitholder’s Units are registered either:

- (a) in the name of an intermediary (an “**Intermediary**”) that the Non-Registered Unitholder deals with in respect of the Units, such as, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered registered retirement savings plans, registered retirement income funds, registered education savings plans, registered disability savings plans, tax-free savings accounts (as such terms are used in the Tax Act and the regulations thereunder, as amended from time to time) and similar plans; or
- (b) in the name of a clearing agency (such as CDS & Co.) of which the Intermediary is a participant.

#### *Non-Objecting Beneficial Owners*

These meeting materials are being sent to both registered and Non-Registered Unitholders. If you are a Non-Registered Unitholder, and the REIT or its agent has sent these materials directly to you, your name and address and information about your holdings of securities have been obtained in accordance with applicable securities regulatory requirements from the Intermediary holding securities on your behalf. By choosing to send these materials to you directly, the REIT (and not the Intermediary holding on your behalf) has assumed responsibility for: (i) delivering these materials to you, and (ii) executing your voting instructions. Please return your voting instructions as specified in the request for voting instructions or form of proxy delivered to you.

#### *Appointment of Proxy*

In accordance with the requirements of NI 54-101, the REIT has distributed copies of the meeting materials to the clearing agencies and Intermediaries for onward distribution to Non-Registered Unitholders. Intermediaries must forward the meeting materials to each Non-Registered Unitholder (unless the Non-Registered Unitholder has waived the right to receive such materials), and often use a service company (such as Broadridge Financial Solutions Inc., Canada), to permit the Non-Registered Unitholder to direct the voting of the Units held by the Intermediary on behalf of the Non-Registered Unitholder. Generally, Non-Registered Unitholders who have not waived the right to receive meeting materials will either:

- (a) be given a proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of Units beneficially owned by the Non-Registered Unitholder but which is otherwise uncompleted. This form of proxy need not be signed by the Non-Registered Unitholder. In this case, the Non-Registered Unitholder who wishes to submit a proxy should otherwise properly complete the form of proxy and deposit it with Equity Financial Trust Company, as described above under “General Information Regarding the Meeting – Registered Unitholders”; or
- (b) more typically, be given a voting instruction form which must be completed and signed by the Non-Registered Unitholder in accordance with the directions on the voting instruction form. Non-Registered Unitholders should submit voting instruction forms to Intermediaries in sufficient time to ensure that their votes are received from the Intermediaries by the REIT.

The purpose of these procedures is to permit Non-Registered Unitholders to direct the voting of the Units they beneficially own. Should a Non-Registered Unitholder who receives either a proxy or a voting instruction form wish to attend and vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Unitholder), the Non-Registered Unitholder should strike out the names of the persons named in the form of proxy and insert their own (or such other person’s) name in the blank space provided in the form of proxy or, in the case of a voting instruction form, follow the corresponding instructions on the form, to appoint themselves as proxy holders, and deposit the form of proxy or submit the voting instruction form in the appropriate manner noted above. **Non-Registered Unitholders should carefully follow the instructions on the form of proxy or voting**

**instruction form that they receive from their Intermediary in order to vote the Units that are held through that Intermediary.**

#### *Revocation of Proxy*

A Non-Registered Unitholder giving a proxy may revoke the proxy by contacting his or her Intermediary in respect of such proxy and complying with any applicable requirements imposed by such Intermediary. An Intermediary may not be able to revoke a proxy if it receives insufficient notice of revocation.

#### **Voting of Units**

The Voting Units represented by proxies or voting instruction forms will be voted or withheld from voting in accordance with the instructions of the Unitholder on any ballot that may be called for and, if the Unitholder specifies a choice with respect to any matter to be acted upon at the Meeting, Voting Units represented by properly executed proxies or voting instruction forms will be voted accordingly.

**If no choice is specified by a Unitholder with respect to the appointment of a proxyholder and to any matter to be acted upon at the Meeting, the Voting Units represented by such Unitholder's proxy or voting instruction form will be voted by the persons named in the enclosed form of proxy: (i) FOR the election of the nominees named herein as members of the Board; (ii) FOR the re-appointment of KPMG LLP as auditors of the REIT and the Trustees to fix such auditors' remuneration; (iii) FOR the proposed amendments to the Declaration of Trust to permit the REIT to use the notice-and-access provisions under applicable securities law, and (iv) FOR the Acquisition and VTB Resolution; each as described in this Circular.**

The REIT's registrar and transfer agent, Equity Financial Trust Company, will serve as independent scrutineer at the Meeting, and will tabulate all votes at the Meeting.

#### **Exercise of Discretion by Proxy**

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments to matters identified in the Notice and with respect to such other matters as may properly come before the Meeting or any adjournment or postponement thereof. At the date of this Circular, the Trustees and management of the REIT are not aware of any amendments or other matters to come before the Meeting other than the matters referred to in the Notice. With respect to amendments to matters identified in the Notice or other matters that may properly come before the Meeting or any adjournment or postponement thereof, Voting Units represented by properly executed proxies will be voted by the persons so designated in their discretion.

#### **Voting at Meeting and Quorum**

Unless otherwise required by law or the Declaration of Trust, any matter coming before the Meeting or any adjournment or postponement thereof shall be decided by the majority of the votes duly cast in respect of the matter by Unitholders entitled to vote thereon. However, the Acquisition and VTB Resolution must be approved by the affirmative vote of a majority of votes cast by Minority Unitholders present in person or represented by proxy at the Meeting. Holders of Debentures who do not own Voting Units are not Unitholders and the Debentures do not carry any Voting Rights, including, for greater certainty, the right to vote at the Meeting.

The Board has fixed May 5, 2014 as the Record Date for the purpose of determining which Unitholders are entitled to receive the Notice and vote at the Meeting or any adjournment or postponement thereof, either in person or by proxy. No person acquiring Voting Units after that date shall, in respect of such Voting Units, be entitled to receive the Notice and vote at the Meeting or any adjournment or postponement thereof.

As of the Record Date, the REIT had 18,658,473 outstanding Units, each carrying the right to one vote per Unit at the Meeting, and 4,671,132 outstanding Special Voting Units, each carrying the right to one vote per Special Voting Unit at the Meeting. The Units are listed on the TSX under the symbol "TN.UN".

The quorum at the Meeting or any adjournment or postponement thereof (other than an adjournment for lack of quorum) shall be two or more individuals present in person or represented by proxy representing in the aggregate not less than 10% of the total number of outstanding Voting Units on the Record Date.

## PRINCIPAL HOLDERS OF VOTING UNITS

To the knowledge of the Trustees and management of the REIT, as of the Record Date, no person or company beneficially owned, or controlled or directed, directly or indirectly, Voting Units carrying 10% or more of the votes attached to the outstanding Voting Units, other than Mr. Drimmer (together with his Affiliates), who owned, in aggregate, 899,898 Units and 3,497,800 Special Voting Units, representing approximately 18.85% of the outstanding Voting Units (or 4.82% of the outstanding Units and 74.88% of the outstanding Special Voting Units, respectively), and 157,917 Options. The REIT understands that Mr. Drimmer, the Chairman of the Board, exercises voting control over all Voting Units owned by him and his Affiliates. Management understands that the Units registered in the name of CDS & Co. are beneficially owned through various Intermediaries on behalf of their clients and other parties. The names of the beneficial owners of such Units are not known to the REIT. Except as set out above, the REIT and executive officers of the REIT have no knowledge of any person or company that beneficially owns, or controls or directs, directly or indirectly, 10% or more of the outstanding Voting Units.

## ANNUAL MATTERS TO BE ACTED UPON AT THE MEETING

### Financial Statements

The audited consolidated annual financial statements of the REIT for the year ended December 31, 2013, together with the auditors' report thereon, will be tabled before the Unitholders at the Meeting for consideration of the Unitholders. The audited financial statements have been approved by the Audit Committee and by the Board. The audited financial statements are available at [www.truenorthreit.com](http://www.truenorthreit.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### Election of Trustees

The Declaration of Trust provides that the REIT must have a minimum of three and a maximum of ten Trustees. The Declaration of Trust further provides that Starlight has the right to appoint certain Trustees (the "**Starlight Appointed Trustees**") based on Starlight's ownership interest in the REIT and the size of the Board. Presently, the number of Trustees is set at seven and Starlight is entitled to appoint two of the seven Trustees. Starlight has determined to not exercise such appointment rights in respect of Trustees to be elected at the Meeting, although it may exercise such appointment rights in the future. The persons noted below have been nominated by management for election as Trustees at the Meeting (the "**Nominees**"). Five of the seven Nominees proposed for election as Trustees by the Unitholders at the Meeting will be considered Independent Trustees.

The Board has adopted a policy that entitles each Unitholder to vote for each Nominee on an individual basis rather than for a fixed slate of Nominees. Each Nominee should be elected by the vote of a majority of the Voting Units represented in person or by proxy at the Meeting that are voted in respect of that Nominee. If any Nominee receives, from the Voting Units voted at the Meeting in person or by proxy, a greater number of votes "withheld" than votes "for" his election as a Trustee, the Trustee will be required to tender his resignation to the chairman of the GC&N Committee for consideration promptly following the Meeting, to take effect upon acceptance by the Board. The GC&N Committee will consider the resignation and provide a recommendation to the Board as to whether or not to accept such resignation. The Board will, in turn, consider the recommendation of the GC&N Committee, among other things, and make a final decision concerning the acceptance of such resignation within 90 days of the Meeting and a news release will be issued by the REIT announcing the decision. A Trustee who tenders his resignation will not participate in any deliberations pertaining to such resignation.


The foregoing process applies only in circumstances involving an "uncontested" election of Trustees. If any Trustee fails to tender his resignation as contemplated above, the Board will not re-nominate that Trustee. Subject to any restrictions in the Declaration of Trust, where the Board accepts the resignation of a Trustee, the Board may exercise its discretion with respect to the resulting vacancy and may, without limitation, leave the resultant vacancy unfilled until the next annual meeting of Unitholders, fill the vacancy through the appointment of a new Trustee whom the Board considers to merit the confidence of the Unitholders, or call a special meeting of Unitholders to elect a new nominee to fill the vacant position.

The Nominees are to be elected by the Unitholders at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting of Unitholders, or until a successor is appointed. The seven Nominees named below are proposed for election as Trustees of the REIT by the Unitholders at the Meeting. Each such Nominee is currently a Trustee and has demonstrated the eligibility and willingness to serve as a Trustee. If,

prior to the Meeting, any of the listed nominees becomes unable or unwilling to serve, Voting Units represented by properly executed proxies will be voted by the persons so designated in their discretion for a properly qualified substitute.

**Unless such authority is withheld, the Management Proxyholders intend to vote FOR the election of Daniel Drimmer, J. Michael Knowlton, Robert McKee, Alon Ossip, Graham L. Rosenberg, Denim Smith and Leslie Veiner as Trustees.**

The following table sets forth certain information regarding each Nominee proposed for election as a Trustee by the Unitholders:

		<p>Daniel Drimmer, a resident of Toronto, Ontario, is the founder, President and Chief Executive Officer of Starlight, a Canadian real estate asset management company focused on the acquisition, ownership and management of commercial and residential properties across Canada and the United States, with a portfolio of approximately 27,000 residential rental units and an additional 2,000,000 square feet in commercial properties. In addition to the formation of Starlight, Mr. Drimmer established the REIT and TSX-listed True North Commercial Real Estate Investment Trust. Prior to the formation of Starlight, Mr. Drimmer established TransGlobe Investment Management Ltd., TransGlobe Property Management Services Ltd. and TransGlobe Apartment Real Estate Investment Trust (“<b>TGA Trust</b>” and, collectively, “<b>TransGlobe</b>”), and was TransGlobe’s President from November 1996 to August 2011. Mr. Drimmer was TSX-listed TGA Trust’s creator and sponsor from May 2010 to August 2011. Mr. Drimmer obtained a Bachelor of Arts degree from the University of Western Ontario, and Masters’ degree in Contemporary Policy Making from European University in Geneva, Switzerland.</p>		
<p>Daniel Drimmer Ontario, Canada</p> <p>Trustee since June 5, 2012</p> <p>Age: 41</p>		<p>Primary Areas of Expertise: Real Estate Asset Management</p>		
<p><b>Summary of attendance of Trustee for meetings held during 2013</b></p>			<p><b>Number of each class of Voting Units and its subsidiaries beneficially owned, or controlled or directed, directly or indirectly</b></p>	
<p><b>Board meetings attended/held</b></p>	<p><b>Committee</b></p>	<p><b>Committee meetings attended/held</b></p>	<p><b>Voting Units (#)</b></p>	<p><b>Options</b></p>
<p>7/7</p>	<p>Investment<sup>(2)</sup> (Chair)</p>	<p>0/0</p>	<p>899,898 Units 3,497,800 Special Voting Units</p>	<p>157,917</p>



J. Michael Knowlton  
British Columbia, Canada  
Trustee since May 28, 2013  
Age: 63

J. Michael Knowlton, a resident of Whistler, British Columbia, is a corporate director and has 25 years of experience in real estate. He retired as President and Chief Operating Officer of Dundee Real Estate Investment Trust (“**Dundee REIT**”) in 2011 where he was responsible for the day-to-day operations of Dundee REIT with a focus on acquisitions and external relationships. Prior to being appointed as President and Chief Operating Officer at Dundee REIT, Mr. Knowlton served as Executive Vice President and Chief Financial Officer, responsible for all financial accounting and reporting, treasury and finance functions. Prior to joining Dundee in 1998, Mr. Knowlton held senior positions with companies including OMERS Realty Corporation, Imperial Oil Limited, Datacrown Limited, American Standard Brands and Citicom (a privately held real estate development company). Mr. Knowlton also serves on the Boards of Crombie Real Estate Investment Trust, Tricon Capital Corp., Northwest Healthcare Properties Real Estate Investment Trust and Balboa Investments Inc. Mr. Knowlton holds a Bachelor of Science degree in Engineering, and a Master of Business Administration from Queen’s University. He is a Chartered Accountant and holds an ICD.D designation from the Institute of Corporate Directors.

J. Michael Knowlton is an Independent Trustee.

Primary Areas of Expertise: Real Estate Management, Accounting/Auditing

Summary of attendance of Trustee for meetings held during 2013			Number of each class of Voting Units and its subsidiaries beneficially owned, or controlled or directed, directly or indirectly	
Board meetings attended/held <sup>(1)</sup>	Committee	Committee meetings attended/held	Voting Units (#)	Options
2/7	Investment <sup>(2)</sup>	0/0	7,690 Units	nil



Robert McKee  
Ontario, Canada  
Trustee since June 5, 2012  
Age: 51

Robert McKee, a resident of Toronto, Ontario, has been the President and Chief Executive Officer of Firm Capital Property Trust (an issuer listed on the TSX), since November 2012, the Vice President Finance and Administration at Firm Capital Mortgage Investment Corporation (an issuer listed on the TSX) since February 2009 and Managing Director at Firm Capital Realty Partners Inc. since October 2008. Prior to that Mr. McKee was a member of TD Securities Realty Group specializing in equity and debt underwriting and real estate acquisitions and dispositions. Mr. McKee holds a Master of Business Administration (with Distinction) from the Richard Ivey School of Business.

Robert McKee is an Independent Trustee.

Primary Areas of Expertise: Real Estate, Governance and Compensation, Finance

Summary of attendance of Trustee for meetings held during 2013			Number of each class of Voting Units and its subsidiaries beneficially owned, or controlled or directed, directly or indirectly	
Board meetings attended/held	Committee	Committee meetings attended/held	Voting Units (#)	Options
7/7	Audit GC&N (Chair) Special <sup>(3)</sup>	4/4 1/1 1/1	9,349 Units 25,000 Special Voting Units	41,500



Alon Ossip  
 Ontario, Canada  
 Trustee since June 5, 2012  
 Age: 50

Alon Ossip, a resident of Toronto, Ontario, is Chief Executive Officer of The Stronach Group, a privately-held consortium that owns, operates and manages a number of leading businesses in a wide range of industries, including thoroughbred racing and gaming real estate, electric vehicle technologies, medical technologies, and agri-business. He is also an Executive Vice President of TSX-listed Magna International Inc., a position he has held since October 2006, a trustee of TSX-listed True North Commercial Real Estate Investment Trust, and a former director of TGA Trust. Mr. Ossip previously served as a Partner at Goodman and Carr LLP and as Associate Counsel at Miller Thomson LLP. Mr. Ossip is formerly a director, officer and founding shareholder of Workbrain Corporation (a TSX-listed public company that was sold to Infor Global Solutions European Finance, S.a.R.L. in 2007) from June 2003 to June 2007. Mr. Ossip has a Bachelor of Laws from York University (Osgoode Hall) and a Bachelor of Arts from the University of Toronto.

Alon Ossip is an Independent Trustee.

Primary Areas of Expertise: Taxation, Finance

Summary of attendance of Trustee for meetings held during 2013			Number of each class of Voting Units and its subsidiaries beneficially owned, or controlled or directed, directly or indirectly	
Board meetings attended/held	Committee	Committee meetings attended/held	Voting Units (#)	Options
7/7	GC&N Special <sup>(3)</sup>	1/1 1/1	51,997 Units 162,500 Special Voting Units	84,000



Graham L. Rosenberg  
 Ontario, Canada  
 Trustee since October 1, 2012  
 Age: 51

Graham L. Rosenberg, a resident of Toronto, Ontario, is the Co-Chief Executive Officer and President of Dental Corporation of Canada Inc. (“**Dental Corp.**”), a company that he founded in 2011 to acquire and partner with dental practices across Canada. Prior to founding Dental Corp., Mr. Rosenberg founded BCM Bancorp Inc. in 2009, a boutique merchant bank providing mid-market North American companies with strategic and financial resources to accelerate growth and maximize value. Previously, Mr. Rosenberg was a Managing Director of MDC Partners Inc., a marketing and communications firm listed on the TSX and NASDAQ, from 2003 to 2009, holding various senior executive positions within the firm since 2001. Prior to that, Mr. Rosenberg spent eight years as a Managing Partner at Clairvest Group Inc., a TSX-listed merchant bank.

Graham L. Rosenberg is an Independent Trustee.

Primary Areas of Expertise: Real Estate, Finance, Accounting/Auditing

Summary of attendance of Trustee for meetings held during 2013			Number of each class of Voting Units and its subsidiaries beneficially owned, or controlled or directed, directly or indirectly	
Board meetings attended/held	Committee	Committee meetings attended/held <sup>(4)</sup>	Voting Units (#)	Options
7/7	Audit (Chair) Investment <sup>(2)</sup>	4/4 0/0	7,775 Units	34,000





Denim Smith  
Ontario, Canada

Trustee since June 5, 2012

Age: 37

Denim Smith, a resident of Toronto, Ontario, is the Chief Investment Officer at The Nationwide Group of Companies, a real estate technology company, a partner at SMH Partners Ltd., a real estate consulting company, and Founder and Chief Executive Officer of the Internet startup My Internet Corporation. Mr. Smith was most recently the Vice President of Blackmont Capital Inc.'s real estate investment banking practice where he was involved in over \$300 million of capital markets transactions and over \$3 billion of advisory and valuation mandates. Prior to joining Blackmont Capital Inc., Mr. Smith helped to form KeyBanc Capital Markets Real Estate Group in Boston, Massachusetts which was responsible for over US\$3.5 billion of capital markets transactions and US\$600 million of successful sell-side advisory mandates. Previously, he was a real estate investment banker at RBC Capital Markets in Canada and the United States. Additionally, Mr. Smith served as a trustee for GT Canada Medical Properties Real Estate Investment Trust and sat on its audit committee. Mr. Smith is a graduate of the University of Western Ontario and has completed the General Securities Representatives Exam and Uniform Securities Agent State Law Exam administered by the United States Financial Industry Regulatory Authority, as well as numerous Canadian Securities Institute courses and the Chartered Financial Accountant Level 2 exam.

Denim Smith is an Independent Trustee.

Primary Areas of Expertise: Real Estate, Finance, Accounting, Capital Markets

Summary of attendance of Trustee for meetings held during 2013			Number of each class of Voting Units and its subsidiaries beneficially owned, or controlled or directed, directly or indirectly	
Board meetings attended/held	Committee	Committee meetings attended/held <sup>(2)</sup>	Voting Units (#)	Options
7/7	Audit	4/4	3,014 Units	41,500
	GC&N	1/1	25,000 Special Voting Units	
	Special <sup>(3)</sup> (Chair)	1/1		



Leslie Veiner  
Ontario, Canada

Trustee since October 1, 2012

Age: 47

Leslie Veiner, a resident of Toronto, has been the CEO of the REIT since August 2012. Previously, Mr. Veiner was the Chief Financial Officer of TGA Trust from May 2010 to June 2012. From April 2008 to May 2010, Mr. Veiner was a Principal of Hippo Capital Corporation, a real estate consulting company. From March 2005 to March 2008, Mr. Veiner was Senior Vice-President Real Estate of Chartwell Senior Housing Real Estate Investment Trust ("Chartwell"). Prior to March 2005, Mr. Veiner was the Chief Financial Officer of Chartwell from its inception in November 2003 to March 2005.

Primary Areas of Expertise: Real Estate, Finance, Accounting, Capital Markets

Summary of attendance of Trustee for meetings held during 2013			Number of each class of Voting Units and its subsidiaries beneficially owned, or controlled or directed, directly or indirectly	
Board meetings attended/held	Committee	Committee meetings attended/held <sup>(4)</sup>	Voting Units (#)	Options
7/7	-	-	14,397 Units	120,000

Notes:

- (1) Mr. Knowlton attended all meetings of the Board that were held after he was elected as a Trustee, on May 28, 2013.
- (2) No formal Investment Committee meetings were held in 2013; however, the Investment Committee met in conjunction with Board meetings during 2013 and fulfilled its duties as contemplated by the Declaration of Trust.
- (3) On September 20, 2012, a special committee of Trustees consisting of Messrs. Smith (Chair), McKee and Ossip was established for the purposes of supervising the process to be carried out by the REIT and its professional advisors in connection with the acquisition of the Rocky Properties. See “Arrangements with Starlight”.

### **Appointment of Auditors**

KPMG LLP, Chartered Professional Accountants, located in Toronto, Ontario are currently the auditors of the REIT and have been the auditors of the REIT since its formation on June 5, 2012. The Board recommends that KPMG LLP be re-appointed as auditors of the REIT, to hold office until the close of the next annual meeting of Unitholders or until a successor is appointed, and that the Trustees be authorized to fix KPMG LLP’s remuneration as the auditors of the REIT.

**To be effective, the resolution approving the re-appointment of KPMG LLP and authorizing the Trustees to fix the KPMG LLP’s remuneration must be passed at the Meeting. The Board recommends that Unitholders vote FOR the appointment of KPMG LLP as the auditor of the REIT and to authorize the Trustees to fix the auditor’s remuneration. Unless such authority is withheld, the Management Proxyholders intend to vote FOR the re-appointment of KPMG LLP as the auditors of the REIT and to authorize the Trustees to fix the remuneration of KPMG LLP as the auditors of the REIT.**

### **SPECIAL BUSINESS – AMENDMENTS TO THE DECLARATION OF TRUST – NOTICE-AND-ACCESS**

Effective February 11, 2013, NI 54-101, National Instrument 51-102 – *Continuous Disclosure Obligations* and Form 51-102F5 – *Information Circular* (collectively, “**NI 51-102**”) and National Policy 11-201 – *Delivery of Documents by Electronic Means* were amended to allow reporting issuers the option to use the “notice-and-access” method to post Annual Materials (as defined below) on the internet instead of mailing materials to registered unitholders (under NI 51-102) and to beneficial owners (under NI 54-101).

Pursuant to applicable securities laws, but subject to the implementation of the amendments discussed below, notice-and-access may be used by the REIT to provide access to the notice of meeting, proxy circular, financial statements and management discussions and analysis (collectively, the “**Annual Materials**”) by posting these materials on SEDAR and a non-SEDAR website, and concurrently posting and sending to Unitholders a notice-and-access notification, together with a form of proxy (for registered holders) or applicable voting instruction form (for beneficial owners) (the “**NOA Notice Package**”). The notice-and-access method will be available for all Unitholder meetings, including special meetings.

Under notice-and-access, the record date for notice of the meeting must be set at least 40 days prior to the meeting date and the notification of meeting and record date must be provided 25 days prior to such record date (which period will be subject to abridgement after the REIT’s first use of notice-and-access).

The NOA Notice Package will be required to be sent to Unitholders at least 30 days prior to the meeting date (if sending directly to registered holders or non-objecting beneficial owners), or three or four business days prior to such delivery date (depending on the mail delivery method chosen), if sending indirectly to beneficial owners. The NOA Notice Package will be required to be posted on SEDAR and a non-SEDAR website on or before the date the REIT sends the NOA Package to Unitholders. The relevant Annual Materials, as applicable, will also be required to be concurrently posted. A toll-free number will be arranged to allow registered holders and beneficial owners to call and request proxy-related materials.

The REIT anticipates that the implementation of notice-and-access will substantially reduce both its postage and material costs and also promote environmental responsibility by decreasing the large volume of paper documents generated by printing Annual Materials.

While NI 54-101 and NI 51-102 now permit notice-and-access, notice-and-access must also be permitted by the Declaration of Trust. Currently, certain provisions of the Declaration of Trust are possibly incompatible with notice-and-access for the following reasons:

- (a) Section 8.3 – *Notice of Meeting of Unitholders* and Section 18.2 – *Manner of Giving Notice* of the Declaration of Trust require that all notices, including notice of all meetings of the Unitholders, must be mailed or delivered by the Trustees to each Unitholder at the address appearing in the register; and
- (b) Section 18.8 – *Reports to Unitholders* of the Declaration of Trust requires the Trustees to “send” to Unitholders certain financial statements, but the Declaration of Trust does not specify how such requirement may be satisfied.

The Board is seeking Unitholder approval to make certain amendments to the Declaration of Trust to resolve such possible incompatibilities and permit the REIT to use notice-and-access.

**The Board recommends Unitholders vote FOR the resolution (as set forth below). Unless such authority is withheld, the Management Proxyholders intend to vote FOR the resolution (set forth below).**

At the Meeting, Unitholders will be asked to vote on the following resolution, with or without variations:

BE IT RESOLVED THAT:

The following amendments to the REIT’s Declaration of Trust be and are hereby authorized and approved:

- (a) Section 8.3 of the Declaration of Trust is amended as follows (amended portions identified with strikethrough or underlined, where applicable):

Section 8.3 Notice of Meeting of Unitholders

Notice of all meetings of the Unitholders shall be ~~mailed or delivered~~ provided by the Trustees to each Unitholder entitled to vote at a meeting of the Unitholders at their address appearing in the Register, to each Trustee and to the Auditors of the Trust not less than 21 nor more than 50 days or within such other number of days as required by law or relevant stock exchange before the meeting.

- (b) Section 18.2 of the Declaration of Trust is amended as follows (amended portions identified with strikethrough or underlined, where applicable):

Section 18.2 Manner of ~~Giving~~ Providing Notice

Any notice or other document required or permitted by the provisions of this Declaration of Trust to be ~~given~~ provided to a Unitholder, a Trustee or the Auditors shall be deemed conclusively to have been ~~given~~ provided if ~~given~~ either by delivery or by prepaid first-class mail addressed to the Unitholder at the address shown in the Register, to a Trustee at the last address provided by such Trustee to the ~~Chief Executive Officer~~ Secretary of the Trust, or to the Auditors at the last address provided by the Auditors to the ~~Trustees~~ Secretary of the Trust, as the case may be, provided that if there is a general discontinuance of postal service due to strike, lockout or otherwise, such notice may be given by publication twice in the Report on Business section of the National Edition of The Globe and Mail or similar section of any other newspaper having national circulation in Canada provided further that if there is no newspaper having national circulation, then by publishing twice in the business section of a newspaper in each city where the register or a branch register is maintained, or as otherwise permitted under this Declaration of Trust.

## SPECIAL BUSINESS – THE ACQUISITION

### Overview

The REIT has agreed to indirectly acquire a portfolio of 29 properties comprising an aggregate of 2,824 residential suites in 11 High-Rise properties, four Mid-Rise properties, 13 Low-Rise properties, and one townhouse complex. The Acquisition Properties are located in Ontario and Alberta. In connection with the Acquisition, certain of the Vendors will be providing the Instalment Notes. To effect the Acquisition, the REIT has agreed to acquire control of the New Partnerships by subscribing for Class A LP Units of the New Partnerships and causing True North General Partner to acquire the general partnership interest of the New Partnerships and thereby indirectly

acquire the Acquisition Properties and the Instalment Notes. The purchase price for the Acquisition Properties and Instalment Notes of approximately \$286.0 million (inclusive of an issue price premium of approximately \$8.4 million on the Class B LP Units of the New Partnerships as at May 28, 2014, but exclusive of transaction costs), which implies a capitalization rate of approximately 5.4%, will be satisfied by a combination of: (i) approximately \$12.9 million in cash, (ii) the assumption of approximately \$65.6 million aggregate principal amount of existing mortgage debt, (iii) approximately \$127.5 million aggregate principal amount of new mortgage debt, including \$0.75 million represented by the VTB, and (iv) the issuance to the Vendors of an aggregate of 8,890,466 Class B LP Units of the New Partnerships (each such unit to be issued at a price of \$9.00). The new and assumed mortgages have an expected effective weighted average interest rate of 3.1% (after giving effect to the Instalment Notes) and an expected weighted average term to maturity of approximately 4.1 years. As at April 30, 2014, the Acquisition Properties had an occupancy rate of approximately 96.6%. See “Description of the Acquisition Properties”.

Notwithstanding the terms of the Asset Management Agreement, Starlight has agreed to waive its acquisition fee in connection with the Acquisition.

The Acquisition will be completed pursuant to the Acquisition Agreement and will be conditional upon the satisfaction of certain conditions including lender consents, completion of the Offering, Unitholder approval, completion of the VTB, *Competition Act* (Canada) approval and meeting the conditions of TSX approval. See “The Acquisition – Transaction Approvals”. Completion of the Acquisition is expected to occur on or about June 27, 2014.

The purchase price for the Acquisition Properties was established by negotiation between the Special Committee and the Vendors (each of which is an Affiliate of Mr. Drimmer), after the consideration by the Special Committee of, among other things, the Fairness Opinion, the Original Appraisals, the Independent Appraisals, the Instalment Note Valuation, the Environmental Site Reconnaissance Letters, the Property Condition Assessments and other financial, market and detailed property related information deemed appropriate and sufficient for such purposes. See “The Acquisition – Recommendation of the Special Committee”, “The Acquisition – Independent Appraisals”, “The Acquisition – Prior Valuations” and “Description of the Acquisition Properties – Environmental and Property Condition Assessment of Acquisition Properties”.

Each of the Vendors is a related party of the REIT, as Mr. Drimmer is the Chairman of the Board. An aggregate of 8,890,466 Class B LP Units of the New Partnerships will be issued to the Vendors pursuant to the Acquisition Agreement and, following the completion of the Acquisition and the Offering, it is expected that Mr. Drimmer (together with his Affiliates) will hold an approximate 41.2% effective interest in the REIT through the ownership of, or the control or direction over, Units, Class B LP Units and Special Voting Units.

The Acquisition and VTB constitute “related party transactions” under MI 61-101. See “The Acquisition – Recommendation of the Special Committee”.

The Special Committee, which is comprised of Independent Trustees, was established by the REIT for the purposes of supervising the process to be carried out by the REIT and its professional advisors in connection with the Acquisition and make recommendations to the Trustees in respect of matters that it considers relevant with respect to the Acquisition and ensure that the REIT completes such acquisition in compliance with the requirements of MI 61-101, the applicable policies of the TSX, the Declaration of Trust and applicable law. **On May 28, 2014, the Special Committee unanimously recommended to the Trustees that they recommend that Unitholders vote FOR the Acquisition and VTB Resolution at the Meeting. The Trustees (other than Mr. Drimmer who recused himself) unanimously recommend that Unitholders vote FOR the Acquisition and VTB Resolution at the Meeting.** See “Background and Recommendations – Recommendation of the Special Committee”.

## Acquisition Agreement

*The following is a summary of the material attributes and characteristics of the Acquisition Agreement. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the terms of the Acquisition Agreement, which has been filed with the Canadian securities regulatory authorities and will be available on SEDAR at [www.sedar.com](http://www.sedar.com). Unitholders should refer to the terms of the Acquisition Agreement for a complete description of the representations, warranties and indemnities being provided in favour of, and by, the REIT, and related limitations under the Acquisition Agreement.*

The REIT has agreed to acquire control of the New Partnerships by subscribing for Class A LP Units of the New Partnerships and causing True North General Partner to acquire the general partnership interest of each of the New Partnerships and thereby indirectly acquire the Acquisition Properties and the Instalment Notes, for an aggregate purchase price of approximately \$286.0 million (inclusive of an issue price premium of approximately \$8.4 million on the Class B LP Units of the New Partnerships as at May 28, 2014, but exclusive of transaction costs), all pursuant to the provisions of the Acquisition Agreement. The Acquisition Agreement contains representations, warranties and covenants typical of those contained in acquisition agreements negotiated between parties dealing at arm's length (including, among other things, representations and warranties as to organization and status, power and authorization, authorized and issued capital of nominee companies, leasing matters, the existence of work orders and covenants of the Vendors, relating to outstanding lender undertakings and the resolution of outstanding work orders pertaining to the Acquisition Properties), as well as indemnities with respect to a breach of any representation or warranty of a Vendor, failure to comply with covenants, taxes or obligations with respect to wages and employee benefits. Only the REIT will be entitled to bring a claim or action for misrepresentation or breach of contract under the Acquisition Agreement. Purchasers of Debentures under the Prospectus do not and will not have any contractual rights under the Acquisition Agreement. Purchasers will, however, have certain statutory rights against the REIT under applicable securities laws. See "Purchasers' Statutory Rights".

### **Instalment Notes**

Pursuant to the terms of the Acquisition Agreement, certain of the Vendors have agreed to make monthly instalment payments to the REIT under the Instalment Notes, in order for the REIT to achieve an effective interest rate of 2.5% per annum on the Assumed Mortgages, which will be assumed by the REIT upon completion of the Acquisition. The monthly instalment payments will extend over a period of approximately 80 months from the Acquisition Closing Date, based on the maturity dates of the Assumed Mortgages. Instalment payments are expected to initially be approximately \$39,114 per whole month declining to approximately \$2,570 for the last month, for an aggregate amount of approximately \$1.7 million over the term of the Assumed Mortgages.

The Special Committee retained Origin to provide an independent opinion of the fair market value of the Instalment Notes. See "The Acquisition – Recommendation of the Special Committee". Origin determined, as at May 26, 2014, that the value of the Instalment Notes on the Acquisition Closing Date, using a discounted cash flow analysis, was in the range of \$1,456,057 to \$1,513,532.

### **VTB**

The VTB in the amount of \$0.75 million will have a five year term (commencing from the date of completion of the Acquisition), and will bear interest at a rate of 3% per annum and shall be payable interest only and monthly. The VTB is fully open for prepayment without penalty during the first year of the term.

The VTB constitutes a "related party transaction" under MI 61-101. Pursuant to MI 61-101, the REIT is required to obtain prior approval of the VTB by a majority of the Minority Unitholders at the Meeting to be held to consider the Acquisition. The Meeting is expected to be held on or about June 26, 2014. See "The Acquisition – Transaction Approvals – Unitholder Approval".

To the extent that realty taxes payable in respect to all of the Acquisition Properties exceed \$4,158,114 for the period from June 27, 2014 to June 26, 2015 (the "**Base Year**"), the REIT shall be entitled to offset such excess amount against the indebtedness owing under the VTB at the end of the first quarter following the granting of such loan and thereafter on each subsequent quarter. The principal amount owing under the VTB shall be reduced quarterly thereafter by the amount by which realty taxes payable in respect of all of the Acquisition Properties exceed the Base Year plus a 2.0% increase per year. The realty taxes shall be based on \$4,241,276 for June 27, 2015 to June 26, 2016; \$4,326,102 for June 27, 2016 to June 26, 2017; \$4,412,624 for June 27, 2017 to June 26, 2018; \$4,500,876 for June 27, 2018 to June 26, 2019. The maximum set-off right to which the REIT is entitled is \$750,000.

### **Capital Expenditure Commitment**

Pursuant to the terms of the Acquisition Agreement, the Vendors have agreed to make additional payments on account of capital improvements at the Acquisition Properties in the aggregate amount of approximately \$3.2 million over a period estimated to be 12 months, or less, from the closing date of the Acquisition.

## BACKGROUND AND RECOMMENDATIONS

### Background to the Acquisition

As the Acquisition and the VTB each constitute a “related party transaction” under MI 61-101, the Special Committee was established on April 7, 2014 by the REIT for the purposes of supervising the process to be carried out by the REIT and its professional advisors in connection with the Acquisition and the VTB, making recommendations to the Trustees in respect of matters that it considers relevant with respect to the Acquisition and the VTB; and ensuring that the REIT completes the Acquisition and the VTB in compliance with the requirements of MI 61-101, the Declaration of Trust, applicable policies of the TSX and applicable law. The Special Committee met to consider the Acquisition and VTB on 9 occasions between April 9, 2014 and May 28, 2014.

### Recommendation of the Special Committee

The Special Committee retained Origin to act as its financial advisor in connection with the Acquisition. Origin has provided the Special Committee with its Fairness Opinion, a copy of which is attached as Schedule “B”. Origin concluded, in the Fairness Opinion, that the Acquisition is fair, from a financial point of view, to Unitholders, other than Mr. Drimmer and his Affiliates. The Fairness Opinion is subject to a number of assumptions and limitations. In addition, the Special Committee engaged: (i) Origin to prepare the Instalment Note Valuation, (ii) CBRE, to prepare the Independent Appraisals and (iii) the Independent Property Consultant to prepare the Environmental Site Reconnaissance Letters and the Property Condition Assessments. The Special Committee also met with senior management of the REIT as well as its legal and tax advisors in order to consider various aspects of the Acquisition. In addition, the Special Committee and its advisors requested and reviewed a detailed financial model prepared by the REIT’s asset manager, Starlight, relating to the Acquisition Properties.

After giving consideration to, among other things, the Fairness Opinion, the Instalment Note Valuation, the Prior Appraisals, the Independent Appraisals, the Environmental Site Reconnaissance Letters, the Property Condition Assessments and other financial, market and detailed property-related information deemed appropriate and sufficient for such purposes, the Special Committee unanimously resolved that the Acquisition and VTB was in the best interests of the REIT and its Unitholders, and unanimously recommended to the Board that they recommend that Unitholders vote for the Acquisition and VTB Resolution at the Meeting. In arriving at its conclusions and recommendations, the Special Committee reviewed and considered all aspects of the Acquisition and VTB including the financial, legal and tax implications of the Acquisition and the VTB and the anticipated benefits to the REIT and its Unitholders. The conclusions and recommendations of the Special Committee are based upon the following factors, among others:

- the Acquisition significantly expands the REIT’s asset base;
- the Acquisition will increase the size of the REIT’s portfolio by 2,824 suites, from 6,002 to 8,826, an increase of approximately 47%;
- the Acquisition is expected to be accretive to the REIT’s FFO and AFFO per Unit;
- The purchase price for the Acquisition Properties implies a capitalization rate of approximately 5.4%, or approximately \$101,275 per residential suite;
- The geographic location of the Acquisition Properties is highly complementary to the REIT’s existing core portfolio, and provides greater exposure to the high growth Alberta market;
- Origin concluded in its Fairness Opinion that, based upon and subject to the assumptions, limitations and other considerations set forth therein and such other matters considered relevant by Origin, as of May 28, 2014, the Acquisition is fair, from a financial point of view, to Unitholders (other than Mr. Drimmer and his Affiliates) (see “Fairness Opinion”);
- the Independent Appraisals of the Acquisition Properties indicate that the estimated aggregate value of the Acquisition Properties as of May 23, 2014 was \$294.3 million excluding any portfolio premium, which is above the purchase price of \$286 million (inclusive of an issue price premium)

of approximately \$8.4 million on the Class B LP Units of the New Partnerships) to be paid by the REIT for the Acquisition Properties and Instalment Note (see “Formal Valuation Exemptions – Independent Appraisals”); and

- the requirement under MI 61-101 and the rules of the TSX that the Acquisition and VTB Resolution must be approved by the affirmative vote of a majority of votes cast by Minority Unitholders present in person or represented by proxy at the Meeting.

### **Recommendation of the Board**

The Board (with Mr. Drimmer recusing himself), based on the recommendation of the Special Committee and the factors referred to above unanimously: (i) resolved that the Acquisition and VTB are in the best interests of the REIT and its Unitholders; (ii) approved the Acquisition Agreement, the Offering and all other documents as may be necessary to complete the Acquisition and the Offering; and (iii) resolved to recommend that Unitholders vote FOR the Acquisition and VTB Resolution at the Meeting.

**The Trustees (other than Mr. Drimmer who recused himself) unanimously recommend that Unitholders vote FOR the Acquisition and VTB Resolution at the Meeting.**

Unitholders should consider the Acquisition and VTB carefully and come to their own conclusion as to whether or not to vote in favour of the Acquisition and VTB Resolution.

The foregoing discussion of the information and factors reviewed by the Board and Special Committee is not, and is not intended to be, exhaustive. In view of the wide variety of factors considered, neither the Board nor the Special Committee found it practicable to, and therefore did not, quantify or otherwise assign relative weight to specific factors in making its determination. The conclusions and recommendations of the Board and Special Committee were made after consideration of all of the above-noted factors in light of the collective knowledge of the members thereof of the operations, financial condition and prospects of the REIT and was also based upon the advice of its advisors.

### **Transaction Approvals**

#### *Unitholder Approval*

The Acquisition and the VTB are transactions between, among others, the REIT and the Vendors. Each of the Vendors is controlled by Mr. Drimmer, the Chairman of the Board, who currently holds an approximate 18.85% economic and voting interest in the REIT through the ownership of Units, Class B LP Units and Special Voting Units.

Accordingly, the Acquisition and VTB constitute “related party transactions” under MI 61-101. Pursuant to Section 5.4 of MI 61-101, the REIT was required to obtain, at its own expense, a formal valuation of the Acquisition Properties (see “The Acquisition – Independent Appraisals”) by a qualified valuator who is independent of the REIT. The VTB is not subject to the formal valuation requirements of Section 5.4 of MI 61-101 as it is not a transaction described in paragraphs (a) through (g) of the definition of “related party transaction” in MI 61-101.

The REIT is also required, pursuant to Section 5.6 of MI 61-101, to obtain prior approval of the Acquisition and the VTB by a majority of the Minority Unitholders at the Meeting held to consider the Acquisition. The Meeting is expected to be held on June 26, 2014.

Further, majority approval by the Minority Unitholders at the Meeting is required in connection with the Acquisition and the issuance of Class B LP Units of the New Partnerships to the Vendors pursuant to the following sections of the TSX Company Manual: (a) Section 611(b) where the number of securities issuable to insiders as a group in payment of the purchase price for an acquisition exceeds 10% of those outstanding at the time of the acquisition, as the 8,890,466 Class B LP Units of the New Partnerships and accompanying Special Voting Units issuable to the Vendors as partial consideration for the Acquisition represent approximately 38.1% of Voting Units outstanding as at May 30, 2014 before giving effect to the Acquisition, on a non-diluted basis but including the outstanding Class B LP Units and section 611(c), where the number of securities issuable as partial payment for the Acquisition exceeds 25% of the number of Voting Units outstanding as at May 30, 2014, on a non-diluted basis but

including the outstanding Class B LP Units; (b) section 604(a), regarding a material effect in control of the REIT being created as the Acquisition will result in a new holding of more than 20% of the Voting Units held by Mr. Drimmer and his Affiliates, as the effective interest in the REIT held by Mr. Drimmer and his Affiliates will increase from 4,404,474 Voting Units to 13,294,920 Voting Units, representing an increase from 18.9% before giving effect to the Acquisition to 41.2% after giving effect to the Acquisition, which may be considered to have a material effect on control of the REIT; and section 501(c), as the aggregate consideration payable to the Vendors in respect of the Acquisition represents 150.3% of the market capitalization of the REIT as at May 30, 2014, on a non-diluted basis but including the Class B LP Units, which is greater than 10% of the REIT's market capitalization.

For further information regarding the securityholdings of Mr. Drimmer and his Affiliates see "Financing for the Acquisition – Issue of Class B LP Units of the New Partnerships and Special Voting Units". For further information on the Unitholders excluded from the voting with the Minority Unitholders, see "Acquisition and VTB Resolution". For further information regarding the aggregate consideration payable to the Vendors in respect of the Acquisition, see "Special Business – the Acquisition – Overview".

The Special Committee, consisting of J. Michael Knowlton (Chair), Graham L. Rosenberg and Denim Smith, each of whom is an Independent Trustee, was established by the REIT for the purposes of supervising the process to be carried out by the REIT and its professional advisors in connection with the Acquisition and make recommendations to the Trustees in respect of matters that it considers relevant with respect to the Acquisition and ensure that the REIT completes such acquisition in compliance with the requirements of MI 61-101, the applicable policies of the TSX and applicable law. On May 28, 2014, the Special Committee unanimously recommended to the Trustees that they recommend that Unitholders vote for the Acquisition and VTB at the Meeting. The Trustees have unanimously resolved (with the exception of Mr. Drimmer, who declared his interest and recused himself from voting) to recommend that Unitholders vote for the Acquisition and VTB at the Meeting.

*Holders of Debentures who do not own Voting Units are not Unitholders and the Debentures do not carry any voting rights, including, for greater certainty, the right to vote at the Meeting.Lender Approvals*

The REIT has commenced the process of obtaining formal approval from the lenders in respect of the Assumed Mortgages and the REIT expects to receive such approvals and assume such mortgages on terms that are substantially the same, in all material respects, as the existing terms of such mortgages. See "Financing for the Acquisition – Assumed Mortgages".

#### *Competition Act Approval*

The Acquisition is conditional upon (i) the REIT receiving an advance ruling certificate under Section 102 of the *Competition Act* (Canada) in respect of the Acquisition or (ii) the applicable waiting period relating to pre-merger notification under Part IX of the *Competition Act* (Canada) shall have expired and the Commissioner does not intend to oppose the Acquisition, or any part of the Acquisition and shall not have made or threatened to make application under Part VIII of the *Competition Act* (Canada) in respect of the Acquisition or any part of the Acquisition.

#### *TSX Approval*

The Acquisition is conditional upon the approval of the TSX. The REIT has commenced the application process and expects to receive the approval upon the satisfaction of the conditions of the TSX.

### **Fairness Opinion**

#### *Overview*

By letter agreement dated April 29, 2014, the Special Committee retained Origin to act as financial advisor to the Special Committee and assist it in evaluating the terms of the Acquisition and to provide the Fairness Opinion. In retaining Origin, the Special Committee, based in part on representations made to it by Origin, concluded that Origin was independent and qualified to provide the Fairness Opinion and the Instalment Note Valuation. Pursuant to the terms of the engagement letter, the REIT agreed to pay a fixed fee to Origin as compensation for its services to be fully paid upon substantial completion of its work and notice to the Special Committee that it is in position to deliver the Fairness Opinion and the Instalment Note Valuation. Pursuant to the terms of the engagement letter, the



REIT agreed to reimburse Origin for all reasonable out-of-pocket expenses incurred by it and to indemnify Origin in respect of certain liabilities that might arise out of the engagement.

#### *Credentials of Origin*

Origin is an independent investment bank providing a full range of corporate finance, merger and acquisition, financial restructuring and merchant banking services. The Fairness Opinion represents the opinion of Origin and the form and content of the Fairness Opinion have been approved for release by a committee of its principals, each of whom is experienced in merger, acquisition, divestiture and fairness opinion matters.

#### *Independence of Origin*

Neither Origin nor any of its affiliated entities (as such term is defined for the purposes of the MI 61-101) is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario)) of the REIT, the Vendors or any of their respective associates or affiliates (collectively the “**Interested Parties**”). Origin is not acting as an advisor to the REIT, the Vendors or any other Interested Party in connection with any matter other than acting as financial advisor to the Special Committee hereunder.

Origin has not participated in any underwriting involving the REIT, the Vendors or any other Interested Party during the 24 month period preceding the date Origin was first contacted in respect of the Fairness Opinion. Further, Origin has not been engaged to provide any financial advisory services involving the REIT, other than the Instalment Note Valuation.

Origin does not have a material financial interest in the completion of the Acquisition and the fees paid to Origin in connection with its engagement do not give Origin any financial incentive in respect of the conclusions reached in the Fairness Opinion, the Instalment Note Valuation or the outcome of the Acquisition.

Origin and its affiliates act as traders and dealers, both as principal and agent, in all major financial markets in Canada and, as such, may have had, may have, and may in the future have, positions in the securities of the REIT or any other Interested Parties, and, from time to time, may have executed or may execute transactions on behalf of such entities or other clients for which it may have received or may receive compensation. As an investment bank, Origin and its affiliates conduct research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including matters with respect to the Acquisition, the REIT, or any other Interested Parties.

There are no understandings, agreements or commitments between Origin and the REIT, the Vendors or any other Interested Party with respect to any future financial advisory or investment banking business. Origin and its affiliates may in the future, in the ordinary course of its business, perform financial advisory or investment banking services for the REIT, the Vendors or any other Interested Party.

Origin is of the view that it is “independent” (as that term is described in MI 61-101) of all Interested Parties.

#### *Conclusion*

Based upon and subject to the assumptions, limitations and other considerations set forth therein and such other matters considered relevant by Origin, Origin is of the opinion that, as at May 28, 2014, the Acquisition is fair, from a financial point of view, to the Unitholders (other than Mr. Drimmer and his Affiliates).

**The full text of the Fairness Opinion describes the scope of review, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Origin. The Fairness Opinion is attached as Schedule “B” and forms part of this Circular. The Fairness Opinion is directed only to the fairness, from a financial point of view, of the Acquisition to the Unitholders (other than Mr. Drimmer and his Affiliates). The Fairness Opinion does not address the relative merits of the Acquisition as compared to other business strategies or transactions that might be available to the REIT or the underlying business decision of the REIT to effect the Acquisition. The Fairness Opinion does not constitute a recommendation by Origin to any Unitholder as to how such Unitholder should vote or act with respect to any matters relating to the Acquisition.**

## Valuation Requirements

The Acquisition constitutes a “related party transaction” under MI 61-101. Pursuant to MI 61-101, the REIT was required to obtain, at its own expense, formal valuations of the Acquisition Properties and the Instalment Notes by a qualified valuator who is independent of the REIT.

In addition, the provisions of MI 61-101 would require the REIT to obtain a formal valuation of the Class B LP Units of the New Participants to be issued to the Vendors as partial consideration for the Acquisition. However, the REIT has applied for an exemption by the Ontario Securities Commission from the requirement to obtain a formal valuation of such Class B LP Units primarily on the basis that the Class B LP Units of the New Participants to be issued as part of the Acquisition will be in all material respects, economically equivalent to the Units.

In compliance with the conditions of such expected exemption, the REIT represents that it has no knowledge of any material information concerning the REIT and the Partnerships, or concerning the securities of the REIT and the Partnerships, that has not been generally disclosed. Furthermore, Mr. Drimmer and the Vendors have each confirmed to the REIT that each such party has no knowledge of any material information concerning the REIT and the New Partnerships or securities of the REIT and the New Partnerships that has not been generally disclosed.

## Independent Appraisals

The Special Committee retained CBRE to prepare the Independent Appraisals. The Independent Appraisals prepared by CBRE have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) for the benefit of Unitholders. The following is a summary of the Independent Appraisals. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the terms of the Independent Appraisals.

The Independent Appraisals state that they have been prepared in conformity with the Canadian Uniform Standards of Professional Appraisal Practice and the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice in Canada, each as adopted by the Appraisal Institute of Canada. The Appraisal Institute of Canada defines market value as “the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus”. According to the Appraisal Institute of Canada, implicit in this definition of market value is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (i) buyer and seller are typically motivated; (ii) both parties are well informed or well advised, and acting in what they consider their best interests; (iii) a reasonable time is allowed for exposure in the open market; (iv) payment is made in terms of cash in Canadian dollars or in terms of financial arrangements comparable thereto; and (v) the price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale (the foregoing collectively referred to as, the “**AIC Standards**”).

Based on the Independent Appraisals, the estimated aggregate market value of the Acquisition Properties as at May 23, 2014 was approximately \$294.3 million, excluding any portfolio premium. The estimated market value of each of the Acquisition Properties was determined by CBRE using the income approach (direct capitalization method) and the direct comparison approach, which utilizes gross income multiplier and sale price per suite analyses. These valuation methods are used widely by investors when acquiring properties of this nature. The Independent Appraisals state that the appraisals and analyses were performed in accordance with AIC Standards. The Independent Appraisals are subject to a number of assumptions and limiting conditions. In particular, in appraising the Acquisition Properties, CBRE assumed that title to the properties was clear and marketable and did not carry out detailed inspections of the properties.

In determining the approximate market value of the Acquisition Properties, CBRE relied on operating and financial data provided by Starlight, including rent rolls, operating income and expense budgets, historical operating statements and projected net operating income statements. Specifically, for each of the properties for which they conducted an appraisal, CBRE discussed with management of Starlight the property’s history, current tenant status and future prospects, and reviewed historical operating results and management revenue and expense estimates as set forth in the forecasted operating budgets for their reasonableness. Based on its review, and other relevant facts, CBRE considered such data to be reasonable and supportable.

**Caution should be exercised in the evaluation and use of appraisal results. An appraisal is an estimate of market value. It is not a precise measure of value, but is based on a subjective comparison of related activity taking place in the real estate market. The Independent Appraisals are based on various assumptions of future expectations and while CBRE's internal forecasts of NOI for the Acquisition Properties are considered to be reasonable at the current time, some of the assumptions may not materialize or may differ materially from actual experience in the future. A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the aggregate underlying value of its real estate assets.**

### **Instalment Note Valuation**

In accordance with the requirements of MI 61-101 and in furtherance of its mandate to review all aspects of the Acquisition, the Special Committee engaged Origin to provide the Instalment Note Valuation. The Instalment Notes are unsecured and have a face value of \$1,692,242. Origin determined as at May 26, 2014, that the value of the Instalment Note on the Acquisition Closing Date, using discounted cash flow analysis, was in the range of \$1,456,057 to \$1,513,532. The Instalment Note Valuation is subject to a number of assumptions and was based upon information obtained from the REIT, the Vendors and Starlight as well as publicly available information. A copy of the Instalment Note Valuation has been filed on [www.sedar.com](http://www.sedar.com).

### **Prior Valuations**

There are no "prior valuations" (as defined in MI 61-101) in respect of the Acquisition Properties that have been made in the 24 months before the date hereof and the existence of which is known, after reasonable inquiry, to the REIT or to any Trustee or senior officer of the REIT, other than the Original Appraisals.

The Original Appraisals were prepared in conformity with the Canadian Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Institute of Canada, and the appraisal standards referred to above under "Independent Appraisals".

The Original Appraisals were performed on the Acquisition Properties on dates ranging from June 25, 2012 to June 30, 2013, as these properties were not purchased as a single portfolio. The fact that the appraisals were conducted on different dates may affect the appraisal values. The following table shows the date(s) and market values estimated by each of the Original Appraisals:

<b>Property</b>	<b>Date</b>	<b>Market Value</b>
915 44th Street SE, Calgary, Alberta .....	May 7, 2013	\$5,500,000
1 Rosemount Drive, Toronto, Ontario .....	November 15, 2012	\$12,500,000
2292 Weston Road, Toronto, Ontario .....	August 15, 2012	\$7,100,000
100 Rideau Street, Oshawa, Ontario .....	August 15, 2012	\$26,500,000
33 Richmond Street West, Oshawa, Ontario .....	August 24, 2012	\$6,610,000
740 - 758 Kipps Lane, London, Ontario .....	June 30, 2013	\$51,900,000
155 Market Street, Hamilton, Ontario .....	August 22, 2012	\$6,500,000
93 - 99 Westwood Drive, Kitchener, Ontario .....	August 1, 2012	\$3,860,000
285 Erb Street West, Waterloo, Ontario .....	August 9, 2012	\$10,800,000
7-11 Manhattan Court, Guelph, Ontario .....	May 7, 2013	\$4,340,000
840 Water Street, Peterborough, Ontario .....	February 5, 2013	\$3,640,000
10 Cartier Court, Brockville, Ontario .....	August 10, 2012	\$1,760,000
2 Colborne Street West, Lindsay, Ontario .....	June 25, 2012	\$13,630,000
25 Westwood Court, Lindsay, Ontario .....	September 13, 2012	\$9,120,000

## DESCRIPTION OF THE ACQUISITION PROPERTIES

The Acquisition Properties consist of 29 properties comprising an aggregate of approximately 2,824 residential suites in 11 High-Rise properties, four Mid-Rise properties, 13 Low-Rise properties and one townhouse complex, located in Ontario and Alberta.

### Overview

The following table highlights certain information about the Acquisition Properties, including occupancy levels and average monthly rent per suite which is set out as at April 30, 2014:

	Rentable Suites					Year Built	Asset Type	Occupancy Level	Average Monthly Rent/ Suite <sup>(1)</sup>
	Total Suites	Bachelor	One Bedroom	Two Bedrooms	Three or more Bedrooms				
37 Berkeley Place West, Lethbridge, Alberta	111	1	56	51	3	1980	High-Rise	95%	\$936
590 & 600 Columbia Boulevard West, Lethbridge, Alberta	70	—	54	16	—	1982	Mid-Rise	91%	\$798
1304-1310 23rd Avenue North, Lethbridge, Alberta	105	—	17	88	—	1974	Mid-Rise	96%	\$825
3210 & 3310 23rd Avenue South, Lethbridge, Alberta	59	—	26	33	—	1977	Low-Rise	92%	\$901
1603-1615 Scenic Heights South, Lethbridge, Alberta	105	12	24	69	—	1971	Low-Rise	96%	\$843
2201 32nd Street South, Lethbridge, Alberta	50	—	31	19	—	1972	High-Rise	96%	\$917
175 Columbia Boulevard West, Lethbridge, Alberta	48	4	20	24	—	1970	Low-Rise	81%	\$892
256 Mayor Magrath Drive North, Lethbridge, Alberta	25	1	7	17	—	1975	Low-Rise	96%	\$844
2014 15th Avenue North, Lethbridge, Alberta	24	—	13	11	—	1975	Low-Rise	92%	\$829
915 44th Street SE, Calgary, Alberta	35	—	35	—	—	1975	Low-Rise	97%	\$982
1219 Centre Street, Brooks, Alberta	24	—	8	16	—	2003	Low-Rise	92%	\$850
1 Rosemount Drive, Toronto, Ontario	110	8	75	27	—	1972	High-Rise	100%	\$912
2292 Weston Road, Toronto, Ontario	65	2	41	22	—	1964	High-Rise	94%	\$1,009
100 Rideau Street, Oshawa, Ontario	189	—	—	—	189	1979	Townhouse	98%	\$1,109
33 Richmond Street West, Oshawa, Ontario	70	—	20	50	—	1973	High-Rise	99%	\$1,014
740-758 Kipps Lane, London, Ontario	666	—	259	407	—	1971-78	High-Rise	98%	\$742
135 Connaught Avenue & 543 Mornington Avenue, London, Ontario	58	—	—	58	—	1967-68	Low-Rise	97%	\$773
155 Market Street, Hamilton, Ontario	116	—	86	30	—	1975	High-Rise	96%	\$706
286 Chandler Drive, Kitchener, Ontario	79	—	2	77	—	1989	High-Rise	99%	\$903
294 Chandler Drive, Kitchener, Ontario	162	16	69	47	30	1977	High-Rise	99%	\$850
93-99 Westwood Drive, Kitchener, Ontario	48	4	26	18	—	1968	Low-Rise	98%	\$750
285 Erb Street West, Waterloo, Ontario	100	—	23	44	33	1968	High-Rise	92%	\$993
7-11 Manhattan Court, Guelph, Ontario	40	—	20	15	5	1968	Low-Rise	100%	\$906
131 Maxwell Street, Sarnia, Ontario	112	8	60	44	—	1973	High-Rise	96%	\$933
840 Water Street, Peterborough, Ontario	34	—	4	30	—	1985	Low-Rise	91%	\$850
10 Cartier Court, Brockville, Ontario	24	—	1	23	—	1989	Low-Rise	92%	\$769
36 Raglan Street and 252 Belleville Road, Napanee, Ontario	25	—	2	21	2	1970's	Low-Rise	96%	\$841
2 Colborne Street West, Lindsay, Ontario	162	8	66	66	22	1976	Mid-Rise	98%	\$902
25 Westwood Court, Lindsay, Ontario	108	2	44	62	—	1976	Mid-Rise	100%	\$853
<b>Total/Average</b> .....	<b>2,824</b>	<b>66</b>	<b>1,089</b>	<b>1,385</b>	<b>284</b>			<b>97%</b>	<b>\$861</b>

(1) Based on the monthly in-place rent of occupied suites.

### Property Descriptions

#### ALBERTA

##### *37 Berkeley Place West, Lethbridge, Alberta*

37 Berkeley Place West is a High-Rise residential apartment building situated near the intersection of Whoop-Up Drive West and University Drive West in the City of Lethbridge. 37 Berkeley Place West is located in close proximity to public transportation and the University of Lethbridge. The 16-storey building is situated on approximately 2.0 acres of land and contains a total of 111 suites consisting of bachelor, one, two, three and four bedrooms. The building includes laundry facilities and 151 surface parking spaces. It was constructed in 1980 with a cast-in-place concrete foundation supporting cast-in-place concrete load bearing walls. The exterior walls were recently recoated in 2013.

*590 & 600 Columbia Boulevard West, Lethbridge, Alberta*

590 & 600 Columbia Boulevard West is a Mid-Rise residential apartment complex comprised of two buildings situated south of Whoop-Up Drive West and east of McMaster Boulevard West in the City of Lethbridge. The complex is located in close proximity to the University of Lethbridge. The four-storey walk-up buildings are situated on approximately 2.3 acres of land and contain a total of 70 suites consisting of one and two bedrooms. The buildings include laundry facilities, 88 surface parking spaces and were constructed in 1982 with cast-in-place concrete foundations and wood frame construction. Corridor refurbishments were completed in the buildings in 2013.

*1304-1310 23<sup>rd</sup> Avenue North, Lethbridge, Alberta*

1304-1310 23<sup>rd</sup> Avenue North is a Mid-Rise residential complex situated south of 26<sup>th</sup> Avenue North and east of 13<sup>th</sup> Street North in the City of Lethbridge. It is located in close proximity to industrial parks and local retail establishments. This group of four four-storey, walk-up apartment buildings is situated on approximately 3.3 acres of land and contains a total of 105 suites consisting of one and two bedrooms. The buildings include laundry facilities, 120 surface parking spaces and were constructed in 1974 with cast-in-place concrete foundations and wood frame construction. Corridor refurbishments were completed in the buildings in 2013.

*3210 & 3310 23<sup>rd</sup> Avenue South, Lethbridge, Alberta*

3210 & 3310 23<sup>rd</sup> Avenue South are Low-Rise residential apartment buildings situated north of 24<sup>th</sup> Avenue South and east of Mayor Magrath Drive in the City of Lethbridge. The two buildings are located in close proximity to the commercial core of the city, the local airport and public transportation. 3210 23<sup>rd</sup> Avenue South is a three-storey walk-up building situated on approximately 1.5 acres of land and contains a total of 30 suites consisting of one and two bedroom suites. 3310 23<sup>rd</sup> Avenue South is a 2.5-storey walk-up building situated on approximately 1.1 acres of land and contains a total of 29 suites consisting of one and two bedrooms. The buildings include laundry facilities and 71 surface parking spaces. 3210 23<sup>rd</sup> Avenue South and 3310 23<sup>rd</sup> Avenue South were constructed in 1977. Each was built with a cast-in-place concrete foundation and wood frame construction. Corridor refurbishments were completed in the buildings in 2013.

*1603, 1607, 1611 & 1615 Scenic Heights South, Lethbridge, Alberta*

1603-1615 Scenic Heights South is a Low-Rise residential apartment building complex comprised of four buildings situated south of Scenic Drive South and east of Botterill Bottom Park in the City of Lethbridge. The complex is located in the south end of the city in close proximity to Lethbridge College. The three-storey walk-up buildings are situated on approximately 3.9 acres of land and contain a total of 105 suites consisting of bachelor, one and two bedrooms. The buildings include laundry facilities and 120 surface parking spaces. The complex was constructed in 1971 with a cast-in-place concrete foundation and a wood frame construction.

*2201 32<sup>nd</sup> Street South, Lethbridge, Alberta*

2201 32<sup>nd</sup> Street South is a High-Rise residential apartment building situated east of Mayor Magrath Drive (Highway 5) and north of 24<sup>th</sup> Avenue South in the City of Lethbridge. 2201 32<sup>nd</sup> Street South is located in close proximity to a commercial strip providing the area with amenities for residents. The nine-storey building is situated on approximately 1.3 acres of land and contains a total of 50 suites consisting of one and two bedrooms. The building includes laundry facilities and 56 surface parking spaces. 2201 32<sup>nd</sup> Street South was constructed in 1972 with a cast-in-place concrete foundation and concrete block masonry walls and concrete floor slabs. The building underwent exterior wall and corridor refurbishments in 2013.

*175 Columbia Boulevard West, Lethbridge, Alberta*

175 Columbia Boulevard West is a Low-Rise residential apartment complex comprised of two buildings situated west of University Drive West and south of Whoop-Up Drive West in the City of Lethbridge. It is located in close proximity to the University of Lethbridge. The three-storey walk-up buildings are situated on approximately 1.6 acres of land and contain a total of 48 suites consisting of bachelor, one and two bedrooms. The buildings include

laundry facilities and 56 surface parking spaces. The buildings were constructed in 1970 with cast-in-place concrete foundations, brick exteriors and concrete block interior load bearing walls.

*256 Mayor Magrath Drive North, Lethbridge, Alberta*

256 Mayor Magrath Drive North is a Low-Rise residential apartment building situated south of Crowsnest Trail and west of Mayor Magrath Drive South in the City of Lethbridge. It is located in close proximity to local retail establishments. The three-storey walk-up building is situated on approximately 0.9 acres of land and contains a total of 25 suites consisting of bachelor, one and two bedrooms. The building includes laundry facilities and 29 surface parking spaces. It was constructed in 1975 with a cast-in-place concrete foundation and wood frame construction.

*2014 15<sup>th</sup> Avenue North, Lethbridge, Alberta*

2014 15<sup>th</sup> Avenue North is a Low-Rise residential apartment building situated south of 26th Avenue North and west of 23rd Street North in the City of Lethbridge. It is located in close proximity to local retail establishments, schools and Lethbridge's industrial parks. The three-storey walk-up building is situated on approximately 0.5 acres of land and contains a total of 24 suites consisting of one and two bedrooms. The building includes laundry facilities and 29 surface parking spaces. It was constructed in 1975 with a cast-in-place concrete foundation and wood frame construction.

*915 44<sup>th</sup> Street SE, Calgary, Alberta*

915 44<sup>th</sup> Street SE is a Low-Rise residential apartment building situated south of 8<sup>th</sup> Avenue SE and west of 44<sup>th</sup> Street SE in the City of Calgary. The building is located in close proximity to Marlborough Mall and a stop on the Northeast Line of the C-Train light rail system in Calgary. The surrounding neighbourhood is primarily residential. The three-storey walk-up building is situated on approximately 0.6 acres of land and contains a total of 35 one bedroom suites. The building includes laundry facilities and 31 surface parking spaces. It was constructed in 1975 with a cast-in-place concrete foundation and conventional wood frame construction. The exterior walls have been finished with wood siding and stucco.

*1219 Centre Street, Brooks, Alberta*

1219 Centre Street is a Low-Rise building located near the intersection of Centre Street and 2<sup>nd</sup> Street West in Brooks, Alberta. The property is located in close proximity to the TransCanada Highway, parks, schools and several retailers. The three-storey building is situated on approximately 1.1 acres of land and contains a total of 24 residential rental suites, consisting of one and two bedrooms. The building includes laundry facilities and 40 surface parking spots. It was constructed in 2003 with a cast-in-place concrete foundation and wood frame construction.

**ONTARIO**

*1 Rosemount Drive, Toronto, Ontario*

1 Rosemount Drive is a High-Rise residential apartment building situated near the intersection of Eglinton Avenue East and Birchmount Road in the City of Toronto. It is located in close proximity to public transportation, parks and local retail establishments. The nine-storey building is situated on approximately 1.4 acres of land and contains a total of 110 suites consisting of bachelor, one and two bedrooms. The building includes laundry facilities and balconies as well as 15 surface and 112 indoor parking spaces. It was constructed in 1972, with cast-in-place concrete foundation walls and concrete superstructure with a brick veneer. The building balconies and exterior walls were upgraded in 2013.

*2292 Weston Road, Toronto, Ontario*

2292 Weston Road is a High-Rise residential apartment building situated near the intersection of Highway 401 and Weston Road in the City of Toronto. It is located in close proximity to public transportation, the Humber River and major transportation routes including Highways 401 and 400. The eight-storey building is situated on approximately 0.6 acres of land and contains a total of 65 suites consisting of bachelor, one and two bedrooms. The building

includes laundry facilities and balconies as well as 17 surface and 52 indoor parking spaces. It was constructed in 1964 with cast-in-place concrete foundation walls and a reinforced concrete superstructure.

*100 Rideau Street, Oshawa, Ontario*

100 Rideau Street is a townhouse residential complex situated near the intersection of Park Road North and Bond Street West in the City of Oshawa. 100 Rideau Street is located in close proximity to public transportation, Kinsmen Valleyview Park, the Oshawa Golf Club and the Oshawa Centre, and has excellent access to Highway 401. The townhouse complex is situated on approximately 10.8 acres of land, includes 282 outdoor parking spaces and contains a total of 189 suites consisting of three and four bedrooms. Each suite includes an individual washer and dryer, a basement, a full kitchen with appliances and a private yard. The townhouses were constructed in 1979 with concrete foundations, wooden superstructure, brick exterior walls and asphalt shingled roofs.

*33 Richmond Street West, Oshawa, Ontario*

33 Richmond Street West is a High-Rise residential apartment building situated near the intersection of King Street and Simcoe Street in the City of Oshawa. It is located in close proximity to public transportation, parks and local retail establishments. The 13-storey building is situated on approximately 0.3 acres of land and contains a total of 70 suites consisting of one and two bedrooms. The building includes laundry facilities, balconies and 55 indoor parking spaces. It was constructed in 1973 with a cast-in-place concrete foundation, reinforced concrete superstructure and on exterior brick veneer. The exterior walls and balconies were refurbished in 2013.

*740 - 758 Kipps Lane, London, Ontario*

740 - 758 Kipps Lane is a High-Rise residential apartment comprised of six buildings located east of Adelaide Street North, between Huron Street and Windermere Road in the City of London. The buildings are located near riverside parks, schools and are transit accessible. Western University and Fanshawe College are also nearby. The ten-storey buildings are situated on approximately 12.3 acres of land and contain a total of 666 suites, consisting of one and two bedrooms. The buildings include laundry facilities and a playground as well as 515 indoor and 310 surface parking spots. The buildings were constructed between 1971-78 with cast in-place concrete foundations with concrete superstructures and brick veneer walls.

*135 Connaught Avenue & 543 Mornington Avenue, London, Ontario*

The 135 Connaught Avenue and 543 Mornington Avenue residential complex consists of two Low-Rise apartment buildings located on Mornington Avenue, south of Oxford Street between Highbury Avenue North and Québec Street in the City of London. The buildings are located near schools, two parks and employment areas with large multi-national companies. The complex is transit accessible and Western University and Fanshawe College are nearby. The three-storey buildings are situated on approximately 2.2 acres of land and contain a total of 58 two bedroom suites. The buildings include laundry facilities, a playground and 70 surface parking spots. The buildings were constructed between 1967-1968 and consist of a cast in place foundation and masonry block and steel superstructure with brick masonry walls.

*155 Market Street, Hamilton, Ontario*

155 Market Street is a High-Rise residential apartment building situated near the intersection of King Street and Queen Street in the City of Hamilton. It is located in close proximity to public transportation, schools, shopping and the Hamilton Harbour. The 14-storey building is situated on approximately 0.5 acres of land and contains a total of 116 suites consisting of one and two bedrooms. The building includes laundry facilities, balconies and seven surface and 89 indoor parking spaces. It was constructed in 1975 with cast-in-place concrete foundation walls, a cast in-place concrete support superstructure and exterior masonry walls. The building underwent corridor and lobby renovations and exterior renovations including building coating and new glass balconies in 2013.

*286 Chandler Drive, Kitchener, Ontario*

286 Chandler Drive is a High-Rise residential apartment building situated at the intersection of Westmount Road and Ottawa Street in the City of Kitchener. It is located in close proximity to public transportation, local retail establishments, schools, shopping and major transportation routes including Highways 7 and 8. The eight-storey building is situated on approximately 1.1 acres of land and contains a total of 79 suites consisting of one and two bedrooms. The building includes laundry facilities and 49 indoor and 47 surface parking spaces. It was constructed in 1989 with cast-in-place slab, columns and walls and a brick veneer finish on the outer walls. The balcony slabs and guard rails were recently refurbished in 2013.

*294 Chandler Drive, Kitchener, Ontario*

294 Chandler Drive is a High-Rise residential apartment building situated near the intersection of Westmount Road and Ottawa Street in the City of Kitchener. It is located in close proximity to public transportation, local retail establishments, schools, shopping and major transportation routes including Highways 7 and 8. The 16-storey building is situated on approximately 1.5 acres of land and contains a total of 162 suites consisting of bachelor, one, two and three bedrooms. The building includes laundry facilities, balconies, a playground, tenant courtyard and 47 surface and 149 indoor parking spaces. It was constructed in 1977 with cast-in-place concrete foundation walls and concrete superstructures. The building underwent exterior renovations including building coating and new glass balconies in 2013.

*93-99 Westwood Drive, Kitchener, Ontario*

93-99 Westwood Drive is a Low-Rise residential apartment complex comprised of two buildings situated near the intersection of Westmount Road West and Glasgow Street in the City of Kitchener. The complex is located in close proximity to parks, schools and public transportation. The three-storey buildings are situated on approximately 1.4 acres of land and contain a total of 48 suites consisting of bachelor, one and two bedrooms. The buildings include laundry facilities, balconies and 60 surface parking spaces and were constructed in 1968 with cast-in-place concrete foundations and concrete block masonry walls and a brick veneer exteriors.

*285 Erb Street West, Waterloo, Ontario*

285 Erb Street West is a High-Rise residential apartment building situated near the intersection of University Avenue West and Erb Street West in the City of Waterloo. It is located in close proximity to public transportation and the University of Waterloo. The eight-storey building is situated on approximately 5.7 acres of land and contains a total of 100 suites consisting of one, two and three bedrooms. The building includes laundry facilities, balconies and 135 surface parking spaces. It was constructed in 1968 with cast-in-place concrete foundation walls, steel and concrete support structure with brick masonry and metal cladding finish on the exterior. The building underwent exterior wall, balcony and common area refurbishments in 2013.

*7-11 Manhattan Court, Guelph, Ontario*

7-11 Manhattan Court is a Low-Rise residential apartment complex situated near the intersection of Speedvale Avenue and Victoria Road in the City of Guelph. It is located in close proximity to public transportation and the Speedvale Plaza. The surrounding neighbourhood is generally residential. The five three-storey buildings are situated on approximately 1.5 acres of land, each building containing eight suites for a total of 40 suites consisting of one, two and three bedrooms. The buildings include laundry facilities and 51 surface parking spaces. The buildings were constructed in 1968 with concrete block foundation walls, reinforced concrete slab floors and concrete block superstructures with brick veneer exteriors.

*131 Maxwell Street, Sarnia, Ontario*

131 Maxwell Street is a High-Rise residential apartment building situated south of Highway 402 and east of the St. Clair River in the City of Sarnia, 300 metres from the United States border at Port Huron. The building is located in close proximity to parkland and Sarnia Transit's bus routes. The 13-storey apartment building is situated on approximately 1.6 acres of land and contains a total of 112 suites consisting of bachelor, one and two bedrooms. The



building includes laundry facilities on the main floor and storage lockers on the second floor, as well as an open-air covered parking facility with spaces for 115 vehicles and an additional 24 surface parking spaces. The building was constructed in 1973 with a concrete foundation and load bearing masonry superstructure. The building underwent corridor and lobby renovations and exterior renovations including building coating and new glass balconies in 2013.

*840 Water Street, Peterborough, Ontario*

840 Water Street is Low-Rise residential apartment building situated near the intersection of Parkhill Road West and Water Street in the City of Peterborough. It is located in close proximity to parks and Highway 35. The three-storey building is situated on approximately 0.8 acres of land and contains a total of 34 suites consisting of one and two bedrooms. The building includes laundry facilities, balconies and 45 surface parking spaces. It was constructed in 1985 with cast-in-place concrete foundation walls while the superstructure consists of a mix of load bearing concrete block walls and steel support members with a brick veneer.

*10 Cartier Court, Brockville, Ontario*

10 Cartier Court is a Low-Rise residential apartment building situated near the intersection of Kensington Parkway and Cartier Court in the City of Brockville. The building is located in close proximity to a YMCA facility and has excellent access to Highway 401. The 2.5-storey building is situated on approximately 0.9 acres of land and contains a total of 24 suites consisting of one and two bedrooms. The building includes laundry facilities, balconies and 35 surface parking spaces. It was constructed in 1989 with cast-in-place concrete foundation walls and wood framed superstructure.

*36 Raglan Street and 252 Belleville Road, Napanee, Ontario*

36 Raglan Street and 252 Belleville Road is a Low-Rise residential apartment complex comprised of two buildings situated near the intersection of Dundas Street West and Belleville Road in the town of Greater Napanee. The complex is located in close proximity to parks and schools. 36 Raglan Street is a two-storey building situated on approximately 0.7 acres of land and contains 16 two bedroom suites. 252 Belleville Road is a three-storey building situated on approximately 0.3 acres of land and contains a total of nine suites consisting of one, two and three bedrooms. The buildings include laundry facilities and a total of 43 surface parking spaces. 36 Raglan Road was constructed in 1970 with a cast-in-place concrete foundation and through the wall brick exterior walls. 252 Belleville Road was constructed in 1976 with a cast-in-place concrete foundation and conventional wood framed superstructure.

*2 Colborne Street West, Lindsay, Ontario*

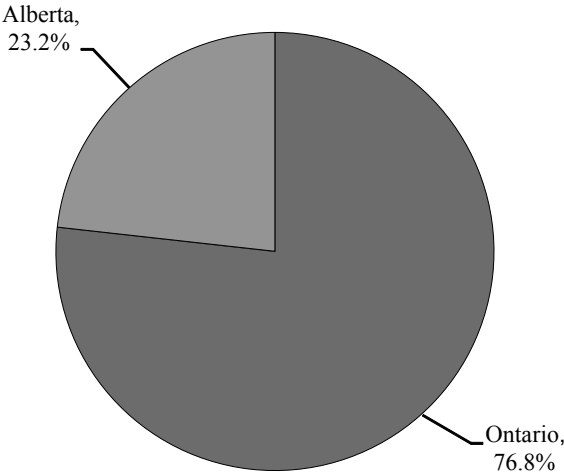
2 Colborne Street West is a three building Mid-Rise residential complex situated near the intersection of William Street North and Colborne Street West in the City of Lindsay. The complex is located in close proximity to schools and parks. The four-storey buildings are situated on approximately 6.4 acres of land and contain a total of 162 suites consisting of bachelor, one, two and three bedrooms. The building includes laundry facilities, balconies and 140 surface parking spaces. The buildings were constructed in 1976 with cast-in-place concrete foundation walls and load bearing masonry walls. The building exterior walls were recently refurbished in 2013.

*25 Westwood Court, Lindsay, Ontario*

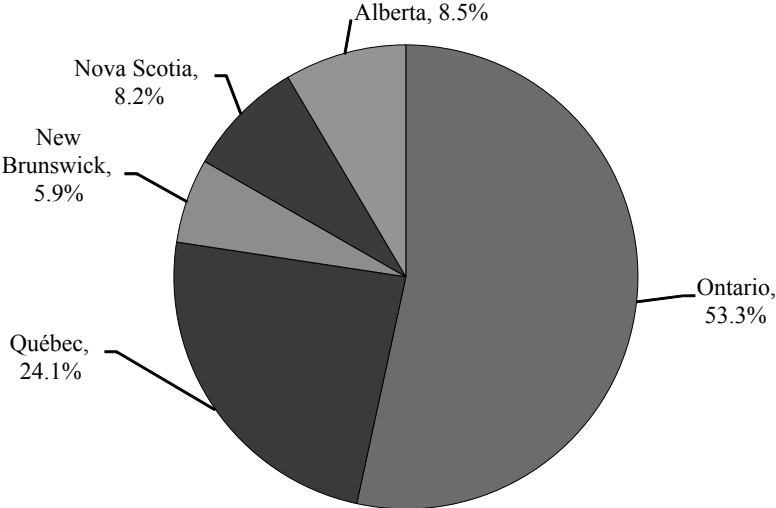
25 Westwood Court is a Mid-Rise residential apartment building situated near the intersection of Angeline Street North and Northlin Park Road in the City of Lindsay. It is located in close proximity to parks and Highways 35 and 7. The seven-storey building has two elevators, is situated on approximately 2.1 acres of land and contains a total of 108 suites consisting of bachelor, one and two bedroom suites. The building includes laundry facilities, balconies and provides 111 surface parking spaces. It was constructed in 1976 with cast-in-place concrete foundation walls, and reinforced concrete superstructure.

**Geographic Distribution**

The Acquisition Properties are diversified regionally as follows (shown by percentage of suites):

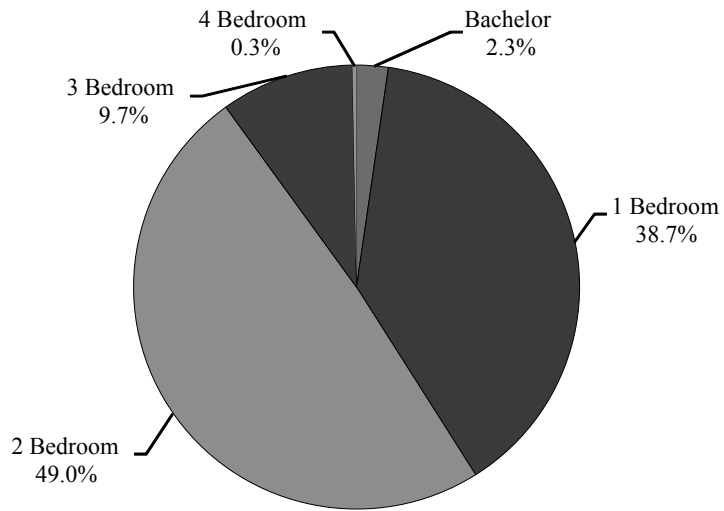


As at April 30, 2014, on a *pro forma* basis after giving effect to the Acquisition, the REIT's properties will be diversified regionally as follows (shown by percentage of suites):

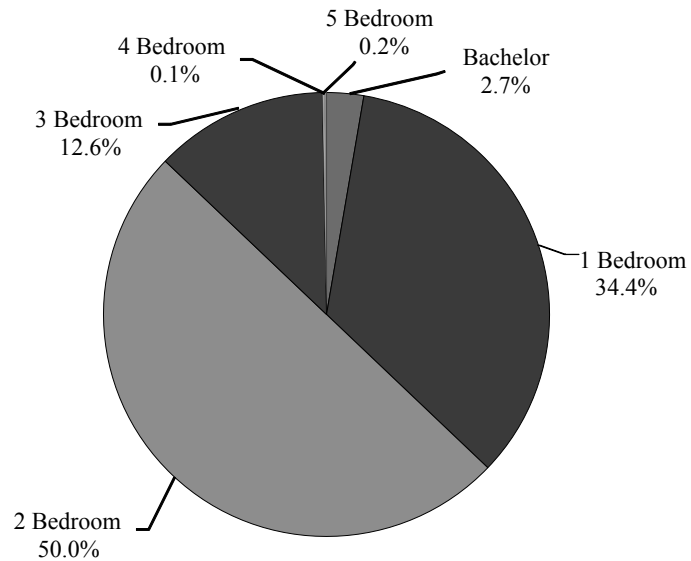


### Mix of Size of Rental Suites

Approximately 59% of the residential suites in the Acquisition Properties contain two or more bedrooms. The residential suite distribution of the Acquisition Properties by size of residential suites is as follows:

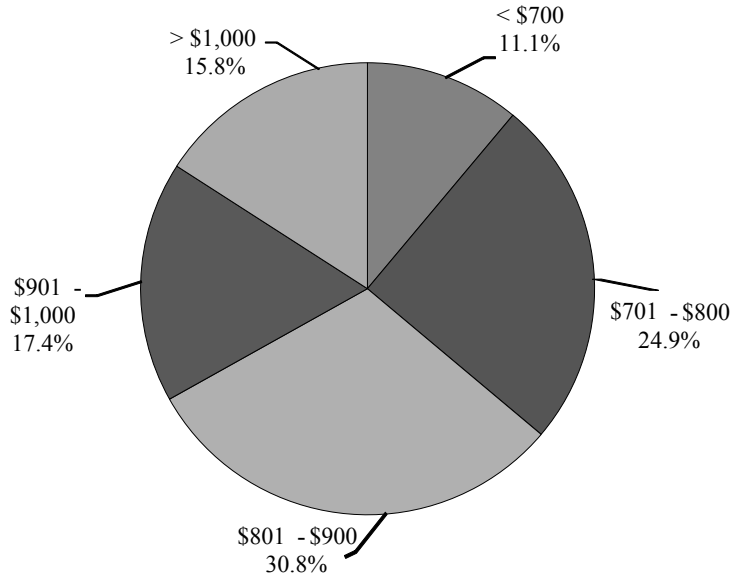


As at April 30, 2014, on a *pro forma* basis after giving effect to the Acquisition, the residential suite distribution of the REIT's properties by size of rental suites is as follows:

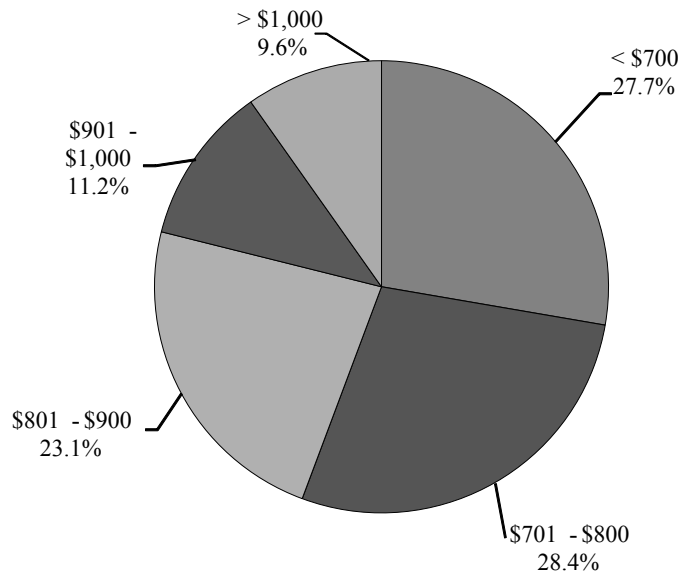


### Distribution of Monthly Rent

Approximately 84% of the residential suites in the Acquisition Properties have rental rates that are not in excess of \$1,000 per month. As at April 30, 2014, the residential suite distribution of the Acquisition Properties by monthly in place rent paid per residential suite was as follows:



As at April 30, 2014, on a *pro forma* basis after giving effect to the Acquisition, the residential suite distribution of the REIT's properties by monthly in place rent paid per occupied residential suite is as follows:



## **Environmental and Property Condition Assessment of Acquisition Properties:**

The REIT engaged the Independent Property Consultant to prepare the Environmental Site Reconnaissance Letters and Property Condition Assessments.

### *Environmental Site Reconnaissance*

The Independent Property Consultant conducted environmental site reconnaissance on the Acquisition Properties to determine if any changes had occurred at the site or surrounding land uses since the date of preparation of the most recent Phase I environmental site assessment report or Phase II environmental site assessment report, as applicable, and prepared the Environmental Site Reconnaissance Letters reporting their conclusions. The Environmental Site Reconnaissance Letters state in the aggregate that the Acquisition Properties had undergone typical apartment unit renovations due to tenant turnover, but that no major renovations or changes had taken place since the last assessment report by the Independent Property Consultant. Further, the Environmental Site Reconnaissance Letters state that surrounding land uses were consistent with those reported in the prior reports prepared by the Independent Property Consultant, consisting of residential and commercial land uses.

Management is not aware of any material non-compliance with environmental laws at any of the Acquisition Properties that management believes would have a material adverse effect on the REIT. Management is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the Acquisition Properties that would materially affect the REIT. It is expected that the REIT will implement policies and procedures to assess, manage, and monitor environmental conditions at the Acquisition Properties and to manage exposure to liability. However, there can be no assurance that any environmental assessments performed have identified or will identify all material environmental conditions, that any prior owner of any facility did not create a material environmental condition not known to the REIT or that a material environmental condition does not or will not otherwise exist with respect to the Acquisition Properties.

### *Property Condition Assessments*

The Independent Property Consultant prepared a Property Condition Assessment for each of the Acquisition Properties to determine and document the existing condition of each building. The assessments identified and quantified any major defects in materials or systems which might significantly affect the value of any of the Acquisition Properties or the continued operation thereof. In addition to required regular maintenance on the various components of the buildings, each of the Property Condition Assessments assessed both work required to be completed immediately (i.e., within 90 days of the assessment) and work recommended to be completed during the subsequent ten years in order to maintain the building in an appropriate condition.

Based on the Property Condition Assessments, each of the Acquisition Properties were determined to be in a satisfactory condition commensurate with their age and comparable to other similar properties in their respective markets.

The Property Condition Assessments identified immediate work of approximately \$92,750, and ongoing capital expenditures for the Acquisition Properties in the amount of approximately \$11.1 million over the next ten years. As part of the Acquisition, the Vendors have agreed to spend an additional \$3.2 million in additional capital improvements to the Acquisition Properties. See “The Acquisition – Capital Expenditure Commitment”.

## **FINANCING FOR THE ACQUISITION**

### **The Offering**

In order to finance a portion of the cash component of the purchase price of the Acquisition and costs related to the Acquisition, the REIT has agreed to sell, on a bought deal basis pursuant to the Underwriting Agreement and qualified by the Prospectus, \$20 million aggregate principal amount of Debentures to the Underwriters. The Debentures have a coupon of 5.75% per annum and will pay interest semi-annually in arrears on June 30 and December 31 in each year commencing on December 31, 2014. Each \$1,000 principal amount of Debentures will be convertible at the option of the holder at any time after the Initial Maturity Date and prior to the close of business on the earlier of the Final Maturity Date and the business day immediately preceding the date fixed by the REIT for redemption (if applicable), into 107.5 Units, representing a conversion price of \$9.30 per Unit.

The REIT has also granted the Underwriters the Over-Allotment Option to purchase up to an additional \$3 million aggregate principal amount of Debentures at the same offering price, exercisable at anytime not later than the earlier of (i) the 30<sup>th</sup> day following the closing of the Offering and (ii) the occurrence of a Termination Event. See “Description of the Debentures” for information regarding the terms of the Debentures.

On or about June 2, 2014 the REIT intends to file with the securities commissions or other similar regulatory authorities in each of the provinces and territories of Canada, a preliminary Prospectus relating to the Offering, which will be available at [www.sedar.com](http://www.sedar.com). A copy of the final Prospectus will also be filed on [www.sedar.com](http://www.sedar.com). Closing of the Offering is expected to occur on or about June 26, 2014, subject to the receipt of Unitholder, TSX and other necessary approvals.

### Issue of Class B LP Units of the New Partnerships and Special Voting Units

In connection with the Acquisition, an aggregate of 8,890,466 Class B LP Units of the New Partnerships and an equal number of accompanying Special Voting Units (which provide the holder thereof with voting rights in respect of the REIT) will be issued to the Vendors, each of which is an Affiliate of Mr. Drimmer, which Class B LP Units will each be issued at a deemed price of \$9.00 to the Vendors.

As at May 30, 2014, Mr. Drimmer (together with his Affiliates) holds an approximate 18.9% effective interest (undiluted and fully diluted) in the REIT through the ownership of, or the control or direction over, 906,674 Units, 3,497,800 Class B LP Units, 3,497,800 Special Voting Units and 157,917 Options. Following the completion of the Acquisition and the Offering, it is expected that Mr. Drimmer (together with his Affiliates) will hold an approximate 41.2% effective interest (undiluted) and an approximate 41.1% effective interest (fully diluted) in the REIT through his ownership of, control or direction over 906,674 Units, 3,497,800 Class B LP Units, 8,890,466 Class B LP Units of the New Partnerships, 12,388,246 Special Voting Units and 157,917 Options.

Each Class B LP Unit of the New Partnerships will be exchangeable at the option of the holder for one Unit (subject to customary anti-dilution adjustments) and will entitle the holder thereof to receive distributions equal to the distributions that such holder would have received if it was holding one Unit (subject to customary anti-dilution adjustments) instead of the Class B LP Unit of a New Partnership. The Class B LP Units of the New Partnerships, when issued, will have substantially the same terms as the Class B LP Units which are described in the AIF under the heading “The Partnerships”. The New Partnership LP Agreements, which will be amended and restated as at the closing of the Acquisition, will contain terms that are substantially similar to the True North LP Agreement and, following execution thereof, will be filed with the Canadian securities regulatory authorities and available on SEDAR at [www.sedar.com](http://www.sedar.com).

### New Mortgages

The following table summarizes, for each of the Acquisition Properties subject to a New Mortgage, the expected outstanding principal amount of New Mortgages upon completion of the Acquisition, the expected interest rate applicable to such mortgages and the expected maturity date. As at the date hereof, the REIT has obtained CMHC certificates of insurance in respect of 66% of the expected amount of the New Mortgages.

Property	Principal Amount (\$000's)	Interest Rate (%)	Maturity Date
<i>First-Ranking New Mortgages</i>			
2201 32nd Street South, Lethbridge, Alberta .....	3,074	2.50	June 30, 2019
175 Columbia Boulevard West, Lethbridge, Alberta .....	3,060	2.50	June 30, 2019
1219 Centre Street, Brooks, Alberta.....	1,380	2.50	June 30, 2019
100 Rideau Street, Oshawa, Ontario.....	16,895	2.50	June 30, 2019
33 Richmond Street West, Oshawa, Ontario .....	4,765	2.50	June 30, 2019
135 Connaught Avenue and 543 Mornington Avenue, London, Ontario .....	2,501	2.50	June 30, 2019
155 Market Street, Hamilton, Ontario .....	4,810	2.50	June 30, 2019
286 Chandler Drive, Kitchener, Ontario.....	3,486	2.50	June 30, 2019
294 Chandler Drive, Kitchener, Ontario.....	7,115	2.50	June 30, 2019
93-99 Westwood Drive, Kitchener, Ontario .....	2,507	2.50	June 30, 2019
285 Erb Street West, Waterloo, Ontario .....	6,664	2.50	June 30, 2019

<b>Property</b>	<b>Principal Amount (\$000's)</b>	<b>Interest Rate (%)</b>	<b>Maturity Date</b>
7-11 Manhattan Court, Guelph, Ontario .....	2,552	2.50	June 30, 2019
131 Maxwell Street, Sarnia, Ontario .....	6,688	2.50	June 30, 2019
840 Water Street, Peterborough, Ontario .....	2,152	2.50	June 30, 2019
10 Cartier Court, Brockville, Ontario .....	1,139	2.50	June 30, 2019
36 Raglan Street and 252 Belleville Road, Napanee, Ontario .....	1,384	2.50	June 30, 2019
2 Colborne Street West, Lindsay, Ontario .....	9,055	2.50	June 30, 2019
25 Westwood Court, Lindsay, Ontario .....	5,576	2.50	June 30, 2019
<b><i>Second-Ranking New Mortgages</i></b>			
590 & 600 Columbia Boulevard West, Lethbridge, Alberta .....	375	2.75	June 30, 2015
1304-1310 23rd Avenue North, Lethbridge, Alberta .....	1,850	2.75	June 30, 2015
3210 & 3310 23rd Avenue South, Lethbridge, Alberta .....	1,300	2.75	June 30, 2015
1603-1615 Scenic Heights South, Lethbridge, Alberta .....	1,575	2.75	June 30, 2015
2201 32nd Street South, Lethbridge, Alberta .....	1,550	5.10	June 30, 2019
175 Columbia Boulevard West, Lethbridge, Alberta .....	1,016	5.10	June 30, 2019
256 Mayor Magrath Drive North, Lethbridge, Alberta .....	500	2.75	June 30, 2015
2014 15th Avenue North, Lethbridge, Alberta .....	435	2.75	June 30, 2015
1219 Centre Street, Brooks, Alberta .....	697	5.10	June 30, 2019
100 Rideau Street, Oshawa, Ontario .....	4,163	5.10	June 30, 2019
33 Richmond Street West, Oshawa, Ontario .....	1,711	5.10	June 30, 2019
135 Connaught Avenue and 543 Mornington Avenue, London, Ontario .....	909	5.10	June 30, 2019
155 Market Street, Hamilton, Ontario .....	1,442	5.10	June 30, 2019
286 Chandler Drive, Kitchener, Ontario .....	1,969	5.10	June 30, 2019
294 Chandler Drive, Kitchener, Ontario .....	4,150	5.10	June 30, 2019
93-99 Westwood Drive, Kitchener, Ontario .....	809	5.10	June 30, 2019
285 Erb Street West, Waterloo, Ontario .....	3,760	5.10	June 30, 2019
7-11 Manhattan Court, Guelph, Ontario .....	848	5.10	June 30, 2019
131 Maxwell Street, Sarnia, Ontario .....	3,945	5.10	June 30, 2019
840 Water Street, Peterborough, Ontario .....	791	5.10	June 30, 2019
10 Cartier Court, Brockville, Ontario .....	332	5.10	June 30, 2019
36 Raglan Street and 252 Belleville Road, Napanee, Ontario .....	416	5.10	June 30, 2019
2 Colborne Street West, Lindsay, Ontario .....	4,465	5.10	June 30, 2019
25 Westwood Court, Lindsay, Ontario .....	2,966	5.10	June 30, 2019
VTB .....	750	3.00	June 30, 2019
Total/Weighted Average .....	<b>\$127,527</b>	<b>3.25%</b>	

## Assumed Mortgages

The following table summarizes the expected outstanding principal amount of the Assumed Mortgages, as at June 26, 2014, of mortgages secured thereby to be assumed by the REIT upon completion of the Acquisition, the effective interest rate applicable to such mortgages and the maturity date of such mortgages.

Property	Principal Amount (\$000's)	Interest Rate (%)	Maturity Date
37 Berkeley Place West, Lethbridge, Alberta <sup>(1)</sup>	11,073	2.50	October 1, 2018
590 & 600 Columbia Boulevard West, Lethbridge, Alberta	3,055	3.81	September 1, 2014
1304-1310 23rd Avenue North, Lethbridge, Alberta	4,377	3.81	September 1, 2014
3210 & 3310 23rd Avenue South, Lethbridge, Alberta	2,599	3.81	September 1, 2014
1603-1615 Scenic Heights South, Lethbridge, Alberta	4,784	3.81	September 1, 2014
256 Mayor Magrath Drive North, Lethbridge, Alberta	1,032	3.81	September 1, 2014
2014 15th Avenue North, Lethbridge, Alberta	995	3.81	September 1, 2014
915 44th Street SE, Calgary, Alberta <sup>(2)</sup>	2,670	2.50	February 1, 2021
740-758 Kipps Lane, London, Ontario <sup>(3)</sup>	35,000	2.50	June 30, 2017
Total/Weighted Average	65,585	2.84	

(1) Effective interest rate after taking into account 3.81% contractual interest rate and giving effect to the payments to be made by the Vendor thereof.

(2) Effective interest rate after taking into account 3.90% contractual interest rate and giving effect to the payments to be made by the Vendor thereof.

(3) Effective interest rate after taking into account 3.33% contractual interest rate and giving effect to the payments to be made by the Vendor thereof.

## Unencumbered Acquisition Properties

Two of the Acquisition Properties, 1 Rosemount Drive, Toronto, Ontario and 2292 Weston Road, Toronto, Ontario, will be unencumbered following the completion of the Acquisition.

## REIT DEBT MATURITIES

The following table sets out the expected principal instalments and maturity balances on the Assumed Mortgages and New Mortgages upon completion of the Acquisition, to be paid over each of the five calendar years following the completion of the Acquisition and thereafter:

Year:	Principal Payments (\$000s)	Balance Due on Maturity (\$000's)	Total Debt Repayments (\$000s)	% of Total
2014 (remainder of year)	1,973	16,703	18,676	9.7
2015	3,681	5,850	9,531	4.9
2016	3,696	-	3,696	1.9
2017	3,813	35,000	38,813	20.1
2018	3,890	9,983	13,873	7.2
Thereafter	2,030	106,493	108,523	56.2
<b>Total</b>	<b>19,083</b>	<b>174,029</b>	<b>193,112</b>	<b>100.0</b>
Weighted average effective interest rate				3.1%
Weighted average term to maturity				4.1 years



## **Pro Forma Indebtedness to Gross Book Value Ratio**

The Declaration of Trust provides that the REIT may not incur or assume any Indebtedness if, after incurring or assuming such Indebtedness, the total Indebtedness of the REIT would be greater than 75% of Gross Book Value. After giving effect to the Offering and the Acquisition, but excluding any mark-to-market adjustments, management estimates that *pro forma* Indebtedness, as at March 31, 2014, will be approximately \$522.0 million, representing approximately 63.2% of Gross Book Value.

## **DESCRIPTION OF THE DEBENTURES**

The following is a summary of the material attributes and characteristics of the Debentures and the Indenture. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of the Indenture, which will be filed with the Canadian securities regulatory authorities.

### **Overview**

The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof. At closing of the Offering, book-entry only certificates representing the Debentures will be issued in registered form to CDS or its nominee as registered global debentures and will be deposited with CDS. Holders of beneficial interests in the Debentures will not be entitled to receive physical certificates evidencing their ownership of Debentures except under certain circumstances described under “Description of the Debentures – Debenture Certificates”.

The Debentures will bear interest from, and including, the date of closing of the Offering at 5.75% per annum, payable semi-annually in arrears on the Interest Payment Dates in each year, commencing on December 31, 2014 until the maturity date of the Debentures. The maturity date for the Debentures will initially be the Initial Maturity Date. If the completion of the Acquisition occurs prior to the occurrence of a Termination Event, the maturity date of the Debentures will be automatically extended from the Initial Maturity Date to the Final Maturity Date, and the first interest payment on December 31, 2014 will include accrued and unpaid interest for the period from, and including, the date of closing of the Offering to, but excluding, December 31, 2014. In the event that the completion of the Acquisition does not occur prior to the occurrence of a Termination Event, the Debentures will mature on the Initial Maturity Date and the REIT will repay the aggregate principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon.

The Debentures will be direct obligations of the REIT and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated as described under “Description of the Debentures – Subordination”. The Indenture will not restrict the REIT from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its real or personal property or properties to secure any indebtedness.

The Debentures will be transferable, and may be presented for conversion by the registered holder thereof, at the principal office of the Debenture Trustee in Toronto, Ontario.

### **Conversion Privilege**

Each Debenture will be convertible into Units at the option of the Debentureholder at any time after the Initial Maturity Date and prior to 5:00 p.m. (Toronto time) on the earlier of the Final Maturity Date and the business day immediately preceding the date specified by the REIT for redemption of the Debentures, at the Conversion Price, being a conversion rate of approximately 107.5 Units per \$1,000 principal amount of the Debentures, subject to adjustment in certain events described below. No adjustment will be made for distributions on Units issuable upon conversion or for interest accrued on Debentures surrendered for conversion; however, Debentureholders converting their Debentures will be entitled to receive, in addition to the applicable number of Units, accrued and unpaid interest on such Debentures for the period from, and including, the last Interest Payment Date (or the date of closing of the Offering if no interest has yet been paid with respect to their Debentures) to and including the last record date set by the REIT, occurring prior to the date of conversion, for determining the holders of Units entitled to receive a distribution on the Units. In the event distributions have been suspended by the REIT or a public announcement has been made giving notice of the suspension of regular distributions to holders of Units prior to the applicable date of conversion, and such suspension is in effect on such date of conversion, such Debentureholder, in addition to the applicable number of Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from, and including, the last Interest Payment Date prior to the date of conversion (or

the date of closing of the Offering if no interest has yet been paid on the Debentures) to and including the date of conversion. Notwithstanding the foregoing, no Debenture may be converted during the five business days preceding June 30 and December 31 in each year, as the register of the Debenture Trustee will be closed during such periods.

Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price in certain events, including: (i) the subdivision, redivision, reduction, combination or consolidation of the outstanding Units; (ii) the issuance of Units to holders of all or substantially all of the outstanding Units by way of distribution or otherwise (other than an issue of Units to holders of Units who have elected to receive distributions in the form of Units in lieu of receiving cash distributions paid in the ordinary course on the Units); (iii) the issuance of options, rights or warrants to holders of all or substantially all of the outstanding Units entitling such holders to acquire (a) Units at a price per Unit of less than 95% of the then Current Market Price of a Unit or (b) securities convertible or exchangeable into Units at a conversion or exchange price per Unit, as the case may be, of less than 95% of the then Current Market Price of a Unit; and (iv) the distribution to holders of all or substantially all of the outstanding Units of any securities or assets (other than cash distributions and equivalent distributions in securities paid in lieu of cash distributions in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described in (ii), (iii) or (iv) above if, subject to prior written consent of the exchange on which the Debentures are then listed, the Debentureholders are entitled to participate in such event as though they had converted their Debentures prior to the effective date or record date, as the case may be, of such event. The REIT will not be required to make adjustments of the Conversion Price unless such adjustment would require an increase or decrease of at least 1% in the Conversion Price then in effect; provided, however, that any adjustments that are, accordingly, not required to be made shall be carried forward and taken into account in any subsequent adjustment.

In the case of any reclassification of the Units or a capital reorganization of the REIT (other than a subdivision, redivision, reduction, combination or consolidation of the outstanding Units) or an amalgamation, arrangement or merger of the REIT or a similar transaction with or into any other person or other entity, or a sale or conveyance of the property and assets of the REIT as an entirety or substantially as an entirety to any other person or other entity or a liquidation, dissolution or winding-up or other similar transaction of the REIT, the terms of the conversion privilege shall be adjusted so that each Debenture shall, after such event, be convertible into the kind and amount of securities or assets of the REIT or of the person or other entity resulting from such event, as the case may be, which the Debentureholder thereof would have been entitled to receive as a result of such event if on the effective date or the record date, as the case may be, of such event the Debentureholder had been the registered holder of the number of Units into which the Debenture was convertible prior to the effective date or the record date, as the case may be, of such event.

No fractional Units will be issued on any conversion of the Debentures. In lieu thereof, the REIT shall satisfy such fractional interest by a cash payment equal to the Current Market Price of such fractional interest.

### **Redemption and Purchase**

The Debentures will not be redeemable prior to June 30, 2017, except upon the satisfaction of certain conditions after a Change of Control has occurred (see “Description of the Debentures – Put Right Upon a Change of Control”). On and from June 30, 2017, and prior to June 30, 2018, the Debentures will be redeemable, in whole at any time, or in part from time to time, at the option of the REIT on not more than 60 days’ and not less than 30 days’ prior written notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest up to the date fixed for redemption, provided that the Current Market Price on the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from June 30, 2018, and prior to the Final Maturity Date, the Debentures will be redeemable, in whole at any time, or in part from time to time, at the option of the REIT on not more than 60 days’ and not less than 30 days’ prior written notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest up to the date fixed for redemption.

The REIT will have the right to purchase Debentures in the market, by tender or by private contract, at any price, subject to compliance with regulatory requirements; provided, however, that if an Event of Default has occurred and is continuing, the REIT will not have the right to purchase the Debentures by private contract.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis to the nearest multiple of \$1,000 or by lot in such manner as the

Debenture Trustee deems equitable, subject to the consent of the exchange on which the Debentures are then listed, if required.

### **Payment upon Redemption or Maturity**

On redemption or on the Initial Maturity Date or Final Maturity Date, as applicable, the REIT will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount equal to the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon. The REIT may, at its option, on not more than 60 days' and not less than 30 days' prior written notice and subject to any required regulatory approvals, unless an Event of Default has occurred and is continuing, elect to satisfy its obligation to pay, in whole or in part, the principal amount of the Debentures which are to be redeemed or which have matured by issuing and delivering that number of fully paid, non-assessable and freely-tradeable Units to the Debentureholders obtained by dividing the principal amount of the Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity, as applicable. No fractional Units will be issued to Debentureholders. In lieu thereof, the REIT shall satisfy such fractional interests by cash payments equal to the Current Market Price of such fractional interests.

### **Interest Payment Election**

Provided that the maturity date for the Debentures has been extended to the Final Maturity Date and no Event of Default has occurred and is continuing, and subject to applicable regulatory approval, the REIT may elect, from time to time, to satisfy its obligation to pay interest on the Debentures on the date interest is payable under the Indenture, by issuing and delivering fully paid, non-assessable and freely-tradeable Units to the Debenture Trustee to be sold by the Debenture Trustee for proceeds, which together with any cash payments to be made by the REIT in lieu of fractional Units, are sufficient to satisfy all of the REIT's obligations to pay interest on the Debentures in accordance with the Indenture. The Indenture will provide that, upon such election, the Debenture Trustee shall request bids to purchase Units in accordance with the Indenture and shall (i) accept delivery of Units from the REIT, (ii) accept bids with respect to, and facilitate settlement of sales of, such Units, each as the REIT shall direct in its absolute discretion, (iii) invest the proceeds of such sales in short-term obligations of, or guaranteed by, the Government of Canada (and other approved investments), (iv) deliver proceeds to Debentureholders sufficient to satisfy the REIT's interest payment obligations, and (v) perform any other action necessarily incidental thereto as directed by the REIT.

The amount received by a Debentureholder in respect of interest will not be affected by whether or not the REIT elects to use the Unit Interest Payment Election. Neither the REIT's making of the Unit Interest Payment Election nor the consummation of sales of Units in connection therewith will (i) result in the Debentureholders not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the interest payable on such Interest Payment Date, or (ii) entitle such Debentureholders to receive any Units in satisfaction of the interest payable on the applicable Interest Payment Date.

### **Cancellation**

All Debentures converted, redeemed or purchased as aforesaid will be cancelled.

### **Subordination**

The payment of the principal of, and interest on, the Debentures will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness.

Each debenture issued under the Indenture of the same series of debentures will rank *pari passu* with each other debenture of the same series (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with all other present and future subordinated and unsecured indebtedness of the REIT, except for sinking fund provisions (if any) applicable to different series of debentures or other similar types of obligations of the REIT. The Debentures will not limit the ability of the REIT to incur additional indebtedness, including indebtedness that ranks senior to the Debentures, or from mortgaging, pledging or charging its properties to secure any indebtedness.

The Indenture will provide that in the event of any dissolution, winding-up, liquidation, reorganization, bankruptcy, insolvency, receivership, creditor enforcement or realization or other similar proceedings relating to the REIT or any of its property (whether voluntary or involuntary, partial or complete) or any other marshalling of the assets and liabilities of the REIT or any sale of all or substantially all of the assets of the REIT, all Senior Indebtedness and trade creditors of the REIT will first be paid in full, or provision made for such payment, before any payment is made on account of the indebtedness, liabilities and obligations of the REIT under the Debentures (excluding the issuance of Units or other securities upon any conversion, redemption or at maturity).

The Indenture will also provide that the REIT will not make any payment, and the Debentureholders will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including, without limitation, by set-off, combination of accounts, realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (i) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures or (ii) at any time when a default has occurred under the Senior Indebtedness and is continuing and which permits the holder of the Senior Indebtedness to demand payment or to accelerate the maturity thereof, and the notice of such event of default has been given by or on behalf of the holders of Senior Indebtedness to the REIT, unless the Senior Indebtedness has been cured, waived or repaid in full.

The Debentures will also be effectively subordinated to claims of creditors of the REIT's subsidiaries, except to the extent the REIT is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors.

### **Put Right upon a Change of Control**

Upon the occurrence of a Change of Control, each Debentureholder shall have the right (the “**Put Right**”) to require the REIT to purchase, on the date (the “**Put Date**”) which is not later than 30 days following the date upon which the Debenture Trustee provides notice of the Change of Control to the Debentureholders as set out below, all or any part of such holder's Debentures, in accordance with the requirement of applicable Canadian securities laws, in lawful money of Canada at a price equal to 101% of the principal amount thereof (the “**Put Price**”) plus accrued and unpaid interest up to, but excluding, the Put Date.

If on the Put Date, 90% or more of the aggregate principal amount of the Debentures outstanding on the date the REIT provides notice of the Change of Control to the Debenture Trustee have been tendered for purchase pursuant to the Put Right, the REIT will have the right to redeem all the remaining Debentures on the Put Date at the Put Price, together with accrued and unpaid interest up to, but excluding, such date. Notice of such redemption must be given to the Debenture Trustee prior to the Put Date and promptly thereafter, by the Debenture Trustee to the holders of Debentures not tendered for purchase.

The Indenture will contain notification provisions to the following effect: (i) the REIT will, as soon as practicable, and in any event no later than two business days after the occurrence of a Change of Control, give written notice to the Debenture Trustee and the Debenture Trustee will, as soon as practicable thereafter, and in any event no later than two business days thereafter, deliver to the Debentureholders a notice of the Change of Control, which will include a description of the Change of Control, details of the Debentureholders' Put Right and a description of the rights of the REIT to redeem untendered Debentures; and (ii) a Debentureholder, to exercise the Put Right, must deliver to the Debenture Trustee, not less than five business days prior to the Put Date, written notice of the holder's exercise of such right.

### **Modification**

The rights of the Debentureholders as well as any other series of debentures that may be issued under the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, the Indenture will contain, among others, certain provisions that will make binding on all Debentureholders resolutions passed at meetings of the Debentureholders by votes cast thereat by holders of not less than  $66\frac{2}{3}\%$  of the principal amount of the then outstanding Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than  $66\frac{2}{3}\%$  of the principal amount of the then outstanding Debentures. In certain cases, the modification will, instead of or in addition to, require assent by the holders of the required percentage of debentures of each particularly affected series. Under the Indenture, the Debenture Trustee will have the right to make certain amendments to the Indenture in its discretion, without the consent of the Debentureholders.

## Events of Default

The Indenture will provide that an event of default (“**Event of Default**”) in respect of the Debentures will occur if certain events described in the Indenture occur, including if any one or more of the following events has occurred and is continuing with respect to the Debentures: (i) failure for 15 days to pay interest on the Debentures when due; (ii) failure to pay principal or premium, if any, on the Debentures, whether at the maturity date of the Debentures, upon redemption, by declaration or otherwise; (iii) default in the observance or performance of any material covenant or condition of the Indenture and continuance of such default for a period of 30 days after notice in writing has been given by the Debenture Trustee to the REIT specifying such default and requiring the REIT to rectify the same; or (iv) certain events of bankruptcy or insolvency of the REIT under bankruptcy or insolvency laws. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon receipt of a request in writing signed by the holders of not less than 25% of the principal amount of the Debentures then outstanding, declare the principal of (and premium, if any) and accrued interest on all outstanding Debentures to be immediately due and payable to the Debenture Trustee. In certain cases, the holders of more than 66<sup>2</sup>/<sub>3</sub>% of the principal amount of the Debentures then outstanding may, on behalf of all Debentureholders, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

## Offers for Debentures

The Indenture will contain provisions to the effect that if an offer is made to acquire outstanding Debentures where, as of the date of the offer to acquire, the Debentures that are subject to the offer to acquire, together with the offeror’s Debentures, constitute in the aggregate 20% or more of the outstanding principal amount of the Debentures, and, among other things, (i) within the time provided in the offer for its acceptance or within 60 days after the date the offer is made, whichever period is shorter, the offer is accepted by holders of Debentures representing at least 90% of the outstanding principal amount of the Debentures, other than Debentures beneficially owned, or over which control or direction is exercised, on the date of the offer by the offeror, any affiliate or associate of the offeror or any person acting jointly or in concert with the offeror and (ii) the offeror is bound to take up and pay for, or has taken up and paid for the Debentures of the Debentureholders who accepted the offer, the offeror will be entitled to acquire, for the same consideration per Debenture payable under the offer, the Debentures held by Debentureholders who did not accept the offer.

## Contractual Rights of Rescission

Original purchasers of Debentures will have a non-assignable contractual right of rescission, exercisable against the REIT following the issuance of Units to such purchaser pursuant to the exercise of the Debenture conversion privilege, to receive the offering price of each such Debenture if this Prospectus (including the documents incorporated herein by reference) or any amendment thereto contains a misrepresentation (within the meaning of the *Securities Act* (Ontario)), provided such remedy for rescission is exercised within 180 days of the closing of the Offering, following which this contractual right of rescission will be null and void. This contractual right of rescission shall be subject to the defences, limitations and other provisions described under part XXIII of the *Securities Act* (Ontario), and is in addition to any other right or remedy available to original purchasers of Debentures under section 130 of the *Securities Act* (Ontario) or otherwise at law. For greater certainty, this contractual right of rescission is only in connection with a misrepresentation (within the meaning of the *Securities Act* (Ontario) and is not a right to withdraw from an agreement to purchase securities within two business days as provided in securities legislation in certain provinces of Canada.

## Limitation on Non-Resident Ownership

In order for the REIT to maintain its status as a “mutual fund trust” under the Tax Act, the REIT must not be established or maintained primarily for the benefit of Non-Residents. See “Declaration of Trust and Description of Voting Units – Limitation on Non-Resident Ownership” in the AIF. The Trustees may require a registered holder of Debentures to provide the Trustees with a declaration as to the jurisdictions in which beneficial owners of the Debentures registered in the name of such Debentureholder are resident and as to whether such beneficial owners are Non-Residents (or in the case of a partnership, whether the partnership is a Non-Resident). If the Trustees become aware, as a result of acquiring such declarations as to beneficial ownership or as a result of any other investigations, that the beneficial owners of 49% of the Units (on a diluted basis assuming conversion for Units of

all outstanding convertible debentures issued under the Indenture (for greater certainty, including the Debentures, collectively, the “**Subject Debentures**”), are, or may be, Non-Residents or that such a situation is imminent, the Trustees may make a public announcement thereof and shall not accept a subscription for Subject Debentures from or issue or register a transfer of Subject Debentures (including the issuance of Units on conversion of Subject Debentures) to a person unless the person or partnership, as the case may be, provides a declaration in form and content satisfactory to the Trustees that the person or partnership, as the case may be, is not a Non-Resident and does not hold such Subject Debentures for the benefit of Non-Residents. If, notwithstanding the foregoing, the Trustees determine that more than 49% of the Units (on a diluted basis assuming conversion of all outstanding Subject Debentures for Units) would be held by Non-Residents, the Trustees may send a notice to such Non-Resident holders of Subject Debentures chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustees may consider equitable and practicable, requiring such holders to sell their Subject Debentures or a portion thereof within a specified period of not more than 30 days. If holders of Subject Debentures receiving such notice have not sold the specified number of Subject Debentures or provided the Trustees with satisfactory evidence that they are not Non-Residents within such period, the Trustees may on behalf of such securityholders sell such Subject Debentures and, in the interim, shall suspend any voting, conversion and economic rights attached to such Subject Debentures (other than the right to receive the net proceeds from the sale). Upon such sale, the affected holders of Subject Debentures shall cease to be holders of the relevant Subject Debentures and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificates, if any, representing such Subject Debentures. The Trustees will have no liability for the amount received provided that they act in good faith. The REIT may direct the Debenture Trustee to assist the Trustees with respect to any of the foregoing. Notwithstanding the foregoing, the Trustees may determine not to take any of the actions described above if the Trustees have been advised by legal counsel to the REIT that the failure to take any of such actions would not adversely impact the status of the REIT as a “mutual fund trust” for purposes of the Tax Act or, alternatively, may take such other action or actions as may be necessary to maintain the status of the REIT as a “mutual fund trust” for purposes of the Tax Act.

### **Debenture Certificates**

The Debentures will be represented in the form of one or more Global Debenture Certificates. Each purchaser acquiring a beneficial interest in a Debenture represented by the Global Debenture Certificates will receive a customer confirmation of purchase from the Underwriter from whom the beneficial interest is purchased in accordance with the practices and procedures of the selling Underwriter. Registration of ownership and transfers of Debentures represented by the Global Debenture Certificates may be effected through the book-entry only system administered by CDS or its nominees (with respect to interests of participants of CDS) and on the records of participants of CDS (with respect to interests of persons other than participants of CDS). The ability of an owner of a beneficial interest in a Debenture represented by the Global Debenture Certificates to pledge such Debenture or otherwise take action with respect to such owner’s interest in such Debenture (other than through a CDS participant) may be limited due to the lack of a physical certificate.

Neither the REIT nor the Underwriters nor the Debenture Trustee shall have any responsibility or liability for: (i) any aspect of the records relating to the beneficial ownership of the Debentures held by CDS or any payments relating thereto; (ii) maintaining, supervising or reviewing any records relating to the Debentures; or (iii) any advice or representation made by or with respect to CDS and contained in this Prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of a participant of CDS. The rules governing CDS provide that it acts as the agent and depository for the participants of CDS. As a result, participants of CDS must look solely to CDS and a purchaser acquiring a beneficial interest in the Debentures represented by a Global Debenture Certificate must look solely to participants of CDS for any payments relating to the Debentures paid by or on behalf of the REIT to CDS.

Debentures will be issued in fully registered form to holders or their nominees, other than CDS or its nominee, only if: (i) the REIT is required to do so by applicable law; (ii) the book-entry only system ceases to exist; (iii) the REIT or CDS advises the Debenture Trustee that CDS is unwilling or unable to continue as the depository with respect to the Debentures; (iv) CDS ceases to be eligible to be the depository with respect to the Debentures; (v) the REIT determines, in its sole discretion, to terminate the book-entry only system through CDS; or (vi) the Debenture Trustee has determined that an Event of Default has occurred and is continuing with respect to the Debentures, provided the Debenture Trustee has not waived the Event of Default in accordance with the terms of the Indenture.

See also “Declaration of Trust and Description of Voting Units – Transfer and Exchange of Units” in the AIF.

### Defeasance

The Indenture will contain provisions requiring the Debenture Trustee to release the REIT from its obligations under the Indenture (including the Debentures) and any supplemental indenture relating to a particular series of debentures, provided that, among other things, the REIT satisfies the Debenture Trustee that it has deposited, or caused to be deposited, funds or property sufficient for, among other things, the payment of (i) the expenses of the Debenture Trustee under the Indenture and (ii) all principal, premium (if any), interest and other amounts due or to become due in respect of such series of debentures.

### Reports to Holders

To the extent not publically available on SEDAR at [www.sedar.com](http://www.sedar.com), the REIT will provide the Debenture Trustee with copies of continuous disclosure documents furnished to its Unitholders (including annual consolidated financial statements of the REIT and any reports of the REIT’s auditors thereon) promptly upon the distribution thereof to its Unitholders.

### Governing Law

Each of the Indenture and the Debentures will be governed by and construed in accordance with the laws of Ontario and the federal laws of Canada applicable therein and shall be treated in all respects as Ontario contracts.

### EARNINGS COVERAGE RATIOS

The following earnings coverage ratios are calculated on a consolidated basis for the period from January 1, 2013 to December 31, 2013 and April 1, 2013 to March 31, 2014, and are derived from the audited consolidated financial statements of the REIT for the year ended December 31, 2013 and the unaudited condensed consolidated interim financial statements of REIT for the three months ended March 31, 2014, respectively. The historical earnings coverage ratios do not include any earnings that may be derived from the use of the net proceeds of the Offering or cash on hand or annualized earnings from properties acquired after December 31, 2013 or March 31, 2014, as applicable. The *pro forma* earnings coverage ratios are calculated on a consolidated basis for the period from January 1, 2013 to December 31, 2013 and January 1, 2014 to March 31, 2014, and have been prepared as at December 31, 2013 and March 31, 2014, as adjusted to give effect to the issuance of the Debentures and completion of the Acquisition as if such issuance and such acquisition had occurred at the beginning of the respective calculation periods.

(in millions of Canadian Dollars)	Twelve months ended December 31, 2013	Twelve months ended March 31, 2014	<i>Pro forma</i>	
			Twelve months ended December 31, 2013	Three months ended March 31, 2014
Earnings before borrowing costs, under IFRS .....	\$48.0	\$42.0	\$59.2	\$11.1
Borrowing costs under IFRS				
Historical basis .....	\$12.8	\$13.4	n/a	n/a
After giving effect to the issuance of debentures .....	\$16.0	\$16.6	\$29.2	\$7.0
After giving effect to the issuance of debentures if the over-allotment is exercised in full .....	\$16.2	\$16.8	\$29.4	\$7.0
Earnings coverage under IFRS				
Earnings coverage — historical basis .....	3.74	3.12	n/a	n/a
Earnings coverage after giving effect to the issuance of debentures .....	3.01	2.53	2.03	1.60
Earnings coverage after giving effect to the issuance of debentures if the over-allotment is exercised in full .....	2.97	2.51	2.02	1.59

The aforementioned borrowing costs and *pro forma* borrowing costs of the REIT include the distributions of Class B LP Units and subscription receipts, which are classified as liabilities under IFRS, along with the amortization of mark-to-market mortgage premiums, CMHC premiums, and deferred financing costs. The table below excludes from borrowing costs, \$3.09 million and \$3.03 million, respectively, of the aforementioned distributions and amortization for the January 1, 2013 to December 31, 2013 and April 1, 2013 to March 31, 2014 periods, respectively, and \$9.83 million and \$2.43 million, respectively, for the *pro forma* periods of January 1, 2013 to December 31, 2013, and January 1, 2014 to March 31, 2014, respectively. The following table also adjusts for certain non-cash items that were previously included in earnings before borrowing costs, under IFRS.

(in millions of Canadian Dollars)	Twelve months ended December 31, 2013	Twelve months ended March 31, 2014	<i>Pro forma</i>	
			Twelve months ended December 31, 2013	Three months ended March 31, 2014
Earnings before borrowing costs, under IFRS .....	\$48.0	\$42.0	\$59.2	\$11.1
Adjustments for non-cash items.....	(23.3)	(16.2)	(23.3)	(2.6)
Adjustments earnings before borrowing costs .....	\$24.7	\$25.8	\$36.0	\$8.5
Borrowing costs adjusted for distributions and amortization				
Historical basis .....	\$9.8	\$10.4	n/a	n/a
After giving effect to the issuance of debentures .....	\$12.9	\$13.6	\$19.4	\$4.5
After giving effect to the issuance of debentures if the over-allotment is exercised in full .....	\$13.1	\$13.7	\$19.5	\$4.6
Earnings coverage under IFRS				
Earnings coverage — historical basis .....	2.54	2.47	n/a	n/a
Earnings coverage after giving effect to the issuance of debentures.....	1.92	1.90	1.86	1.90
Earnings coverage after giving effect to the issuance of debentures if the over-allotment is exercised in full .....	1.89	1.87	1.84	1.88

Under IFRS, the Debentures will be classified on the statement of financial position as a liability. The related finance costs of the Debentures will be capitalized on recognition and written off in the subsequent reporting period as the Debentures are adjusted to fair value.

## RISK FACTORS

*Unitholders should carefully consider the risks related to the Acquisition and the VTB described below, as well as the risk factors described in the Prospectus, the AIF and other information elsewhere in this Circular, before determining whether to vote in favour of the Acquisition and VTB Resolution. If any of such or other risks occur; the REIT's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that case, the trading price of the Units could decline and Unitholders could lose all or part of their investment in the REIT. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the below described or other unforeseen risks.*

### Risks Related to the Acquisition

#### *Possible Failure to Complete the Acquisition*

Completion of the Acquisition is subject to the satisfaction of certain closing conditions, including the receipt of Unitholder, lender, TSX and *Competition Act* (Canada) approval. Accordingly, there is no assurance that the Acquisition will be completed or, if completed, will be on terms that are the same as those disclosed in this Circular. If the Acquisition is not completed on or before the Deadline, the maturity date of the Debentures will be the Initial Maturity Date. In addition, if completion of the Acquisition does not occur as contemplated, the REIT will not realize the benefits described in this Circular and could suffer adverse consequences, including loss of investor confidence.



### *Possible Failure to Obtain New Mortgages*

While the terms of the New Mortgages have been negotiated and/or finalized, the lenders thereunder, in certain cases, have not committed to provide any financing pursuant to such mortgages. As such, there is no assurance that all of the New Mortgages will be obtained or, if obtained, will be on terms that are exactly the same as disclosed in this Circular. Obtaining the New Mortgages on terms less favourable to the REIT could adversely impact the REIT's financial condition and decrease the amount of cash available for distribution. Further, failure to obtain the New Mortgages would require the REIT to obtain other sources of financing for the Acquisition and could result in the Acquisition not being completed or being completed only in part.

### *Possible Failure to Realize Expected Returns on the Acquisition*

Acquisitions involve risks that could materially and adversely affect the REIT's business plan, including the failure of the Acquisition to realize the results the REIT expects. While the Trustees, based on analysis provided by management (as well as other information deemed appropriate and sufficient for such purposes), consider the Acquisition not to be dilutive to the REIT's FFO or AFFO, such determination should not be regarded as a guarantee of future performance or results. If the Acquisition fails to realize the results that the REIT expects, the Acquisition could materially and adversely affect the REIT's business plan and could have a material adverse effect on the REIT and its financial results.

### *Historical Financial Information and Pro Forma Financial Information*

The historical financial information relating to the Acquisition Properties attached as Schedule "C" to this Circular has been derived from third parties' historical accounting records. The REIT believes that the assumptions underlying the combined and consolidated financial statements are reasonable.

The combined financial statements, however, may not reflect what the REIT's financial position, results of operations or cash flows would have been had the REIT been a standalone entity owning the Acquisition Properties during the historical periods presented or what the REIT's financial position, results of operations or cash flows will be in the future.

In preparing the *pro forma* financial information in this Circular, the REIT has given effect to, among other items, the Offering and the completion of the Acquisition. The estimates used in the *pro forma* financial information may not be similar to the REIT's actual performance going forward.

### *Use of Property Appraisals*

Caution should be exercised in the evaluation and use of the Original Appraisals and the Independent Appraisals. An appraisal is an estimate of market value. It is not a precise measure of value but is based on a subjective comparison of related activity taking place in the real estate market. The Original Appraisals and the Independent Appraisals are based on various assumptions of future expectations and while the appraiser's internal forecasts for the Acquisition Properties are considered to be reasonable at the current time, some of the assumptions may not materialize or may differ materially from actual experience in the future.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets.

### *Use of Fairness Opinions*

The Fairness Opinion is directed only to the fairness, from a financial point of view, of the Acquisition to Unitholders (other than Mr. Drimmer and his Affiliates). The Fairness Opinion does not address the relative merits of the Acquisition as compared to other business strategies or transactions that might be available to the REIT or the underlying business decision of the REIT to effect the Acquisition. The Fairness Opinion does not constitute a recommendation by Origin to any Unitholder as to how such Unitholder should vote or act with respect to any matters relating to the Acquisition.

### *Assumption of Liabilities*

The REIT will assume liabilities arising out of or related to the Acquisition Properties, and will agree to indemnify the vendors of the Acquisition Properties for, among other matters, such liabilities.

### *Potential Undisclosed Liabilities Associated with the Acquisition*

The REIT is continuing to conduct its due diligence review of the Acquisition Properties. There may be liabilities, including under applicable environmental laws, that the REIT fails to discover or is unable to quantify in the due diligence review prior to the closing of the Acquisition and the REIT may not be indemnified for some or all of these liabilities under the Acquisition Agreement. The subsequent discovery or quantification of any material liabilities could have a material adverse effect on the REIT's business, financial condition or future prospects, which may include diminution in the value of the affected properties or the inability to finance or dispose of the affected properties on acceptable terms.

### **Additional Risks Related to the REIT and its Business**

#### *Taxation Matters*

There can be no assurance that the Debentures or Units will continue to be qualified investments under the Tax Act for Plans. The Tax Act imposes tax consequences for the acquisition or holding of non-qualified investments for Plans.

Canadian federal income tax laws may be changed in a manner that may adversely affect the amount of cash available to be distributed to Unitholders. There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Unitholders or holders of Debentures. If the REIT ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax considerations would, in some respects, be materially and adversely different.

No assurance can be given that Canadian federal income tax laws respecting the taxation of income trusts and other flow-through entities will not be further changed in a manner that adversely affects the REIT and the Unitholders or holders of Debentures.

Based on a review of its assets and revenues, management has advised counsel that its current intention is to qualify for the REIT Exception at all times. However, there can be no assurance that Canadian federal income tax laws will not change or that subsequent investments or activities undertaken by the REIT will not result in the REIT failing to qualify for the REIT Exception and being subject to the SIFT Rules. If the REIT is subject to the SIFT Rules, certain of the income tax considerations described herein would, in some respects, be materially and adversely different.

The CRA has expressed a view that, in certain circumstances, the deductibility of interest on money borrowed to invest in an income trust (including a real estate investment trust such as the REIT) may be reduced on a *pro rata* basis in respect of distributions from the income trust that are a return of capital and that are not reinvested for an income earning purpose. If the CRA view were to apply to a Unitholder who borrowed money to invest in Units of the REIT, part of the interest payable by such Unitholder in connection with money borrowed to acquire such Units could be non-deductible.

### **EXPENSES OF THE ACQUISITION**

The REIT expects to incur expenses of approximately \$1.9 million in connection with the Offering and the Acquisition (exclusive from the Underwriters' fee for the Offering), including financial advisory, accounting and legal fees, the costs of preparation, printing and mailing of this Circular and other related documents and agreements, and stock exchange and regulatory filing fees. The REIT will pay the expenses of the Offering and the Acquisition out of the net proceeds of the Offering. The REIT may allocate its expenses amongst one or more of its Affiliates.

## CONSOLIDATED CAPITALIZATION OF THE REIT

The following table sets forth the consolidated capitalization of the REIT as at March 31, 2014 and the *pro forma* consolidated capitalization of the REIT as at March 31, 2014 after giving effect to the Offering and the Acquisition, without giving effect to the exercise of the Over-Allotment Option. The table should be read in conjunction with the REIT's and the Acquisition Properties' financial statements and notes thereto attached hereto as Schedule "C" or available on SEDAR at [www.sedar.com](http://www.sedar.com).

(000's)	As at March 31, 2014	As at March 31, 2014
	(unaudited)	(unaudited - <i>pro forma</i> after giving effect to the Offering and the Acquisition)
<b>Indebtedness</b>		
Mortgages (net of mortgage premium, unamortized financing costs and CMHC premium).....	\$ 294,490	\$ 484,552
Debentures .....	-	20,000
Credit Facility .....	12,950	12,950
Class B LP Units.....	38,490	111,747
<b>Unitholders' Equity</b>		
Units .....	163,972	163,972
(Authorized - unlimited) <sup>(1)</sup>		
Special Voting Units.....	-	-
(Authorized - unlimited) <sup>(2)</sup>		
<b>Total Capitalization</b> .....	<b>\$ 509,902</b>	<b>\$ 793,221</b>

Notes:

- (1) Issued (actual as at March 31, 2014) - 18,625,270; issued (*pro forma* as at March 31, 2014 after giving effect to the Offering and the Acquisition) - 18,625,270.
- (2) Issued (actual as at March 31, 2014) - 4,671,132; issued (*pro forma* as at March 31, 2014 after giving effect to the Offering and the Acquisition) - 13,561,598.

## ACQUISITION AND VTB RESOLUTION

At the Meeting, Minority Unitholders will be asked to consider and, if deemed advisable, approve the following resolution:

“BE IT RESOLVED THAT:

- (a) the indirect acquisition by True North Apartment REIT (the “**REIT**”), through limited partnerships, of a portfolio of 29 properties (the “**Acquisition**”) from entities (collectively, the “**Vendors**”) controlled by Mr. Drimmer, the Chairman of the Board of the REIT, for an aggregate purchase price of approximately \$286.0 million (inclusive of an issue price premium of approximately \$8.4 million on the class B limited partnership units (“**Class B LP Units**”) of True North 4 Limited Partnership, True North 5 Limited Partnership and True North 6 Limited Partnership (collectively, the “**New Partnerships**”) to be issued as partial consideration to the Vendors), to be satisfied by a combination of:
- (i) approximately \$12.9 million in cash;
  - (ii) the assumption of approximately \$65.6 million aggregate principal amount of existing mortgage debt;
  - (iii) approximately \$127.5 million aggregate principal amount of new mortgage debt, including \$0.75 million represented by a vender take-back mortgage (the “**VTB**”) from certain of the Vendors; and

- (iv) the issuance to the Vendors of an aggregate of 8,890,466 Class B LP Units of the New Partnerships (which are economically equivalent to and exchangeable for units of the REIT) at a deemed issue price of \$9.00 per Class B LP Unit and accompanying special voting units of the REIT (which provide the holder thereof with voting rights in respect of the REIT);

as described in the REIT's management information circular dated May 30, 2014 (the "Circular") is hereby approved;

- (b) the VTB to be provided to the REIT from certain of the Vendors as described in the Circular is hereby approved;
- (c) and all other matters related to the Acquisition as described in the Circular are hereby approved;
- (d) notwithstanding that this resolution has been duly passed by the unitholders of the REIT, the trustees of the REIT are hereby authorized and empowered, without further notice to, or approval of, the unitholders of the REIT, not to proceed with the aforementioned acquisition; and
- (e) any trustee or officer of the REIT is authorized to execute or cause to be executed on behalf of the REIT or to prepare and deliver or cause to be prepared and delivered all such documents, agreements and instruments, or cause to be done all such other acts and things as such trustee or officer of the REIT shall determine to be necessary or desirable in order to carry out the intent of the foregoing resolution and the matter authorized thereby, such determination to be conclusively evidenced by the execution or preparation and delivery of such document, agreement or instrument or the doing of any such act or thing."

Pursuant to the requirements under MI 61-101 and of meeting the conditions of TSX approval, the foregoing resolution must be approved by the affirmative vote of a majority of votes cast by Minority Unitholders present in person or represented by proxy at the Meeting, excluding the votes attached to Voting Units beneficially owned or over which control or direction is exercised by Starlight, Affiliates of Starlight, Mr. Drimmer (the "Excluded Parties") and their respective related parties.

Each of the Excluded Parties is, or otherwise related to, the owner or co-owner of some or all of the Acquisition Properties. As of the Record Date, Mr. Drimmer (together with his Affiliates) holds an approximate 18.9% effective interest in the REIT through ownership, or direction or control over 899,898 Units, 3,497,800 Class B LP Units and 3,497,800 Special Voting Units. Accordingly, votes attached to an aggregate of 899,898 Units and 3,497,800 Special Voting Units will be excluded from determining whether or not the foregoing resolution has been approved.

**The Acquisition and the VTB each constitute a "related party transaction" pursuant to MI 61-101 and accordingly the Special Committee was formed to consider the Acquisition and the VTB. On May 28, 2014, the Special Committee unanimously recommended to the Board that they recommend that Unitholders vote FOR the Acquisition and VTB Resolution at the Meeting. The Board (other than Mr. Drimmer who recused himself) unanimously recommend that Unitholders vote in favour of the Acquisition and VTB Resolution at the Meeting.**

## GOVERNANCE

### Board Mandate

The mandate of the Board, which it discharges directly or through the three committees of the Board, is one of stewardship and oversight of the REIT and its business and includes responsibility for strategic planning, review of operations, disclosure and communication policies, oversight of financial and other internal controls, corporate governance, Trustee orientation and education, executive compensation and oversight, and Trustee compensation and assessment. The text of the Board's written mandate is attached to this Circular as Schedule "A".

## **Trustee Independence, Attendance and Affiliations**

Based on consideration of information provided by the Nominees, the Board has determined that five of the seven Nominees proposed for election as Trustees by the Unitholders at the Meeting will be Independent Trustees.

The mandate of the Board provides that the Independent Trustees shall hold regularly scheduled meetings, or portions of regularly scheduled meetings, at which non-Independent Trustees and members of management are not present. Furthermore, as set out in the Declaration of Trust, certain matters must be specifically approved by the Independent Trustees, which assists in facilitating the functioning of the Trustees independently of management.

Additional information relating to the Nominees, including a list of all public companies for which they serve or have served as board members within the last five years, as well as their attendance records at all Board and committee meetings for the financial year ended December 31, 2013, can be found at “Annual Matters to be Acted Upon at the Meeting - Election of Trustees”.

## **In Camera Meetings**

On matters in which a particular Trustee may have a conflict of interest, the Board and its committees may conduct “in camera” sessions at which the particular non-independent and/or conflicted Trustee are not present. During the 2013 financial year, time was set aside at each meeting of the Board and its Committees, as applicable, to meet without the attendance of the non-independent and/or conflicted Trustees and management of the REIT.

## **Position Descriptions**

### *Chairman of the Board*

Mr. Drimmer, the Chairman of the Board, is not an Independent Trustee. The Board has adopted a written position description which sets out the Chairman of the Board’s key responsibilities, including duties relating to setting Board meeting agendas, chairing Board and Unitholder meetings, trustee development and communicating with securityholders and regulators.

### *Lead Trustee*

Mr. Graham L. Rosenberg, an Independent Trustee, acts as Lead Trustee. The Board has adopted a written position description for the Lead Trustee which sets out the Lead Trustee’s key responsibilities, including duties relating to ensuring that appropriate structures and procedures are in place so that the Board may function independently of management, and leading the process by which the Independent Trustees seek to ensure that the Board represents and protects the interest of all Unitholders.

### *Chief Executive Officer of the REIT*

The primary functions of the CEO of the REIT are to lead the management of the REIT’s business and affairs and to lead the implementation of the resolutions and policies of the Board. The Board has developed a written position description for the CEO which sets out the CEO’s key responsibilities, including duties relating to strategic planning, operational direction, Board interaction, succession planning and communication with securityholders and regulators.

The above position descriptions are considered by the Board for approval annually.

## **Committees of the Board**

Pursuant to the Declaration of Trust, the Board has established three committees: the Audit Committee, the GC&N Committee and the Investment Committee.

### *Audit Committee*

The Audit Committee currently consists of Messrs. Rosenberg (chairman), McKee and Smith, each of whom is “independent” and “financially literate” within the meaning of National Instrument 52-110 — *Audit Committees*. Starlight Appointed Trustees are not permitted to be members of the Audit Committee.

Each member of the Audit Committee has an understanding of the accounting principles used to prepare the REIT's financial statements, experience preparing, auditing, analyzing or evaluating comparable financial statements and experience as to the general application of relevant accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting. For the education and experience of each member of the Audit Committee relevant to the performance of his duties as a member of the Audit Committee, see "Matters to be Acted Upon at the Meeting — Election of Trustees".

The Board has adopted a written mandate for the Audit Committee, which is attached to its most recent annual information form, that sets out the Audit Committee's responsibility in reviewing the financial statements of the REIT and public disclosure documents containing financial information and reporting on such review to the Board, ensuring adequate procedures are in place for the review of the REIT's public disclosure documents that contain financial information, overseeing the work and review the independence of the external auditors and reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management.

#### *Governance, Compensation and Nominating Committee*

The GC&N Committee currently consists of Messrs. McKee (chairman), Ossip and Smith, each of whom are Independent Trustees. The GC&N Committee is charged with reviewing, overseeing and evaluating the governance and nominating policies and the compensation policies of the REIT. In addition, the GC&N Committee is responsible for: (i) assessing the effectiveness of the Board, each of its committees and individual Trustees; (ii) overseeing the recruitment and selection of candidates as Trustees; (iii) organizing an orientation and education program for new Trustees and coordinating continuing Trustee development programs; (iv) considering and approving proposals by the Trustees to engage outside advisers on behalf of the Board as a whole or on behalf of the Independent Trustees; (v) reviewing and making recommendations to the Board concerning any change in the number of Trustees composing the Board; (vi) administering the Option Plan, or any Unit purchase plan of the REIT or any other compensation incentive programs; (vii) assessing the performance of the officers and other members of the executive management team of the REIT; (viii) reviewing and approving the compensation paid by the REIT to the officers and consultants of the REIT; and (ix) reviewing and making recommendations to the Board concerning the level and nature of the compensation payable to the Trustees and officers of the REIT.

#### *Investment Committee*

No formal Investment Committee meetings were held in 2013; however, the Investment Committee met in conjunction with Board meetings during 2013 and fulfilled its duties as contemplated by the Declaration of Trust.

Pursuant to the Declaration of Trust, a majority of the members of the Investment Committee must be Independent Trustees and must have at least five years of substantial experience in the real estate industry. The Investment Committee currently consists of Messrs. Drimmer (chairman), Knowlton and Rosenberg, each of whom (other than Mr. Drimmer) is an Independent Trustees. Mr. Drimmer only participates in Investment Committee meetings in instances where he is not considered a related party to a transaction.

The Investment Committee is responsible for recommending to the Board whether to approve or reject proposed transactions, including proposed acquisitions and dispositions of properties and borrowings by the REIT. The Investment Committee may also consider and authorize, without Board approval, a proposed transaction, disposition or borrowing where the acquisition, disposition and borrowing, including the assumption or granting of any mortgage, does not exceed \$15 million.

#### **Orientation and Continuing Education**

The GC&N Committee has put in place an orientation program for new Trustees under which a new Trustee will meet with the Chairman of the Board, the Lead Trustee, and members of the executive management team of the REIT, and be provided with a comprehensive orientation and education as to the nature and operations of the REIT and its business, as to the role of the Board, its committees and its members, and as to the contribution that an individual Trustee is expected to make. As part of the new Trustee's orientation and education of the REIT, he or she will be provided with a Trustee's binder containing the REIT's governing documents, including the Declaration of Trust, Board and committee mandates and charters, the Code, whistleblower policy, insider trading

policy, disclosure policy, financial information for the REIT's most recently completed annual and interim financial periods and the REIT's current year business plan.

The GC&N Committee is also responsible for coordinating continuing Trustee development programs to enable the Trustees to maintain or enhance their skills and abilities as Trustees as well as ensuring their knowledge and understanding of the REIT and its business remains current. As new laws, issues or other material or significant developments that are relevant to the REIT arise, the GC&N Committee will seek to ensure that such matter is the subject of presentations to, or discussions with, the Board so that the Board is aware of such matter.

The continuing Trustee development programs involve the ongoing evaluation by the GC&N Committee of the skills and competencies of existing Trustees. The Board is currently comprised of seasoned business executives, directors and professionals who collectively possess a complimentary skill set, diverse knowledge base and considerable experience, including as board members of other significant public companies. The GC&N Committee will continually monitor the composition of the Board and will recommend the adoption of other Trustee development program components should it determine other components to be necessary.

## **Ethical Business Conduct**

### *Code of Business Conduct and Ethics*

The Board has adopted a written Code, which is applicable to the Trustees, officers and employees of the REIT and its subsidiaries, as well as to those directors, officers and employees of Starlight who have involvement with the REIT. The Code sets out the Board's expectations for the conduct of such persons in their dealings on behalf of the REIT. Those who violate the Code may face disciplinary actions, including dismissal.

The Board has established confidential reporting procedures in order to encourage individuals to raise concerns regarding matters addressed by the Code on a confidential basis free from discrimination, retaliation or harassment. If a person subject to the Code should learn of a potential or suspected violation of the Code or of any applicable laws or regulations, they are required to promptly report the violation orally or in writing and, if preferred, anonymously, as the case may be, as follows: (i) in the case of a situation that does not involve management of the REIT, to the CEO of the REIT; (ii) in the case of a situation that involves management of the REIT and does not involve any member of the Audit Committee, to the chairperson or any member of the Audit Committee; or (iii) in the case of a situation that involves management of the REIT and any member of the Audit Committee, to any Independent Trustee. If the issue or concern is related to the internal accounting controls of the REIT or any accounting or auditing matter, a person subject to the Code may report it anonymously to the Audit Committee.

In addition to the "conflict of interest" provisions contained in the Declaration of Trust as noted below, the Code provides that persons subject to the Code should not engage in any activity, practice or act which conflicts with the interests of the REIT. Trustees, officers and employees must not place themselves or remain in a position in which their private interests conflict with the interests of the REIT. If the REIT determines that an employee's outside work interferes with performance or the ability to meet the requirements of the REIT, the employee may be asked to terminate the outside employment if he or she wishes to remain employed by the REIT. To protect the interests of both the employees and the REIT, any such outside work or other activity that involves potential or apparent conflict of interest may be undertaken only after disclosure to the REIT by the employee and review and approval by management. Notwithstanding the foregoing, the REIT recognizes the business relationship between the REIT and Starlight and the involvement of certain officers of the REIT with both the REIT and Starlight, and accordingly, the foregoing is subject to, and should be interpreted after having given effect to, such arrangements.

Pursuant to the charter of the GC&N Committee, the committee is responsible for reporting to the Board, when determined necessary by the committee, on investigations and any resolutions of complaints received under the Code, and at least annually, reports to the Board on compliance with, or material deficiencies from, the Code and recommends amendments, if any, to the Code to the Board. Each person subject to the Code is required to acknowledge they have read and understand its contents. A copy of the Code can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### *Whistleblower Policy*

The REIT has also adopted a whistleblower policy to enable any person to raise concerns regarding accounting, internal accounting controls or auditing matters on a confidential basis, free from discrimination, retaliation or harassment, anonymously or otherwise. The Audit Committee is responsible for administering the whistleblower policy. Mr. Rosenberg, the chairman of the Audit Committee, is the primary contact under the REIT's whistleblower policy.

### *Conflict of Interest*

The Declaration of Trust contains "conflict of interest" provisions to protect Unitholders without creating undue limitations on the REIT. As the Trustees engage in a wide range of real estate and other activities, the Declaration of Trust contains provisions, similar to those contained in the *Canada Business Corporations Act*, that require each Trustee to disclose to the REIT, at the first meeting of the Board or committee of the Board at which a proposed contract or transaction is considered, any interest in a material contract or transaction or proposed material contract or transaction with the REIT (including a material contract or transaction involving the making or disposition of any investment in real property or a joint venture agreement) or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the REIT. If a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by the Board, a Trustee is required to disclose in writing to the REIT, or request to have entered into the minutes of meetings of the Board or a committee thereof, the nature and extent of his interest immediately after the Trustee becomes aware of the contract or transaction or proposed contract or transaction. In any case, a Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction primarily relates to his remuneration or is for indemnity under the provisions of the Declaration of Trust or the purchase or maintenance of liability insurance.

Further, each of the following matters require the approval of a majority of the Independent Trustees:

- (a) an acquisition of a property or an investment in a property, whether by co-investment or otherwise, in which Starlight or any related party of the REIT has any direct or indirect interest, whether as owner, operator or manager;
- (b) a material change to any agreement with Starlight or a related party of the REIT or any renewal, extension or termination thereof or any increase in any fees (including any transaction fees) or distributions payable thereunder;
- (c) the entering into of, or the waiver, exercise or enforcement of any rights or remedies under, any agreement entered into by the REIT, or the making, directly or indirectly, of any co-investment, in each case with (i) any Trustee, (ii) any entity directly or indirectly controlled by any Trustee or in which any Trustee holds a significant interest, or (iii) any entity for which any Trustee acts as a director or other similar capacity;
- (d) the refinancing, increase or renewal of any indebtedness owed by or to (i) any Trustee, (ii) any entity directly or indirectly controlled by any Trustee or in which any Trustee holds a significant interest, or (iii) any entity for which any Trustee acts as a director or other similar capacity; and
- (e) decisions relating to any claims by or against one or more parties to any agreement with Starlight or any related party of the REIT.



## **Nomination and Assessment of Trustees**

The GC&N Committee is responsible for, subject to the right of Starlight to appoint the Starlight Appointed Trustees, overseeing the recruitment and selection of candidates as Trustees of the REIT. The recruitment and selection of candidates involves an identification of the qualifications for Trustees that are required to fulfill Board responsibilities and an evaluation of the qualifications that existing Trustees possess. Such qualifications may include the competencies, skills, business and financial experience, real estate expertise, leadership roles and level of commitment required of a Trustee to fulfill Board responsibilities. This process takes into account the GC&N Committee's views regarding the appropriate size of the Board, with a view to facilitating effective decision-making.

The GC&N Committee is also responsible for regularly assessing the effectiveness of the Board and each of its committees. Commencing with its first full year of operations, being the year ended December 31, 2013, the Trustees have been surveyed at least annually to form the basis of such assessment and a survey summary will be independently prepared for and reviewed by the chair of the GC&N Committee, with the exception of the assessment of the chair of the GC&N Committee and the non-Independent Trustees, for which an appropriate survey summary is independently prepared for and reviewed by the Lead Trustee. The assessment process involves confidential questionnaires, approved periodically by the GC&N Committee, which include individual peer and self evaluations, as well as a review of the performance and effectiveness of the Board and each Board committee, covering such matters as the operation of the Board and its committees, the adequacy and timeliness of the information provided to Trustees, agenda planning for Board meetings, contributions of Board and committee members, and consideration of whether any changes to the composition, structure or charter of the Board or its committees is appropriate.

## **Disclosure Policy**

The Board has adopted the Disclosure Policy to seek to ensure that communications to the public regarding the REIT are timely, factual, accurate, complete and broadly disseminated and, where necessary, filed with the regulators in accordance with applicable securities laws.

The Disclosure Policy applies to all Trustees, directors, officers and employees of the REIT and its subsidiaries and all directors, officers and employees of Starlight who have involvement with the REIT. The Disclosure Policy covers disclosure documents filed with the Canadian securities regulators and written statements made in the REIT's annual and quarterly reports, press releases, letters to Unitholders, presentations by executives and information contained on the REIT's web site and other electronic communications. The Disclosure Policy also applies to oral statements made in group and individual meetings and telephone conversations with members of the investment community (which includes analysts, investors, investment dealers, brokers, investment advisers and investment managers), or with employees, interviews with the media as well as speeches, industry conferences, news conferences and conference calls and dealings with the public generally.

The REIT's disclosure committee, which is comprised of the REIT's CEO and CFO, is responsible for overseeing the REIT's disclosure controls, procedures and practices. Subject to applicable law, periodic disclosure matters (such as quarterly results) and any development determined by the Board as requiring immediate public disclosure, the REIT's disclosure committee is responsible for overseeing that a reasonable investigation of the REIT's information and developments is conducted on an ongoing basis for disclosure purposes, assessing such information and developments for materiality and determining if and when such material information requires public disclosure. The REIT's disclosure committee reports to, and provides minutes of its meetings to, the Audit Committee on a regular basis.

The Disclosure Policy has been circulated to all persons subject to such policy and the disclosure committee endeavours to ensure that all such persons are aware of the existence of the Disclosure Policy, its importance and the REIT's expectation that such persons will comply with the Disclosure Policy. The Disclosure Policy is reviewed periodically by the GC&N Committee.

## Other Reporting Issuer Experience

The following table sets out the Trustees and officers of the REIT that are, or have been within the last five years, directors, officers or promoters of other issuers that are or were reporting issuers in Canada, or the equivalent in any foreign jurisdiction.

Name	Name of Reporting Issuer	Name of Stock Exchange or Market	Position Held	Period Held
Daniel Drimmer <i>Chairman of the Board</i>	TransGlobe Apartment Real Estate Investment Trust	TSX	Chairman and Trustee	May 2010 – August 2011
	True North Commercial Real Estate Investment Trust	TSX	Chairman of the Board of Trustees, President and Chief Executive Officer, and Trustee	December 2012 - Present
	Starlight U.S. Multi-Family Core Fund	TSXV	Director and Chief Executive Officer	April 2013 – Present
	Starlight U.S. Multi-Family (No. 2) Core Fund	TSXV	Director and Chief Executive Officer	November 2013 – Present
J. Michael Knowlton <i>Trustee</i>	TransGlobe Apartment Real Estate Investment Trust	TSX	Trustee	May 2011 – June 2012
	Tricon Capital Group Inc.	TSX	Director	May 2011 – Present
	Crombie Real Estate Investment Trust	TSX	Trustee	May 2011 – Present
	Northwest Healthcare Properties Real Estate Investment Trust	TSX	Trustee	June 2011 – Present
Martin Liddell <i>CFO</i>	Leisureworld Senior Care Corporation	TSX	Executive Vice-President and Chief Financial Officer	January 2006 – August 2011
	NBS Technologies Inc.	TSX	Chief Financial Officer	March 2005 – January 2006
Robert McKee <i>Trustee</i>	Firm Capital Mortgage Investment Corporation	TSX	Vice President Finance and Operations	February 2009 – Present
Alon Ossip <i>Trustee</i>	Magna International Inc.	TSX	Executive Vice-President	October 2006 – Present
	TransGlobe Apartment Real Estate Investment Trust	TSX	Trustee	May 2010 – August 2011
	True North Commercial Real Estate Investment Trust	TSX	Trustee	December 2012 – Present
Graham L. Rosenberg <i>Trustee</i>	TransGlobe Apartment Real Estate Investment Trust	TSX	Trustee, Chairman	May 2010 – June 2012
Denim Smith <i>Trustee</i>	GT Canada Medical Properties Real Estate Investment Trust	TSXV	Trustee	March 2010 – June 2012
Leslie Veiner <i>Trustee and CEO</i>	TransGlobe Apartment Real Estate Investment Trust	TSX	Chief Financial Officer	May 2010 – June 2012
	Chartwell Senior Housing Real Estate Investment Trust	TSX	Senior Vice President	March 2005 – March 2008

**This Circular includes a summary description of certain material agreements of the REIT. The summary description discloses all attributes material to Unitholders, but is not complete and is qualified by reference to the terms of the material agreements, which have been filed with the Canadian securities regulatory authorities and are available on SEDAR at [www.sedar.com](http://www.sedar.com). Unitholders are encouraged to read the full text of such material agreements.**

## REMUNERATION OF MANAGEMENT OF THE REIT

### Overview

As at the date hereof, the REIT does not directly employ any persons who would be considered an executive officer of the REIT. The services of Mr. Leslie Veiner and Mr. Martin Liddell, as CEO and CFO, respectively, are provided to the REIT by Starlight. Other than equity incentive compensation, no compensation is paid by the REIT or its subsidiaries to those persons provided by Starlight as officers of the REIT (including Messrs. Veiner and Liddell), and the compensation received by such persons from Starlight is not within or subject to the discretion of the Board. The compensation paid by the REIT to Starlight for services rendered is calculated in accordance with the Asset Management Agreement.

### Compensation Discussion and Analysis

The officers of the REIT named in the “Summary Compensation Table” below, namely Messrs. Veiner and Liddell, are employees of Starlight. The REIT is obligated to pay Starlight certain amounts pursuant to terms of the Asset Management Agreement, as discussed in “Arrangements with Starlight – Asset Management Agreement”. As such, any variability in compensation paid by Starlight to persons determined to be named executive officers of the REIT pursuant to applicable securities laws (the “**Named Executive Officers**”) will not impact the REIT’s financial obligations.

The REIT is under no obligation to retain the services of the management provided by Starlight. The Board has the sole discretion to hire officers and employees, but such hiring, if not of Starlight employees, would be at the sole expense of the REIT. Further, any officer that is an employee provided by Starlight may be removed from such position with the REIT by the REIT, at the discretion of the Board.

The following discussion is intended to describe the compensation of the Named Executive Officers, and supplements the more detailed information concerning executive compensation that appears in the tables and the accompanying narrative that follows.

### Principal Elements of Compensation

The compensation of the Named Executive Officers includes three major elements: (i) base salary, (ii) an annual cash bonus, and (iii) long-term equity incentives, consisting of Options. As a private company, Starlight’s process for determining executive compensation is straightforward, with no specific formula for determining the amount of each element, and no formal approach applied by Starlight for determining how one element of compensation fits into the overall compensation objectives in respect of the activities of the REIT. Objectives and performance measures may vary from year to year as determined to be appropriate by Starlight. Accordingly, the Board has not considered the implications of the risks associated with the compensation of Named Executive Officers.

The Named Executive Officers do not benefit from medium term incentives or pension plan participation. Perquisites and personal benefits are not a significant element of compensation of the Named Executive Officers.

These three principal elements of compensation are described below.

*Base salaries.* Base salaries are intended to provide an appropriate level of fixed compensation that will assist in employee retention and recruitment. Base salaries are determined on an individual basis, taking into consideration the past, current and potential contribution to the success of the REIT, the position and responsibilities of the Named Executive Officers and competitive industry pay practices for other real estate investment trusts and corporations of comparable size. Starlight does not engage compensation consultants for the purposes of performing benchmarking or apply specific criteria for the selection of comparable real estate businesses. Increases in base salary are at the sole discretion of Starlight. The Board may review the compensation payable to its officers by Starlight, and is entitled to provide recommendations to Starlight, which must be considered in good faith by Starlight but are not binding upon Starlight.

*Annual cash bonuses.* Annual cash bonuses are discretionary and are not awarded pursuant to a formal incentive plan. Annual cash bonuses are awarded based on qualitative and quantitative performance standards, and

reward performance of the REIT or the Named Executive Officer individually. The determination of the performance of the REIT may vary from year to year depending on economic conditions and conditions in the real estate industry, and may be based on measures such as unit price performance, the meeting of financial targets against budget (such as adjusted funds from operations), the meeting of acquisition objectives and balance sheet performance. Adjusted funds from operations or “AFFO” is not defined by Canadian generally accepted accounting principles, does not have a standard meaning and may not be comparable with other industries or income trusts. Nevertheless, AFFO is a key performance measure used by real estate operating companies and is described in the REIT’s management’s discussion and analysis filed pursuant to applicable Canadian securities laws. The Board may review the bonuses payable to its officers by Starlight, and is entitled to provide recommendations to Starlight, which must be considered in good faith by Starlight but are not binding upon Starlight.

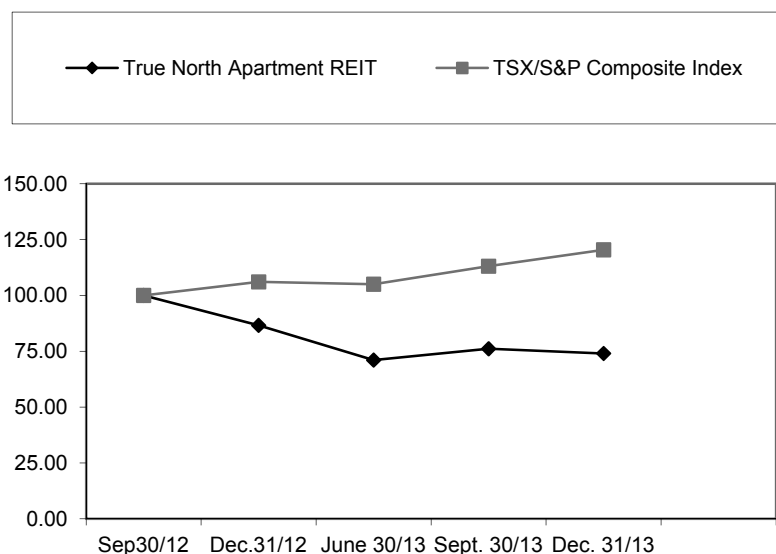
Individual performance factors vary, and may include completion of specific projects or transactions and the execution of day to day management responsibilities.

*Options.* Grants of Options by the REIT under the Option Plan align the interests of the Named Executive Officers more closely with the interests of Unitholders, because they are tied to the REIT’s financial and Unit trading performance and vest over a number of years. The Board, acting on the recommendation of the GC&N Committee of the REIT, may designate individuals eligible to receive grants of Options. In determining grants of Options, an individual’s performance and contributions to the REIT’s success, relative position, tenure and past grants are taken into consideration. For a description of the material terms of the Option Plan, see “Equity Compensation Plan Information – Unit Option Plan.”

Named Executive Officers and Trustees are not permitted to purchase financial instruments, including prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by such Named Executive Officers and Trustees.

**Performance Graph**

The following graph compares the total cumulative Unitholder return, as at December 31, 2013 for \$100 invested in Units with the cumulative total return of the TSX Composite Index and the TSX Canadian REIT Index since September 30, 2012.



The compensation paid to the Named Executive Officers by Starlight is not based upon the market price of Units or the total return to Unitholders. See “Remuneration of Management of the REIT – Compensation Discussion and Analysis”.

### Summary Compensation Table

The following table sets out information concerning compensation to be earned by, paid to, the Named Executive Officers.

<u>Name and principal position</u>	<u>Year<sup>(1)</sup></u>	<u>Salary</u> <u>(\$)</u>	<u>Option-based</u> <u>Awards<sup>(2)</sup></u> <u>(\$)</u>	<u>Annual</u> <u>incentive</u> <u>plans</u> <u>(\$)</u>	<u>All other</u> <u>compensation<sup>(5)</sup></u> <u>(\$)</u>	<u>Total</u> <u>compensation</u> <u>(\$)</u>
Leslie Veiner <sup>(6)(7)</sup> .....	2013	375,000	nil	187,500 <sup>(3)</sup>	nil	562,500
<i>President and CEO</i>	2012	132,211 <sup>(8)</sup>	84,000	85,000 <sup>(4)</sup>	nil	301,211
Martin Liddell <sup>(6)(7)</sup> .....	2013	250,000	nil	125,000 <sup>(3)</sup>	nil	375,000
<i>CFO</i>	2012	229,166 <sup>(8)</sup>	46,938	130,000 <sup>(4)</sup>	nil	406,104

- (1) The REIT was established during 2012 and accordingly, information is not presented with respect to prior years.
- (2) The amount is the estimated fair value of each Option grant on the grant date. This fair value was calculated using the Black-Scholes option pricing model, as this is a widely used methodology that satisfies Canadian generally accepted accounting principles for publicly accountable enterprises (as defined by the International Accounting Standards Board and as adopted by the Chartered Professional Accountants Canada, as amended from time to time, “GAAP”) and corresponds to the compensation value intended to be provided to each Named Executive Officer, within the REIT’s total compensation policy, and the fair value determined for accounting purposes. The following weighted average assumptions were used: expected distribution yield is 6.9%; expected volatility is 20%; risk free interest rate is 1.22%; and expected Option life is 3.5 years. For a description of the material terms of the Option Plan, see “Equity Compensation Plan Information — Unit Option Plan”.
- (3) All annual incentive plan awards relating to services performed during the 2013 fiscal year were paid in the first quarter of 2014.
- (4) All annual incentive plan awards relating to services performed during the 2012 fiscal year were paid in the first quarter of 2013.
- (5) None of the Named Executive Officers are entitled to perquisites or other personal benefits which, in the aggregate, are worth over \$50,000 or over 10% of their annual base salary.
- (6) Compensation of Messrs. Veiner and Liddell is paid by Starlight (with the exception of Option-based awards granted by the REIT under the Option Plan) and there is no charge back to the REIT for such compensation.
- (7) Mr. Veiner, being an officer of the REIT, is not entitled to any remuneration from the REIT for serving as a Trustee. Mr. Veiner has been the CEO of the REIT since August 27, 2012.
- (8) On an annualized basis, salaries paid or allocated to the Named Executive Officers for the year ended December 31, 2012 would have been as follows: Mr. Veiner, \$375,000; and Mr. Liddell, \$250,000. See also Note 5.

### Incentive Plan Awards — Outstanding Option-Based Awards

The following table sets forth, for each Named Executive Officer, information concerning Options outstanding as at December 31, 2013:

<u>Name</u>	<u>Number of Units</u> <u>underlying unexercised</u> <u>Options</u> <u>(#)</u>		<u>Option</u> <u>exercise</u> <u>price</u> <u>(\$)</u>	<u>Option</u> <u>expiration</u> <u>date</u>	<u>Value of unexercised</u> <u>in-the-money Options<sup>(1)</sup></u> <u>(\$)</u>	
	<u>Vested</u>	<u>Unvested</u>			<u>Vested</u>	<u>Unvested<sup>(2)</sup></u>
Leslie Veiner .....	40,000	80,000	11.60	October 1, 2017	nil	nil
Martin Liddell .....	nil	8,334	2.00	March 8, 2017	nil	50,004
	26,666	53,334	9.83	July 18, 2017	nil	nil

- (1) Calculated based on the December 31, 2013 closing price of the Units on the TSX of \$8.00 per Unit.
- (2) These values are related to non-exercisable Options and are therefore not available to the Named Executive Officers.

## Incentive Plan Awards — Value Vested or Earned During the Year

<u>Name</u>	<b>Options-Based Awards – Value Vested During the Year (\$)</b>
Leslie Veiner .....	nil
Martin Liddell .....	29,996

## Pension Plan Benefits

The REIT does not sponsor any pension plan for its executive officers.

## Employment Agreements

Pursuant to the terms of an employment agreement with Starlight, as of August 27, 2012, Mr. Veiner serves as the REIT's CEO for an indefinite term. The agreement provides for an annual base salary of \$375,000 (which has been increased to \$385,000 effective March 1, 2014) and an annual incentive of up to 65% of annual base salary or as adjusted by the Board (but subject to Starlight's approval). Mr. Veiner's employment agreement also provides for certain restrictive covenants that continue to apply following the termination of Mr. Veiner's employment, including a 12-month non-solicit with respect to the REIT's customers or employees. Mr. Veiner may terminate his employment at any time with 90 days' written notice, which Starlight may waive. Pursuant to his employment agreement, if Mr. Veiner's employment is terminated without "cause" by providing him with a written notice, Mr. Veiner will be entitled to base salary and vacation owing at the time of termination and an amount equal to the aggregate of 24 months' base salary and an amount equal to the average of his discretionary bonus paid in each of the previous three years to a maximum of 65% or as adjusted by the Board (but subject to Starlight's approval), and benefits for 24 months. If Mr. Veiner's employment is terminated with "cause", there will be no obligation to make any further payments other than compensation owing at the time of termination. On a change of control of the REIT, if within 12 months of such change in control, Mr. Veiner's employment is terminated for any reason other than just cause, or certain changes occur in Mr. Veiner's employment and he resigns, Mr. Veiner will be entitled to receive from Starlight 24 months' base salary, an amount equal to the average of his discretionary bonus paid in each of the previous three years to a maximum of 65% or as adjusted by the Board (but subject to Starlight's approval), and benefits for 24 months. The Board may review the compensation payable to its officers by Starlight, and is entitled to provide recommendations to Starlight, which must be considered in good faith by Starlight but are not binding upon Starlight.

Pursuant to the terms of an employment agreement with Starlight dated June 5, 2012, Mr. Liddell serves as the REIT's CFO for an indefinite term. The agreement provides for an annual base salary of \$250,000 (which has been increased to \$260,000 effective March 1, 2014) and an annual incentive of up to 50% of annual base salary or as adjusted by the Board (but subject to Starlight's approval). Mr. Liddell's employment agreement also provides for certain restrictive covenants that continue to apply following the termination of Mr. Liddell's employment, including a 12-month non-solicit with respect to the REIT's customers or employees. Mr. Liddell may terminate his employment at any time with 90 days' written notice, which Starlight may waive. Pursuant to his employment agreement, if Mr. Liddell's employment is terminated without "cause" by providing him with a written notice, Mr. Liddell will be entitled to base salary and vacation owing at the time of termination and an amount equal to the aggregate of 18 months' base salary and an amount equal to the average of his discretionary bonus paid in each of the previous three years to a maximum of 50% or as adjusted by the Board (but subject to Starlight's approval), and benefits for 18 months. If Mr. Liddell's employment is terminated with "cause", there will be no obligation to make any further payments other than compensation owing at the time of termination. On a change of control of the REIT, if within 12 months of such change in control, Mr. Liddell's employment is terminated for any reason other than just cause, or certain changes occur in Mr. Liddell's employment and he resigns, Mr. Liddell will be entitled to receive from Starlight 18 months' base salary, an amount equal to the average of his discretionary bonus paid in each of the previous three years to a maximum of 50% or as adjusted by the Board (but subject to Starlight's approval), and benefits for 18 months. The Board may review the compensation payable to its officers by Starlight, and is entitled to provide recommendations to Starlight, which must be considered in good faith by Starlight but are not binding upon Starlight.

## REMUNERATION OF TRUSTEES OF THE REIT

### Remuneration of Trustees

For the 2013 financial year, each Trustee received from the REIT an annualized base retainer in the amount of \$25,000, plus a fee of \$1,500 for each day on which the Trustee attended a meeting of the Board in person, and \$750 for each attendance by telephone, except that any Trustee who is an officer of, or is otherwise employed by the REIT or Starlight, was not entitled to any remuneration from the REIT for serving as a Trustee (including as Chairman of the Board, or as the chair or a member of a committee). Accordingly, Messrs. Drimmer and Veiner did not receive annual retainers or attendance fees. Members of the Audit Committee, the GC&N Committee and the Investment Committee received a fee of \$1,500 for each committee meeting attended in person and \$750 for each attendance by telephone. The chairman of the Audit Committee received an additional annualized retainer of \$15,000 and the chairs of each of the GC&N Committee and the Investment Committee each received an additional annualized retainer of \$5,000. The Lead Trustee received an additional annualized retainer of \$15,000. Each Trustee was also reimbursed for reasonable travel and other expenses properly incurred by in attending meetings of the Board or any committee meeting.

For 2014, the remuneration of Trustees is expected to remain unchanged.

### Trustee Compensation Table

The following table sets out information concerning the 2013 compensation earned by, paid to, or awarded to each Trustee who is not a Named Executive Officer.

<u>Name</u>	<u>Fee earned</u> <u>(\$)</u>	<u>Option-based</u> <u>awards<sup>(1)</sup></u> <u>(\$)</u>	<u>Total</u> <u>compensation<sup>(2)</sup></u> <u>(\$)</u>
Daniel Drimmer .....	nil	nil	nil
J. Michael Knowlton.....	18,585	nil	18,585
Robert McKee.....	44,500	nil	44,500
Alon Ossip .....	32,000	nil	32,000
Denim Smith.....	37,730	nil	37,750
Graham L. Rosenberg .....	69,250	13,376	82,626

(1) The amount is the estimated fair value of each Option grant on the grant date. This fair value was calculated using the Black-Scholes option pricing model, as this is a widely used methodology that satisfies GAAP and corresponds to the compensation value intended to be provided to each Named Executive Officer, within the REIT's total compensation policy, and the fair value determined for accounting purposes. The following weighted average assumptions were used: expected distribution yield is 7.00%; expected volatility is 20.00%; risk free interest rate is 1.48%; and expected Option life is 3.5 years. For a description of the material terms of the Option Plan, see "Equity Compensation Plan Information — Unit Option Plan".

(2) Table does not include any amounts paid as reimbursement for expenses.

### Non-Executive Trustee Unit Issuance Plan

The REIT established the Unit Issuance Plan to allow non-executive Trustees to elect to receive Units in lieu of cash compensation.

Pursuant to the Unit Issuance Plan, up to 100% of the fees payable to each non-executive Trustee in a fiscal year of the REIT for serving on the Board or any committee of the Board, but excluding any expense reimbursement or retainer for serving as a member of any special committee constituted by the Board from time to time (the "**Amount**"), is payable (after deducting applicable withholding taxes, if any) in Units issued from the REIT's treasury on the last Business Day (as defined in the Unit Issuance Plan) of March, June, September and December of each fiscal year of the REIT, or such other date recommended by the GC&N Committee and confirmed by the Board from time to time. An Eligible Person (as defined in the Unit Issuance Plan) may elect to receive his or her Amount entirely in cash, or to receive any proportion of his or her Amount in cash and Units at his or her discretion (an "**Election**"). Any Election may only be made once annually for the full duration of a year by giving written notice five Business Days prior to December 31 for the upcoming year, provided such election may not be made while the REIT is observing a trading blackout.

The aggregate number of Units reserved for issuance under the Unit Issuance Plan, subject to adjustment or increase pursuant to the terms contained therein, is 170,000 Units (the “**Plan Maximum**”). The Unit Issuance Plan contains customary provisions providing for the adjustment of the Plan Maximum in the event of a Unit split, consolidation or recapitalization. As at the Record Date, 2014, 21,170 Units had been issued under the Unit Issuance Plan.

The Board has full and exclusive discretionary power to: (i) interpret and construe the Unit Issuance Plan; (ii) establish policies and to adopt rules and regulations for carrying out the purposes, provisions and administration of the Unit Issuance Plan; (iii) determine the qualification of any non-executive Trustee to participate in the Unit Issuance Plan; (iv) determine the number of Units to be issued pursuant to each issuance; (v) approve the forms of documents for use under the Unit Issuance Plan; (vi) amend the Unit Issuance Plan, subject to the terms contained therein; and (vii) take such other action, not inconsistent with the terms of the Unit Issuance Plan, as the Board deems appropriate. Notwithstanding the foregoing, the Board may not, without approval by a majority of the votes cast by Unitholders: (a) increase the number of Units issuable pursuant to the Unit Issuance Plan; (b) expand the authority of the Board to permit assignability of Units issued pursuant to the Unit Issuance Plan beyond that contemplated by the terms of the Unit Issuance Plan; (c) amend the definition of “Eligible Persons” in the Unit Issuance Plan to add categories of eligible participants; and (d) amend the Unit Issuance Plan to provide for other types of compensation through equity issuance.

The Board may delegate to the GC&N Committee or any other committee of the Board or to any officer or employee of the REIT, as specified by the Board, such administrative duties or powers as the Board may deem advisable in connection with the Unit Issuance Plan.

#### **Incentive Plan Awards — Outstanding Option-Based Awards**

The following table sets forth for each Trustee who is not a Named Executive Officer information concerning Options outstanding as at December 31, 2013:

<u>Name</u>	<b>Number of Units underlying unexercised Options (#)</b>		<b>Option exercise price (<u>\$</u>)</b>	<b>Option expiration <u>date</u></b>	<b>Value of unexercised in-the-money Options<sup>(1)</sup> (<u>\$</u>)</b>	
	<u>Vested</u>	<u>Unvested</u>			<u>Vested</u>	<u>Unvested</u>
Daniel Drimmer .....	nil	75,834	2.00	March 8, 2017	nil	455,004
	40,000	80,000	9.83	July 18, 2017	nil	nil
Robert McKee.....	2,500	5,000	2.00	March 8, 2017	15,000	30,000
	11,333	22,667	9.83	July 18, 2017	nil	nil
Alon Ossip.....	16,666	33,334	2.00	March 8, 2017	99,996	200,004
	11,333	22,667	9.83	July 18, 2017	nil	nil
Denim Smith.....	2,500	5,000	2.00	March 8, 2017	15,000	30,000
	11,333	22,667	9.83	July 18, 2017	nil	nil
Graham L. Rosenberg.....	nil	85,000	10.00	February 20, 2018	nil	nil

(1) Calculated based on the December 31, 2013 closing price on the TSX of \$8.00 per Unit.

(2) Values are related to non-exercisable Options and are therefore not available to the Trustees.



## EQUITY COMPENSATION PLAN INFORMATION

### Overview

The following table sets out as at December 31, 2013 the number of Units to be issued upon exercise of outstanding options, the weighted average price of outstanding options and the number of Units remaining available for future issuance under the REIT's Option Plan:

<u>Plan Category</u>	<u>Number of Units to be Issued Upon Exercise of Outstanding Options</u>	<u>Weighted-Average Exercise Price of Outstanding Options</u>	<u>Number of Units Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Units Reflected in the First Column)<sup>(1)</sup></u>
Unit Option Plan (approved by Unitholders)	739,708	\$7.95	1,575,192
Total.....	739,708	\$7.95	1,575,192

(1) As at December 31, 2013, the number of Units remaining available for future issuance under equity compensation plans is comprised of 1,575,192 Units available for issuance pursuant to the Option Plan.

### Option Plan

The REIT has established the Option Plan for the benefit of Trustees, officers, employees and directors of the REIT and its subsidiaries, as well as certain eligible service providers.

The Options granted under the Option Plan permit optionees to purchase Units on payment of the exercise price. The exercise price is established by the Board and is not less than the market price of Units on the date of the grant. The Board determines the number of Units to be covered by each Option and determines, subject to the Option Plan, the terms of each such option. The Options are granted for a period of not more than five years, although a shorter option period may be established by the Board. Generally, Options granted vest on the basis of (i) as to the first third, one year from the date of grant; (ii) as to the next third, two years from the date of grant; and (iii) as to the remaining third, three years from the date of grant.

The Options granted under the Option Plan will also be exercisable on a cashless basis by receipt, without payment by the optionee, of the Growth Amount (as defined in the Option Plan). The Growth Amount is payable by issuance by the REIT to the optionee of that number of whole Units calculated by dividing this Growth Amount by the fair market value of the Units, rounded down to the nearest whole Unit (without payment in Units or cash for any fractional interest). The fair market value of the Units shall be the volume weighted average trading price of the Units on the TSX for the five business days preceding the date on which the granting of an option is approved by the Board. In the event that the Units are not listed and posted for trading on the TSX, and instead on the TSXV, the fair market value shall be the last daily closing price of the Units before the date on which the granting of an option is approved by the Board, less the maximum discount permitted under applicable TSXV policies. In the event that Units are not listed and posted for trading on any stock exchange or marketplace, the fair market value shall be determined by the Board in its sole discretion.

Unless the Board determines otherwise, an optionee's Options granted under the Option Plan will terminate and may not be exercised after the earliest of: (i) one year after the optionee's termination of employment with the REIT by reason of death, permanent disability or retirement; (ii) the optionee's termination of employment with the REIT for "cause"; (iii) 90 days after the optionee's termination of employment with the REIT, in any manner or for any reason, other than death, permanent disability, retirement or termination of employment for "cause"; and (iv) the expiry date of the optionee's Option; provided that, subject to the foregoing, unvested Options will continue to vest according to their terms of grant.

The number of Units issuable at any time under the Options issued and outstanding pursuant to the Option Plan and under any other security-based compensation arrangements of the REIT shall not exceed in the aggregate 10% of the REIT's total issued and outstanding Units (on a non-diluted basis, but including the number of Class B

LP Units issued and outstanding). The number of Units issuable to insiders at any time under Options issued and outstanding pursuant to the Option Plan and under any other security-based compensation arrangements of the REIT shall not exceed in the aggregate 10% of the REIT's total issued and outstanding Units (on a non-diluted basis, but including the number of Class B LP Units issued and outstanding), and the number of Units issued to insiders within any one year period under Options issued and outstanding pursuant to the Option Plan and under any other security-based compensation arrangements of the REIT shall not exceed in the aggregate 10% of the REIT's total issued and outstanding Units (on a non-diluted basis, but including the number of Class B LP Units issued and outstanding). The number of Units covered by Options held by any one optionee shall not exceed 5% of the outstanding Units (on a non-diluted basis, but including the number of Class B LP Units issued and outstanding) at any time.

If Options granted under the Option Plan would otherwise expire during a Blackout Period (as defined in the Option Plan) or within ten business days of the end of such period, the expiry date of the Option will be extended to the tenth business day following the end of the Blackout Period.

The Board may delegate to any committee of the Board as specified by the Board or to any officer or employee of the REIT such administrative duties or powers as it may deem advisable.

For purposes of the Option Plan, "officer" includes, for greater certainty, any individual performing a policy-making function in respect of the REIT pursuant to an arrangement with Starlight or any other person, and "Service Provider" means, among others, Starlight for so long as it is providing specified services under the Asset Management Agreement and its successors and permitted assigns, as well as its respective employees, executive officers, or directors, provided that in each case such person spends or will spend a significant amount of time and attention on the affairs and business of the REIT or an affiliate of the REIT.

#### **INDEBTEDNESS OF TRUSTEES AND EXECUTIVE OFFICERS**

No Trustees, executive officers or Nominees (or any associates thereof) are indebted to the REIT and the REIT has not guaranteed or otherwise agreed to provide assistance in the maintenance or servicing of any indebtedness of any Trustee, executive officer or Nominee (or any associates thereof).

#### **ARRANGEMENTS WITH STARLIGHT**

Starlight is responsible for the day-to-day administration and operation of the REIT's properties and for providing strategic, advisory and other services to the REIT, pursuant to the Asset Management Agreement.

Starlight's head office is located at 401 The West Mall, Suite 1100, Toronto, Ontario, M9C 5J5. Mr. Drimmer, the Chairman of the Board, is Starlight's sole beneficial shareholder and sole director as at the date hereof. To the best of the REIT's knowledge, the following persons act as officers of Starlight: (i) Mr. Drimmer, a resident of Toronto, Ontario, is the President and Chief Executive Officer of Starlight, (ii) Tamara Lawson, a resident of Toronto, Ontario, is the Chief Financial Officer of Starlight, (iii) David Chalmers, a resident of Toronto, Ontario, is the Vice President, Asset Management of Starlight and (iv) David Hanick, a resident of Toronto, Ontario, is the Vice President, Corporate Development and General Counsel of Starlight.

On February 20, 2013, the REIT indirectly acquired the Rocky Properties from an affiliate of Mr. Drimmer. The aggregate purchase price for the Rocky Properties and the Rocky Instalment Note (defined below) of \$138.95 million was satisfied by a combination of: (i) approximately \$37.7 million in cash, (ii) the assumption of approximately \$68 million aggregate principal amount of existing mortgage debt, (iii) approximately \$33 million aggregate principal amount of new mortgage debt, including \$5 million represented by a vendor take-back mortgage from D.D. Acquisitions Partnership (an affiliate of Mr. Drimmer), and (iv) the issuance to D.D. Acquisitions Partnership of 3,512,878 Class B LP Units of Rocky (2013) Limited Partnership. In connection with the acquisition of the Rocky Properties, D.D. Acquisitions Partnership provided the REIT with the Rocky Instalment Note pursuant to which it agreed to make instalment payments to the REIT in consideration of the REIT's assumption of pooled mortgages from D.D. Acquisitions Partnership with respect to certain of the Rocky Properties, in order for the REIT to achieve an effective interest rate of 2.5% per annum with respect to such pooled mortgages.

The purchase price for the Rocky Properties was established by negotiation between the Special Committee and Mr. Drimmer. Pursuant to the terms of the Asset Management Agreement, Starlight was paid an acquisition fee of \$1.4 million in connection with the acquisition of the Rocky Properties.

On September 30, 2013 the REIT completed the Montréal Acquisition. The Montréal Acquisition constituted a “related party transaction” under MI 61-101. Pursuant to section 5.5(a) and 5.7(1)(a) of MI 61-101, the REIT was exempt from obtaining a formal valuation and minority approval of the REIT’s unitholders due to the fair market value of the Montréal Acquisition being below 25% of the REIT’s market capitalization for purposes of MI 61-101. The Montréal Acquisition was approved unanimously by the Trustees (other than Mr. Drimmer who declared his interest in the Montréal Acquisition and was recused from voting) in accordance with the Declaration of Trust, and was approved under the rules of the TSX. The purchase price of approximately \$12.3 million was satisfied through the combination of approximately \$3.4 million of cash and \$8.9 million in new mortgage financing.

Neither Starlight nor any director or executive officer of Starlight, nor any of their respective affiliates or associates, is, or has at any time since January 1, 2013, been indebted to the REIT or its subsidiaries or been engaged in any significant transaction or arrangement with the REIT, except otherwise disclosed in this Circular.

### **Asset Management Agreement**

Starlight provides certain services to the REIT and its subsidiary entities pursuant to the Asset Management Agreement. Starlight is entitled to the following fees pursuant to the Asset Management Agreement:

- (a) A base annual management fee calculated and payable on a monthly basis, equal to the sum of (i) 0.35% of the historical purchase price of the properties owned by the REIT; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties from the effective date.
- (b) From and after January 1, 2013, an incentive fee payable by the REIT for the year ended December 31, 2013, equal to 15% of the REIT’s FFO per Unit in excess of the REIT’s FFO per Unit determined by the Trustees by June 30, 2013, with reference to such parameters and information as the Trustees deem prudent, including without limitation, the 2013 business plan of the REIT, and from and after January 1, 2014, an amount equal to 15% of the excess of the REIT’s FFO per Unit for fiscal 2013 (the “**Hurdle Amount**”), plus 50% of the increase in the weighted average consumer price index (or other similar metric as determined by the Trustees) (“**CPI Adjustment**”) in the jurisdictions in which the properties are located, and the Hurdle Amount thereafter increasing annually by the CPI Adjustment. The FFO per Unit is equal to the quotient obtained by dividing: (i) the sum of: (A) the gain on the dispositions of any properties at fiscal year (calculated as the difference between the total sale price set out in any agreement entered into by the REIT with respect to the disposition of the property net of costs incurred and the historical purchase price of such property inclusive of costs incurred), and (B) FFO; by (ii) the total number of issued and outstanding Units as at the end of such fiscal year;
- (c) A capital expenditures fee equal to five percent of all hard construction costs incurred on each capital project with costs in excess of \$1.0 million excluding work done on behalf of tenants or any maintenance capital expenditures; and
- (d) An acquisition fee equal to: (i) 1.0% of the purchase price of a property, on the first \$100 million of properties announced to be acquired by the REIT in each fiscal year; (ii) 0.75% of the purchase price of a property announced to be acquired by the REIT on the next \$100 million of properties acquired in each fiscal year; and (iii) 0.50% of the purchase price on properties announced to be acquired by the REIT in excess of \$200 million in each fiscal year.

Starlight earned asset management fees of \$1,600,878 pursuant to the Asset Management Agreement for the year ended December 31, 2013 and \$2,003,830 in incentive fees, capital expenditure fees, acquisition fees and reimbursements for out-of-pocket costs and expenses during the same period. Notwithstanding the terms of the Asset Management Agreement, Starlight has agreed to waive its acquisition fee in connection with the Acquisition.

## INTEREST OF INFORMED PERSONS IN THE PROPOSED ACQUISITION AND OTHER MATERIAL TRANSACTIONS

Other than as noted in the following paragraphs or otherwise disclosed in this Circular, there are no material interests, direct or indirect, of any Trustee, executive officer of the REIT or Nominee, any Unitholder that beneficially owns, or controls or directs, (directly or indirectly) more than 10% of the Units or Special Voting Units, or any associate or affiliate of any of the foregoing persons, in any completed transaction since the commencement of the REIT's most recently completed financial year or proposed transaction of the REIT that has materially affected or would materially affect the REIT or any of its subsidiaries.

Mr. Drimmer (a Trustee and the Chairman of the Board) has an ongoing relationship with Starlight. See "Arrangements with Starlight".

As at the Record Date, Mr. Drimmer held an approximate 18.85% effective interest in the REIT through his ownership of Units, Class B LP Units and Special Voting Units. Each Class B LP Unit is exchangeable at the option of the holder for one Unit (subject to customary anti-dilution adjustments), is accompanied by one Special Voting Unit (which provides for the same voting rights in the REIT as a Unit) and is entitled to receive distributions of cash from such Partnership equal to the distributions that the holder of the Class B LP Unit would have received if it was holding one Unit (subject to customary anti-dilution adjustments) instead of the Class B LP Unit.

In addition, Starlight is entitled to certain pre-emptive rights to maintain its *pro rata* ownership interest in the REIT and its subsidiaries, "demand" and "piggyback" registration rights with respect to public offerings by the REIT, and "drag" and "tag" rights with respect to purchases of securities of subsidiaries of the REIT, pursuant to the Exchange Agreement. The Exchange Agreement can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## PRIOR SALES

In connection with the acquisition of the High-Rise building located at 50 Tripp Boulevard, Trenton, Ontario on October 1, 2013, the REIT issued to the vendor 333,334 Class B LP Units of True North LP at a price of \$9.00 per Class B LP Unit.

From May 30, 2013 to May 30, 2014, 329,397 Units have been issued to eligible holders of Units pursuant to the DRIP.

From May 30, 2013 to May 30, 2014, 112,082 Units have been issued upon the exercise of options issued pursuant to the Option Plan.

Pursuant to the Unit Issuance Plan, up to 100% of the fees payable to each non-executive Trustee in a fiscal year of the REIT for serving on the Board or any committee of the Board, but excluding any expense reimbursement or retainer for serving as a member of any special committee constituted by the Board from time to time is payable (after deducting applicable withholding taxes, if any) in Units issued from the REIT's treasury. From the adoption of the Unit Issuance Plan on May 30, 2013 to May 30, 2014, 21,170 Units have been issued pursuant to the Unit Issuance Plan.

## MARKET FOR SECURITIES

The Units commenced trading on the TSXV under the symbol "TN.UN" on June 11, 2012. On May 3 2013, the Units were delisted from the TSXV and Units commenced trading on the TSX under the same symbol. The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate volume of trading of the Units on the TSX:

Period	Price (\$)		Trading Volume
	High	Low	
<b>2013</b>			
May 3-31	9.81	8.50	972,337
June	9.10	7.85	806,290

Period	Price (\$)		Trading Volume
	High	Low	
July	8.55	7.91	620,402
August	8.69	7.70	532,222
September	8.42	7.76	727,143
October	8.74	8.16	562,231
November	8.48	7.89	831,821
December	8.30	7.64	1,034,025
<b>2014</b>			
January	8.15	7.76	510,767
February	7.98	7.73	762,108
March	8.24	7.83	655,464
April	8.62	8.02	855,117
May	8.40	8.02	1,209,875

Source: TMX Market Data

#### INTEREST OF EXPERTS

Origin is named herein as providing the Fairness Opinion regarding the Acquisition and an independent opinion of the fair market value of the Instalment Notes. As at the date of this Circular, the “designated professionals” of Origin beneficially own, directly and indirectly, less than 1% of the securities or other property of the REIT, its associates or its Affiliates.

The auditors of the REIT, KPMG LLP, have confirmed that they are independent of the REIT within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation. Deloitte LLP have advised that they are independent of the Acquisition Properties within the meaning of the rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

CBRE is named herein as providing the Original Appraisals and the Independent Appraisals in respect of the Acquisition Properties. As at the date of this Circular the “designated professionals” of CBRE beneficially own, directly and indirectly, less than 1% of the securities or other properties of the REIT, its associates or its Affiliates.

#### AUDITORS, TRANSFER AGENT AND REGISTRAR

KPMG LLP, Chartered Professional Accountants, located in Toronto, Ontario are and have been the external auditors of the REIT since its formation on June 5, 2012. The transfer agent and registrar for the Units is Equity Financial Trust Company at its principal office in Toronto, Ontario.

#### INDEBTEDNESS OF TRUSTEES AND EXECUTIVE OFFICERS

No Trustees or executive officers (or any associates thereof) are indebted to the REIT and the REIT has not guaranteed any indebtedness of any Trustee or executive office (or any associates thereof).

#### ADDITIONAL INFORMATION

Additional information relating to the REIT can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional financial information is provided in the REIT’s audited consolidated financial statements and management’s discussion and analysis for the REIT’s most recently completed financial year. Copies of the audited consolidated annual financial statements of the REIT as at and for the year ended December 31, 2013, and related management’s discussion and analysis may be obtained without charge by writing to the CFO at 401 The West Mall, Suite 1100, Toronto, Ontario, M9C 5J5.

**APPROVAL OF THE TRUSTEES**

The contents and the sending of this Circular have been approved by the Board of Trustees of the REIT.

DATED as of May 30<sup>th</sup>, 2014.

**BY ORDER OF THE BOARD OF TRUSTEES**

(Signed) Leslie Veiner  
President and Chief Executive Officer

**SCHEDULE "A"**  
**BOARD OF TRUSTEES MANDATE**

*Trustees' Responsibilities*

The trustees (the "Trustees") of True North Apartment Real Estate Investment Trust (the "REIT") are explicitly responsible for the stewardship of the REIT. To discharge this obligation, the Trustees shall:

*Strategic Planning Process*

- Provide input to management on emerging trends and issues.
- Review and approve management's strategic plans.
- Review and approve the REIT's financial objectives, plans and actions, including significant capital allocations and expenditures.

*Monitoring Tactical Progress*

- Monitor the REIT's performance against the strategic and business plans, including assessing operating results to evaluate whether the business is being properly managed.

*Risk Assessment*

- Identify the principal risks of the REIT's businesses and ensure that appropriate systems are in place to manage these risks.

*Senior Level Staffing*

- Select, monitor and evaluate the Chief Executive Officer ("CEO") and other senior executives, and ensure management succession.
- Approve a position description for the CEO including limits to management's responsibilities and corporate objectives which the CEO is responsible for meeting, all upon recommendation from the Governance, Compensation & Nominating Committee of the REIT.

*Integrity*

- Ensure the integrity of the REIT's internal control and management information systems.
- Ensure ethical behaviour and compliance with laws and regulations, audit and accounting principles, and the REIT's own governing documents.

*Material Transactions*

- Review and approve material transactions not in the ordinary course of business.

*Monitoring Trustees' Effectiveness*

- Assess its own effectiveness in fulfilling the above and Trustees' responsibilities, including monitoring the effectiveness of individual Trustees.

*Other*

- Perform such other functions as prescribed by law or assigned to the Trustees in the REIT's Declaration of Trust.

**SCHEDULE "B"**  
**FAIRNESS OPINION**



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416-800-0850  
www.originmerchant.com

May 28, 2014

The Special Committee of the Board of Trustees  
True North Apartment Real Estate Investment Trust  
401 The West Mall, Suite 1100,  
Toronto, Ontario, M9C 5J5

To the Special Committee:

Origin Merchant Partners ("Origin Merchant", "we" or "us"), understands that True North Apartment Real Estate Investment Trust (the "REIT") has entered into a definitive agreement (the "Acquisition Agreement") with respect to the acquisition, described herein, (the "Acquisition") from entities controlled by Daniel Drimmer (the "Vendors"), of the Acquisition Properties (as defined below) pursuant to which the REIT will acquire, from the Vendors, a portfolio of 29 residential properties (the "Acquisition Properties") consisting of 11 High-Rise buildings, four Mid-Rise buildings, 13 Low-Rise buildings and one townhouse complex, comprising approximately 2,824 suites, located in Ontario and Alberta. The purchase price of \$286 million (inclusive of an issue price premium of approximately \$8.4 million on the class B limited partnership units (the "Class B LP Units") of the limited Partnerships affiliated with the REIT (collectively, the "REIT LPs")) for the Acquisition Properties and the promissory notes in the aggregate amount of \$1.7 million pursuant to which certain of the Vendors will provide instalment payments to the REIT upon completion of the Acquisition in consideration of the REIT assuming certain mortgages and related security (the "Instalment Notes"), which implies a capitalization rate of approximately 5.40%, will be satisfied by a combination of: (i) approximately \$12.9 million in cash, (ii) the assumption of approximately \$65.6 million aggregate principal amount of existing mortgage debt, (iii) approximately \$127.5 million aggregate principal amount of new mortgage debt, including \$0.75 million from an entity related to Daniel Drimmer, (iv) the issuance to the Vendors (each an affiliate of Daniel Drimmer) of an aggregate of 8,890,466 Class B LP Units of the REIT LPs (each such unit to be issued at a price of \$9.00) and accompanying Special Voting Units of the REIT. Origin Merchant understands that the Acquisition is being financed, in part, by a public offering of extendible convertible unsecured debentures convertible into trust units of the REIT (the "Public Offering"). Origin Merchant further understands that following the completion of the Acquisition it is expected that the Vendors, together with their affiliates, will hold an approximate 41.2% effective interest in the REIT.

Origin Merchant further understands that the terms of the Acquisition, and related matters, will be more fully described in a management information circular (the "Circular"), which will be mailed to the unitholders of the REIT (the "Unitholders") in connection with the annual and special meeting of Unitholders to be held on June 26, 2014 to, inter alia, approve the Acquisition.

Origin Merchant further understands that a special committee of independent trustees (the "Special Committee") of the Board has been formed to, among other things, evaluate the Acquisition, oversee the negotiation of the Acquisition and to make recommendations to the Board with respect to the Acquisition. Origin Merchant has been advised that the Special Committee engaged CBRE Limited ("CBRE") to prepare appraisals of the Acquisition Properties (the "Property Appraisals"). We further understand that the Acquisition is considered to be a "related party transaction" under Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* ("MI 61-101") and will require the approval of a majority of the Public Unitholders (as defined below) as required by MI 61-101 and the applicable policies of the TSX.

### **Engagement**

By letter agreement dated April 29, 2014 (the "Engagement Agreement"), the Special Committee retained Origin Merchant to act as financial advisor to the Special Committee and assist it in evaluating the Acquisition and to provide an opinion (the "Fairness Opinion" or the "Opinion") as to the fairness, from a financial point of view, of the Acquisition to the Unitholders of the REIT, other than Daniel Drimmer and his affiliated entities, (the "Public



Unitholders”). The terms of the Engagement Agreement provide that Origin Merchant is to be paid a fee for its services under the Engagement Agreement. The compensation to Origin Merchant under the Engagement Agreement does not depend, in whole or in part, on the conclusions reached in the Opinion or the successful outcome of the Acquisition. In addition, Origin Merchant is to be reimbursed for its reasonable out-of-pocket expenses and the REIT also agreed to indemnify Origin Merchant in respect to certain liabilities that might arise out of the engagement.

### **Credentials of Origin Merchant Partners**

Origin Merchant is an independent investment bank, providing a full range of corporate finance, merger and acquisition, financial restructuring and merchant banking services. This Opinion represents the opinion of Origin Merchant and the form and content herein has been approved for release by a committee of its principals, each of whom is experienced in merger, acquisition, divestiture and fairness opinion matters.

### **Independence of Origin Merchant Partners**

Neither Origin Merchant nor any of its affiliated entities (as such term is defined for the purposes of the MI 61-101) is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario)) of the REIT or the Vendors, or any of their respective associates or affiliates (collectively the "Interested Parties"). Origin Merchant is not acting as an advisor to the REIT or the Vendors, or any other Interested Party, in connection with any matter, other than acting as financial advisor to the Special Committee hereunder.

Origin Merchant has not participated in any underwriting involving the REIT, the Vendors, or any other Interested Party during the 24-month period preceding the date Origin Merchant was first contacted in respect of the Opinion. Further, Origin Merchant has not been engaged to provide any financial advisory services involving the REIT, other than the valuation of the Instalment Notes.

Origin Merchant does not have a material financial interest in the completion of the Acquisition and the fees paid to Origin Merchant in connection with its engagement do not give Origin Merchant any financial incentive in respect of the conclusions reached in the Fairness Opinion or in the outcome of the Acquisition. In addition, Origin Merchant and its affiliates act as a trader and dealer, both as principal and agent, in all major financial markets in Canada and, as such, may have had, may have, and may in the future have, positions in the securities of the REIT, and, from time to time, may have executed or may execute transactions on behalf of the REIT or one or more Interested Parties or other clients for which it may have received or may receive compensation. As an investment bank, Origin Merchant and its affiliates conduct research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including matters with respect to the Acquisition, the REIT, or any Interested Parties. There are no understandings, agreements or commitments between Origin Merchant and the REIT, the Vendors or any Interested Party with respect to any future financial advisory or investment banking business. Origin Merchant and its affiliates may in the future, in the ordinary course of its business, perform financial advisory or investment banking services for the REIT, the Vendors or any Interested Party. Origin Merchant is of the view that it is “independent” (as that term is described in MI 61-101) of all Interested Parties.

### **Scope of Review**

In arriving at its Opinion, Origin Merchant has reviewed, analysed, considered and relied upon (without attempting to independently verify the completeness or accuracy thereof) or carried out, among other things, the following:

1. The draft of the Acquisition Agreement dated May 23, 2014 containing the terms of the Acquisition;
2. The draft prospectus dated May 25, 2014, including those documents incorporated therein by reference;

3. The draft of the Notice of Annual and Special Meeting of Unitholders to be held on June 26, 2014 and Circular dated May 26, 2014;
4. The press release of the REIT announcing, among other things, the Acquisition and the Public Offering;
5. Annual Information Form of the REIT for the fiscal year ended December 31, 2013;
6. The audited annual consolidated financial statements and MD&A of the REIT for the fiscal year ended December 31, 2013;
7. The unaudited financial statements and MD&A of the REIT for the three month period ended March 31, 2014 dated May 14, 2014;
8. The pro-forma financial statements of the REIT as at and for the three month period ended March 31, 2014 and the year ended December 31, 2013 reflecting the completion of the Acquisitions;
9. Financial projections and 2014 business plan provided by management of the REIT;
10. Information provided by the REIT's tax, legal and accounting advisors;
11. Other financial, operational and corporate information prepared or provided by the management of the REIT;
12. The Property Appraisals dated September 1, 2013 and the letter from CBRE updating and confirming in all material respects the appraisal amounts as of May 23, 2014;
13. The prior property appraisals on certain of the Acquisition Properties prepared by Janterra Real Estate Advisors Inc., CBRE and Cushman and Wakefield Ltd. Valuation & Advisory between May 2012 and June 2013 (the "Prior Appraisals");
14. Baseline property condition assessments regarding the Acquisition Properties, prepared by Pinchin Environmental Ltd. and dated September 2013 and, with respect to one property, July 2013;
15. Environmental Site Assessment reports regarding the Acquisition Properties, prepared by Pinchin Environmental Ltd.;
16. Discussions with management regarding the past and current business operations, financial condition and future prospects of the REIT;
17. Discussions with Cassels, Brock & Blackwell LLP, in their capacity as legal counsel to the Special Committee;
18. Public information relating to the business, operations, financial performance and stock trading history of selected comparable public entities considered by Origin Merchant to be relevant;
19. Selected reports published by equity research analysts and industry sources regarding the REIT and other comparable public entities considered by Origin Merchant to be relevant; and
20. Such other corporate, industry and financial market information, investigations and analyses as considered necessary or appropriate in the circumstances.

Origin Merchant has not, to the best of its knowledge, been denied access by the REIT to any information requested by Origin Merchant. Origin Merchant did not meet with the auditor of the REIT and has assumed the accuracy and fair presentation of, and has relied upon, the audited consolidated financial statements of the REIT and the reports of the auditor thereon.

This Opinion has been prepared in accordance with the Disclosure Standards for Formal Opinions of the Investment Industry Regulatory Organization of Canada ("IIROC"), but IIROC has not been involved in the preparation or review on this Opinion.

### **Prior Valuations**

Other than the Property Appraisals and the Prior Appraisals, the REIT has represented to Origin Merchant that there have not been any prior valuations (as defined in MI 61-101) of the REIT or its material assets or its securities in the past two years which have not been provided to Origin Merchant for review.

## **Assumptions and Limitations**

The Fairness Opinion is subject to the assumptions, explanations and limitations set forth below. Origin Merchant has not been asked to prepare and has not prepared a formal valuation or appraisal of any of the assets or securities of the REIT or its affiliates and our Opinion should not be construed as such. We have, however, conducted such analysis as is considered necessary in the circumstances. Origin Merchant has relied upon, and has assumed the completeness, accuracy and fair presentation of, all financial and other information, data, advice, opinions and representations obtained by us from public sources, or provided to us by the REIT, its affiliates, or management, or otherwise obtained by us pursuant to the Engagement Agreement, and our Opinion is conditional upon such completeness, accuracy and fair presentation.

We have also assumed that: all of the representations and warranties contained in the Acquisition Agreement are correct as of the date hereof and will be correct as of closing; that the Acquisition will be completed in accordance with the terms of the Acquisition Agreement and all applicable laws; that the Acquisition Agreement will not differ materially from the drafts reviewed; that the Circular will disclose all material facts relating to the Acquisition; and that the Circular will satisfy all applicable legal requirements. As well, we have assumed, without limitation, that the REIT and its subsidiaries will be in material compliance at all times with its material contracts and have no material undisclosed liabilities (contingent or otherwise) not reflected in the REIT's financial statements; that no material tax or other liabilities will accrue to the REIT or its subsidiaries resulting from the Acquisition; and that all required consents and regulatory approvals will be obtained on terms not adverse to the REIT or its subsidiaries.

We have assumed that the value of Instalment Notes is captured in the reduced interest cost of the assumed mortgages in conducting our analysis, as represented in the financial model provided by Starlight Investments Ltd. ("Starlight"), external manager of the REIT and an affiliate of the Vendors. Management of the REIT has represented to us, to the best of their knowledge, in a certificate delivered as of the date hereof, among other things, that the information, data and other materials provided to us by or on behalf of the REIT, including the written information and discussions concerning the REIT referred to above under the heading "Scope of Review (collectively, the "REIT Information"), are complete, correct and true at the date the REIT Information was provided to us and that, since the date of the REIT Information, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of the REIT or any of its affiliates and no material change has occurred in the REIT Information or any part thereof which would have or which would reasonably be expected to have a material effect on the Opinion.

Except as expressly noted above under the heading "Scope of Review", we have not conducted any investigation concerning the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of the REIT or any of its affiliates. We have not attempted to verify independently any of the information concerning the REIT or any of its affiliates (including the REIT Information). With the Committee's approval and as provided for in the Engagement Agreement, Origin Merchant has relied upon the completeness, accuracy and fair presentation of all of the financial and other information (including the REIT Information), data, documents, advice, opinions, representations and other materials, whether in written, electronic or oral form, obtained by it from public sources or provided to it by the REIT or any of its senior management, associates, affiliates, consultants, agents and advisors or otherwise (collectively, the "Information") and we have assumed that this Information did not omit to state any material fact or any fact necessary to be stated to make such Information not misleading. This Opinion is conditional upon the completeness, accuracy and fair presentation of such Information. Subject to the exercise of professional judgment, we have not attempted to verify independently and have assumed the completeness, accuracy and fair presentation of any of the Information. With respect to the financial forecasts, projections or estimates provided to Origin Merchant by management of the REIT and Starlight and used in the analysis of supporting this Opinion, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments as to the matters covered thereby and which, in the opinion of the author, are (or were at the time of preparation and continue to be) reasonable in the circumstances. By rendering this Opinion we express no view as to the reasonableness of such forecasts, projections or estimates or the assumptions on which they are based.

We have assumed that the REIT qualifies as a “real estate investment trust” and that each of existing limited partnership subsidiaries of the REIT and each of the REIT LPs qualifies or will qualify when created as an “excluded subsidiary entity” for the purposes of the Income Tax Act (Canada) and that each will continue to qualify as such immediately after the closing. We are not legal, tax or accounting experts and we express no opinion concerning any legal, tax or accounting matters with respect to the Acquisition. The Opinion is rendered on the basis of securities markets, economic, financial and general business conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of the REIT and its subsidiaries and affiliates and of the Acquisition Properties, as they were reflected in the Information and as they have been represented to Origin Merchant in discussions with management of the REIT. In its analyses and in preparing the Opinion, Origin Merchant made numerous assumptions with respect to industry performance, current market conditions, general business and economic conditions, and other matters, many of which are beyond the control of Origin Merchant or any party involved in the Acquisition.

In providing this Opinion, Origin Merchant expresses no opinion as to the trading price or value of the Units following the announcement or completion of the Acquisition. This Opinion has been provided for the sole use and benefit of the Committee in connection with, and for the purpose of, its consideration of the Acquisition and may not be used or relied upon by any other person or for any other purpose or quoted from or published without the prior written consent of Origin Merchant, provided that Origin Merchant consents to the inclusion of this Opinion in its entirety and a summary thereof (provided such summary is in a form acceptable to Origin Merchant) in the notice of meeting and management information circular of the REIT to be mailed to Unitholders in connection with seeking their approval of the Arrangement and to the filing thereof, as necessary, by the REIT on SEDAR and with the securities commissions or similar securities regulatory authorities in Canada.

This Opinion does not constitute a recommendation to the Committee or any Unitholder as to whether or not any holder of Units should approve the Acquisition and vote their Units in favour of the Acquisition. This Opinion does not address the relative merits of the Acquisition as compared to other transactions or business strategies that might be available to the REIT, or the underlying business decision of the REIT to effect the Acquisition. In considering fairness from a financial point of view, Origin Merchant considered the Acquisition from the perspective of the Public Unitholders generally and did not consider the specific circumstances of any particular Public Unitholder, including such holders specific income tax considerations. This Opinion is given as of the date hereof, and Origin Merchant disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting this Opinion which may come, or be brought, to the attention of Origin Merchant after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting this Opinion after the date hereof, including, without limitation, the terms and conditions of the Acquisition, or if Origin Merchant learns that the Information relied upon in rendering this Opinion was inaccurate, incomplete or misleading in any material respect, Origin Merchant reserves the right to change, modify or withdraw this Opinion.

Origin Merchant believes that its analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying this Opinion. The preparation of an Opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis.



**Opinion**

Based upon and subject to the foregoing and such other matters we considered relevant, Origin Merchant is of the opinion that, as at the date hereof, the Acquisition is fair, from a financial point of view, to the Public Unitholders.

Yours very truly,

*Origin Merchant Partners*

**Origin Merchant Partners**

**SCHEDULE "C"**  
**FINANCIAL STATEMENTS**

**SCHEDULE "C"**  
**FINANCIAL STATEMENTS**

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**Combined Financial Statements of**  
(In Canadian dollars)

**PRIVATE PORTFOLIO II**

As at and for the years ended December 31, 2013 and 2012 and  
for the interim periods ended March 31, 2014 and 2013



## **Independent Auditor's Report**

To the Owners of Private Portfolio II

We have audited the accompanying combined financial statements of Private Portfolio II, which comprise the combined statement of financial position as at December 31, 2013, and the combined statement of income and comprehensive income, combined statement of changes in divisional equity and combined statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Combined Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements present fairly, in all material respects, the financial position of Private Portfolio II as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Comparative Information*

The combined statement of financial position of Private Portfolio II as at December 31, 2012 and March 31, 2014 and the combined statement of income and comprehensive income, combined statement of changes in divisional equity and combined statement of cash flows for the year ended December 31, 2012 and the three month periods ended March 31, 2014 and 2013 are unaudited.

(To be signed Deloitte LLP)

**Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants**

● , 2014

Toronto, Canada

**PRIVATE PORTFOLIO II**  
**COMBINED STATEMENTS OF FINANCIAL POSITION**  
(In thousands of Canadian dollars)

	March 31, 2014	December 31, 2013	December 31, 2012
	(Unaudited)		(Unaudited)
<b>Assets</b>			
Investment properties (note 4) . . . . .	\$294,305	\$294,305	\$202,697
Deposits . . . . .	327	329	168
Tenant and other receivables (note 5) . . . . .	256	308	219
Prepaid expenses and other assets . . . . .	731	359	303
Restricted cash (note 6) . . . . .	728	681	369
Cash and cash equivalents . . . . .	1,950	1,809	1,047
Total assets . . . . .	<u>\$298,297</u>	<u>\$297,791</u>	<u>\$204,803</u>
<b>Liabilities and Divisional Equity</b>			
Mortgages payable (note 7) . . . . .	\$231,446	\$224,505	\$152,558
Tenant rental deposits . . . . .	2,538	2,404	1,416
Accounts payable and accrued liabilities . . . . .	4,817	7,303	2,904
Finance costs payable . . . . .	969	985	904
Total liabilities . . . . .	<u>239,770</u>	<u>235,197</u>	<u>157,782</u>
Divisional equity . . . . .	58,527	62,594	47,021
Total liabilities and divisional equity . . . . .	<u>\$298,297</u>	<u>\$297,791</u>	<u>\$204,803</u>

*See accompanying notes to combined financial statements.*

**PRIVATE PORTFOLIO II**  
**COMBINED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(In thousands of Canadian dollars)

	Three months ended March 31, 2014	Three months ended March 31, 2013	Year ended December 31, 2013	Year ended December 31, 2012
	(unaudited)	(unaudited)		(unaudited)
Revenue:				
Revenue from property operations . . . . .	\$ 7,277	\$ 4,952	\$23,130	\$ 9,895
Expenses:				
Property operating costs . . . . .	2,963	2,009	8,924	3,807
Realty taxes . . . . .	1,014	753	3,427	1,585
Fair value adjustment of investment properties (note 4) . . . . .	1,365	1,643	(3,015)	(5,613)
Finance costs (note 9) . . . . .	3,354	2,948	13,428	5,453
Extinguishment of mortgages payable (note 9) . . . . .	—	123	156	1,139
Total expenses . . . . .	<u>8,696</u>	<u>7,476</u>	<u>22,920</u>	<u>6,371</u>
Net (loss) income and comprehensive (loss) income . . . . .	<u><u>\$(1,419)</u></u>	<u><u>\$(2,524)</u></u>	<u><u>\$ 210</u></u>	<u><u>\$ 3,524</u></u>

*See accompanying notes to combined financial statements.*

**PRIVATE PORTFOLIO II**  
**COMBINED STATEMENTS OF CHANGES IN DIVISIONAL EQUITY**  
(In thousands of Canadian dollars)

	<u>Year ended December 31, 2013</u>	<u>Year ended December 31, 2012</u> (unaudited)
Divisional equity, beginning of year . . . . .	\$47,021	\$ 9,503
Net income and comprehensive income . . . . .	210	3,524
Net contributions . . . . .	15,363	33,994
Divisional equity, end of year . . . . .	<u>\$62,594</u>	<u>\$47,021</u>
	<u>Three-months ended March 31, 2014</u> (unaudited)	<u>Three-months ended March 31, 2013</u> (unaudited)
Divisional equity, beginning of period . . . . .	\$62,594	\$47,021
Net loss and comprehensive loss . . . . .	(1,419)	(2,524)
Net (distributions) contributions . . . . .	(2,648)	5,008
Divisional equity, end of period . . . . .	<u>\$58,527</u>	<u>\$49,505</u>

*See accompanying notes to combined financial statements.*

**PRIVATE PORTFOLIO II**  
**COMBINED STATEMENTS OF CASH FLOWS**  
(In thousands of Canadian dollars)

	Three months ended March 31, 2014	Three months ended March 31, 2013	Year ended December 31, 2013	Year ended December 31, 2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from (used in) operating activities:				
Net (loss) income . . . . .	\$(1,419)	\$ (2,524)	\$ 210	\$ 3,524
Adjustments for item not involving cash:				
Fair value adjustment of investment properties . .	1,365	1,643	(3,015)	(5,613)
Adjust for financing activities included in net income:				
Finance costs . . . . .	258	110	810	533
Change in non-cash operating items:				
Change in non-cash operating working capital (note 10) . . . . .	(2,670)	(206)	3,727	2,671
	<u>(2,466)</u>	<u>(977)</u>	<u>1,732</u>	<u>1,115</u>
Cash flows used in investing activities:				
Improvements to investment properties (note 4) . . .	(1,365)	(707)	(11,030)	(2,901)
Acquisition of investment properties (note 3) . . . . .	—	(12,923)	(76,210)	(160,446)
Change in restricted cash . . . . .	(47)	10	(312)	(337)
	<u>(1,412)</u>	<u>(13,620)</u>	<u>(87,552)</u>	<u>(163,684)</u>
Cash flows from (used in) financing activities:				
Mortgages payable:				
Proceeds . . . . .	7,246	11,998	158,140	178,178
Principal payments . . . . .	(502)	(1,067)	(8,271)	(1,139)
Discharge of mortgages . . . . .	—	(1,228)	(77,369)	(47,334)
Finance costs paid . . . . .	(77)	(12)	(1,281)	(297)
Net (distributions of) contributions to divisional equity . . . . .	(2,648)	5,008	15,363	33,994
	<u>4,019</u>	<u>14,699</u>	<u>86,582</u>	<u>163,402</u>
Increase in cash and cash equivalents . . . . .	141	102	762	833
Cash and cash equivalents, beginning of period . . . . .	1,809	1,047	1,047	214
Cash and cash equivalents, end of period . . . . .	<u>\$ 1,950</u>	<u>\$ 1,149</u>	<u>\$ 1,809</u>	<u>\$ 1,047</u>

*See accompanying notes to combined financial statements.*

**PRIVATE PORTFOLIO II**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**For the years ended December 31, 2013 and 2012**  
**and for the interim periods ended March 31, 2014 and 2013**  
**(In thousands of Canadian dollars)**

Private Portfolio II, as presented in these combined financial statements, is not a legal entity. These combined financial statements represent the combination of certain multi-residential revenue-producing properties (the “Portfolio”) located in Canada. This Portfolio and its related assets and liabilities are owned or co-owned and managed by Starlight Investment Ltd. and certain of its affiliates (individually and collectively “Starlight”).

These combined financial statements have been prepared for the purpose of reporting on the financial position, financial performance, changes in divisional equity and cash flows of the Portfolio in the prospectus relating to the public offering of units by True North Apartment Real Estate Investment Trust.

These combined financial statements have been prepared on a carve-out basis from the financial statements of the entities which collectively own the Portfolio, and present the financial position, financial performance, changes in divisional equity and cash flows of the Portfolio for the periods presented, as if the Portfolio has been accounted for on a stand-alone basis.

Because these properties are part of a corporate group, these combined financial statements depict the divisional equity in net assets, representing the amount associated with these properties. Management’s estimates, when necessary, have been used to prepare such allocations.

These combined financial statements are not necessarily indicative of the results that would have been attained if the Portfolio had been operated as a separate legal entity during the periods presented and, therefore, are not necessarily indicative of future operating results.

The registered office of Starlight is 401 The West Mall, Suite 1100, Toronto, Ontario M9C 5J5.

**1. BASIS OF PREPARATION:**

(a) Basis of presentation and statement of compliance:

The combined financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

The combined financial statements have been prepared on a historical cost basis, except for investment properties which are measured at fair value.

The combined financial statements are presented in Canadian dollars, which is the functional currency of the Portfolio, and rounded to the nearest thousand except as otherwise stated.

(b) Basis of presentation:

The Portfolio holds its interest in investment properties and other assets and liabilities related to these properties in different entities which are owned or co-owned and managed by Starlight. All intercompany transactions and balances between properties within the Portfolio have been eliminated upon consolidation.

(c) Critical judgments and estimates:

The preparation of combined financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

(i) Critical judgments in applying accounting policies:

The following is the critical judgement that management has made in the process of applying accounting policies that has the most significant effect on the amounts recognized in the combined financial statements:

Accounting for acquisitions:

The Portfolio assesses whether an acquisition transaction should be accounted for as an asset acquisition or a business combination under IFRS 3, Business Combinations (“IFRS 3”). This assessment requires management to make judgements on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business, and the Portfolio

**PRIVATE PORTFOLIO II**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**For the years ended December 31, 2013 and 2012**  
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**(In thousands of Canadian dollars)**

**1. BASIS OF PREPARATION: (Continued)**

obtains control of the business. All of the Portfolio's acquisitions have been accounted for as an asset acquisition as no core processes were acquired by the Portfolio.

(ii) Significant estimates:

The following are the significant estimates concerning the preparation of the financial statements:

Investment properties:

The critical assumptions and estimates used when determining the fair value of investment properties are: capitalization rates and stabilized future cash flows. The capitalization rate applied is reflective of the characteristics, location and market of each investment property. The stabilized future cash flows of each 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. The Portfolio determines fair value internally using internal financial information, external market data and capitalization rates provided by independent industry experts and third-party appraisals. Further information on investment properties estimates and assumptions is disclosed in note 4.

**2. SIGNIFICANT ACCOUNTING POLICIES:**

(a) Investment properties:

The Portfolio 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 the purchase price, including directly attributable costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in fair value are recognized in the combined statement of income and comprehensive income 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 investment properties.

(b) Revenue recognition:

The Portfolio has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases.

Revenue from investment properties includes all rental income earned from the properties, including residential and commercial tenant rental income, parking income, laundry income, cable and antenna income and all other miscellaneous income paid by the tenants under the terms of their existing leases. Revenue recognition under a lease commences when a tenant has a right to use the leased asset, and revenue is recognized pursuant to the terms of the lease agreement.

(c) 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 net realizable value. The Portfolio has no cash equivalents at the reporting date.

(d) Income taxes:

A provision has not been made for income taxes as the Portfolio is not a legal entity and the properties contained within the Portfolio are owned by partnerships which are not taxable entities. Income taxes, if any, are liabilities of the partners.

(e) Financial instruments:

Financial instruments are classified as one of the following: (i) fair value through profit or 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 the combined statement of income and comprehensive income. Financial instruments classified as held-to-maturity, loans and

**PRIVATE PORTFOLIO II**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
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**2. SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

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 in the other comprehensive income.

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

The following summarizes the Portfolio's classification and measurement of financial assets and liabilities:

	<u>Classification</u>	<u>Measurement</u>
Financial assets:		
Tenant receivables, net . . . . .	Loans and receivables	Amortized cost
Other receivables . . . . .	Loans and receivables	Amortized cost
Deposits . . . . .	Loans and receivables	Amortized cost
Cash and cash equivalents . . . . .	Loans and receivables	Amortized cost
Restricted cash . . . . .	Loans and receivables	Amortized cost
Financial liabilities:		
Mortgages payable . . . . .	Other liabilities	Amortized cost
Tenant rental deposits . . . . .	Other liabilities	Amortized cost
Accounts payable and accrued liabilities . . . . .	Other liabilities	Amortized cost
Finance costs payable . . . . .	Other liabilities	Amortized cost

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or financial liabilities, other than financial assets and financial 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 financial 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 combined financial statements at fair value, except for embedded derivatives exempted from derivative accounting treatment.

(f) New standards and interpretations adopted:

IFRIC 21, Levies ("IFRIC 21"):

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment occurs, as identified by the relevant legislation. In the event that activity happens over a period of time, the liability to pay the levy is recognised progressively, over that period of time. Additionally, an entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period.

The Portfolio assessed the implications of IFRIC 21 upon its adoption on January 1, 2014, and determined that the adoption of IFRIC 21 did not result in any material changes to the Portfolio's financial statements or disclosures.



**PRIVATE PORTFOLIO II**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**For the years ended December 31, 2013 and 2012**  
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**2. SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

(g) Future accounting changes:

The following new standard and amendment to existing standards issued by the International Accounting Standards Board may be relevant to the Portfolio in preparing its combined financial statements in future periods:

<u>Standards</u>	<u>Effective date</u>
IFRS 9, Financial Statements (2010) . . . . .	Annual period beginning on or after January 1, 2018

The Portfolio intends to adopt this standard on its respective effective date. The extent of the impact of adoption of this standard on the Portfolio has not yet been determined.

(g) Approval of combined financial statements

The financial statements were approved by the Owners of Private Portfolio II and authorized for issue on ● , 2014.

**PRIVATE PORTFOLIO II**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

For the years ended December 31, 2013 and 2012  
and for the interim periods ended March 31, 2014 and 2013  
(In thousands of Canadian dollars)

**3. ACQUISITIONS:**

(a) The following acquisitions were completed during the year ended December 31, 2013. These acquisitions have all been accounted for as asset acquisitions.

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

	915 44th Street	1 Rosemount Drive	840 Water Street	7-11 Manhattan Court	740-758 Kipps Lane	Total
Net assets acquired:						
Investment properties	\$ 5,022	\$ 12,923	\$ 3,742	\$ 3,992	\$ 51,884	\$ 77,563
Cash (received) paid for working capital:						
Prepaid expenses and other assets	8	—	1	14	85	108
Tenant rental deposits	(36)	(101)	(41)	(61)	(867)	(1,106)
Accounts payable and accrued liabilities	(4)	(339)	(1)	—	(11)	(355)
	<u>\$ 4,990</u>	<u>\$ 12,483</u>	<u>\$ 3,701</u>	<u>\$ 3,945</u>	<u>\$ 51,091</u>	<u>\$ 76,210</u>
Consideration paid, funded by:						
New financing obtained	\$ 3,219	\$ 10,625	\$ 3,094	\$ 3,374	\$ 43,529	\$ 63,841
Divisional equity	1,771	1,858	607	571	7,562	12,369
	<u>\$ 4,990</u>	<u>\$ 12,483</u>	<u>\$ 3,701</u>	<u>\$ 3,945</u>	<u>\$ 51,091</u>	<u>\$ 76,210</u>
Acquisition date	Oct-15-13	Feb-01-13	Apr-08-13	Jul-04-13	Sept-04-13	

**PRIVATE PORTFOLIO II**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
For the years ended December 31, 2013 and 2012  
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(In thousands of Canadian dollars)

**3. ACQUISITIONS (Continued):**

(b) The following acquisitions were completed during the year ended December 31, 2012. These acquisitions have all been accounted for as asset acquisitions.

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

<u>(unaudited)</u>	<u>TGA REIT</u>	<u>2</u>	<u>285</u>	<u>155</u>	<u>10</u>	<u>33</u>	<u>25</u>	<u>Total</u>
	<u>Privatization</u>	<u>Colborne</u>	<u>Erb Street</u>	<u>Market</u>	<u>Cartier</u>	<u>Richmond</u>	<u>Westwood</u>	
	<u>Portfolio</u>	<u>Street</u>	<u>West</u>	<u>Street</u>	<u>Court</u>	<u>Street</u>	<u>Court</u>	
Net assets acquired:								
Investment properties . . . . .	\$ 112,274	\$ 13,870	\$ 10,956	\$ 6,417	\$ 1,612	\$ 6,631	\$ 9,312	\$161,072
Cash (received) paid for working capital:								
Prepaid expenses and other assets . . . . .	402	31	41	41	6	26	169	716
Tenant rental deposits . . . . .	(697)	(161)	(124)	(97)	(26)	(108)	(129)	(1,342)
	<u>\$ 111,979</u>	<u>\$ 13,740</u>	<u>\$ 10,873</u>	<u>\$ 6,361</u>	<u>\$ 1,592</u>	<u>\$ 6,549</u>	<u>\$ 9,352</u>	<u>\$160,446</u>
Consideration paid, funded by:								
New financing obtained . . . . .	\$ 41,788	\$ 11,585	\$ 9,351	\$ 5,525	\$ 1,343	\$ 5,525	\$ 7,734	\$ 82,851
Divisional equity . . . . .	70,191	2,155	1,522	836	249	1,024	1,618	77,595
	<u>\$ 111,979</u>	<u>\$ 13,740</u>	<u>\$ 10,873</u>	<u>\$ 6,361</u>	<u>\$ 1,592</u>	<u>\$ 6,549</u>	<u>\$ 9,352</u>	<u>\$160,446</u>
Acquisition date . . . . .	Jun-29-12	Aug-15-12	Oct-17-12	Oct-17-12	Oct-17-12	Oct-17-12	Oct-17-12	Oct-17-12

**PRIVATE PORTFOLIO II**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**For the years ended December 31, 2013 and 2012**  
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**(In thousands of Canadian dollars)**

**4. INVESTMENT PROPERTIES:**

The following table summarizes the changes in the investment properties for the three months ended March 31, 2014 and years ended December 31, 2013 and December 31, 2012:

	<b>Three months ended March 31, 2014</b>	<b>Year ended December 31, 2013</b>	<b>Year ended December 31, 2012</b>
	(unaudited)		(unaudited)
Balance, beginning of period . . . . .	\$294,305	\$202,697	\$ 33,111
Acquisition of investment properties . . . . .	—	77,563	161,072
Additions — capital expenditures . . . . .	1,365	11,030	2,901
Fair value adjustment . . . . .	(1,365)	3,015	5,613
Balance, end of period . . . . .	<u>\$294,305</u>	<u>\$294,305</u>	<u>\$202,697</u>

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

	<b>March 31, 2014</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>
	(unaudited)		(unaudited)
Cost . . . . .	\$283,333	\$281,968	\$193,375
Cumulative fair value adjustments . . . . .	10,972	12,337	9,322
Fair Value . . . . .	<u>\$294,305</u>	<u>\$294,305</u>	<u>202,697</u>

The key valuation assumptions for the Portfolio are set out in the following table:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>
	(unaudited)		(unaudited)
Capitalization rates . . . . .	4.40% – 6.00%	4.40% – 6.00%	4.75% – 6.00%

The capitalized earnings reflect rental income from current leases and assumptions about rental income from future leases and occupancy reflecting market conditions at the reporting date, less future cash outflows in respect of such leases.

The fair values of the Portfolio's investment properties are sensitive to changes in the key valuation assumptions. A 10-basis-points increase (decrease) in the weighted average capitalization rates would result in the following changes in the fair value of the portfolio's investment properties.

<b>Key assumptions</b>	<b>Change</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>
		(unaudited)		(unaudited)
Weighted average capitalization rate . . . . .	10-basis-points increase	\$(5,275)	\$(5,275)	\$(3,598)
Weighted average capitalization rate . . . . .	10-basis-points decrease	5,471	5,471	3,730
Stabilized future cash flows . . . . .	increase of \$100	1,825	1,825	1,807
Stabilized future cash flows . . . . .	decrease of \$100	(1,825)	(1,825)	(1,807)

**PRIVATE PORTFOLIO II**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**For the years ended December 31, 2013 and 2012**  
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**(In thousands of Canadian dollars)**

**5. TENANT AND OTHER RECEIVABLES:**

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	(unaudited)		(unaudited)
Tenant receivables, net . . . . .	\$189	\$252	\$168
Other receivables . . . . .	<u>67</u>	<u>56</u>	<u>51</u>
	<u>\$256</u>	<u>\$308</u>	<u>\$219</u>

As at the dates specified, all tenant receivables that were past due but not impaired were outstanding for 90 days or less. All other tenant receivables have been provided for.

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

**6. RESTRICTED CASH:**

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	(unaudited)		(unaudited)
Real estate taxes . . . . .	\$140	\$ 86	\$—
Restricted rental deposits . . . . .	<u>588</u>	<u>595</u>	<u>369</u>
	<u>\$728</u>	<u>\$681</u>	<u>\$369</u>

**7. MORTGAGES PAYABLE:**

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	(unaudited)		(unaudited)
Mortgages payable . . . . .	\$232,438	\$225,695	\$153,195
Unamortized financing fees . . . . .	<u>(992)</u>	<u>(1,190)</u>	<u>(637)</u>
	<u>\$231,446</u>	<u>\$224,505</u>	<u>\$152,558</u>

There are first and second charges on investment properties as security for the Portfolio's mortgages payable. Certain investment properties are pledged as security for mortgages advanced for properties included in the Portfolio, as well as properties not included in the Portfolio but owned by parties related to Starlight. The related mortgage agreements also contain cross default provisions. Mortgages on certain properties are cross collateralized.

As at March 31, 2014, the mortgages carry a weighted average coupon interest rate of 5.89% (December 31, 2013 — 5.81%, December 31, 2012 — 6.22%). The mortgages as at March 31, 2014 carry a weighted average term to maturity of 1.24 years (December 31, 2013 — 1.50 years, December 31, 2012 — 1.72 years).

**PRIVATE PORTFOLIO II**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**For the years ended December 31, 2013 and 2012**  
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**(In thousands of Canadian dollars)**

**7. MORTGAGES PAYABLE: (Continued)**

Future principal repayments as at March 31, 2014 and December 31, 2013 are as follows:

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
	(unaudited)	
2014 . . . . .	\$ 55,155	\$ 55,841
2015 . . . . .	129,010	121,581
2016 . . . . .	35,329	35,329
2017 . . . . .	342	342
2018 . . . . .	10,293	10,293
Thereafter . . . . .	2,309	2,309
Face value . . . . .	<u>232,438</u>	<u>225,695</u>
Unamortized financing fees . . . . .	(992)	(1,190)
Carrying amount . . . . .	<u>\$231,446</u>	<u>\$224,505</u>

**8. SEGMENTED DISCLOSURE:**

All of the Portfolio's assets and liabilities are in, and its revenue derived from, multi-suite residential Canadian real estate. The Portfolio's investment properties are, therefore, considered by management to have similar economic characteristics. No single tenant accounts for 10% or more of the Portfolio's rental revenue.

**9. FINANCE COSTS:**

	<u>Three months ended March 31, 2014</u>	<u>Three months ended March 31, 2013</u>	<u>Year ended December 31, 2013</u>	<u>Year ended December 31, 2012</u>
	(unaudited)	(unaudited)		(unaudited)
Mortgage interest . . . . .	\$3,096	\$2,838	\$12,618	\$4,920
Amortization of mortgage financing fees . . . . .	258	110	810	533
Finance costs . . . . .	<u>3,354</u>	<u>2,948</u>	<u>13,428</u>	<u>5,453</u>
Extinguishment of mortgages payable . . . . .	—	123	156	1,139
	<u>\$3,354</u>	<u>\$3,071</u>	<u>\$13,584</u>	<u>\$6,592</u>

**10. CHANGE IN NON-CASH OPERATING WORKING CAPITAL:**

	<u>Three months ended March 31, 2014</u>	<u>Three months ended March 31, 2013</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
	(unaudited)	(unaudited)		(unaudited)
Deposits . . . . .	\$ 2	\$ (69)	\$ (161)	\$ (164)
Tenant and other receivables . . . . .	52	(135)	(89)	(50)
Prepaid expenses and other assets . . . . .	(372)	(62)	51	414
Tenant rental deposits . . . . .	134	92	(118)	(140)
Accounts payable and accrued liabilities . . . . .	<u>(2,486)</u>	<u>(32)</u>	<u>4,044</u>	<u>2,611</u>
	<u>\$(2,670)</u>	<u>\$ (206)</u>	<u>\$ 3,727</u>	<u>\$2,671</u>

**PRIVATE PORTFOLIO II**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**For the years ended December 31, 2013 and 2012**  
**and for the interim periods ended March 31, 2014 and 2013**  
**(In thousands of Canadian dollars)**

**11. COMMITMENTS AND CONTINGENCIES:**

At the combined statement of financial position dates, the Portfolio had no commitments for future minimum lease payments under non-cancellable operating leases.

**12. Capital management:**

The Portfolio 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 Portfolio will make adjustments to its capital based on its investment strategies and changes to economic conditions.

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

The Portfolio's strategy is also driven by requirements from certain lenders.

The Portfolio was in compliance with all financial covenants as at March 31, 2014, December 31, 2013 and December 31, 2012.

**13. RISK MANAGEMENT:**

In the normal course of business, the Portfolio 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:

(a) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, will affect the Portfolio's financial instruments.

The Portfolio 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 mortgages payable and credit facility will not be able to be refinanced on terms similar to those of the existing indebtedness. The Portfolio's objective of managing interest rate risk is to minimize the volatility of earnings.

The Portfolio is not exposed to any other form of market risk.

(b) Credit risk:

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

The Portfolio is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the combined statement of financial position. The Portfolio monitors its risk exposure regarding obligations with counterparties (Canadian chartered banks) through the regular assessment of counterparties' credit positions.

The Portfolio 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 Portfolio monitors its collection process on a month-to-month basis to ensure that a stringent policy is adopted to provide for all past due amounts. All receivables from past tenants and tenant receivable balances exceeding 90 days are provided for as bad debt expense in the combined statement of income and comprehensive income.

(c) Liquidity risk:

Liquidity risk is the risk that the Portfolio 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, Starlight staggers the maturity dates of its mortgage portfolio over a number of years. In addition, Starlight manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its on-going operational and capital commitments, distributions and provide future growth in its business. Management expects to refinance all the principal debt maturing in 2014.

**PRIVATE PORTFOLIO II**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**For the years ended December 31, 2013 and 2012**  
**and for the interim periods ended March 31, 2014 and 2013**  
**(In thousands of Canadian dollars)**

**14. FAIR VALUE MEASUREMENT:**

The fair value of the Portfolio's mortgages payable at March 31, 2014 is approximately \$236,000 (December 31, 2013 — \$230,000, December 31, 2012 — \$160,000).

The Portfolio uses various methods in estimating the fair values recognized in the combined 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 Portfolio's financial instruments and investment properties:

(a) Investment properties:

The fair value of each investment property was determined using the valuation methodology and key assumptions and Level 3 inputs described in notes 2(a) and 4.

(b) 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 spread rates used as at March 31, 2014 ranged from 2.00% to 2.53% (December 31, 2013 — 2.22% to 2.73%, December 31, 2012 — 2.57% to 2.76%) dependent on the nature and terms of the respective mortgages.

(c) Other financial assets and financial liabilities:

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

**15. SUBSEQUENT EVENT**

On May 29, 2014 the owners of the Portfolio entered into an agreement of purchase and sale with True North Apartment Real Estate Investment Trust (the "REIT") and a wholly-owned subsidiary of the REIT, pursuant to which the REIT will indirectly acquire the Portfolio (the "Acquisition"). The Acquisition is conditional upon the satisfaction of certain conditions including lender consents, completion of an offering of \$20 million aggregate principal amount of extendible convertible unsecured subordinated debentures by the REIT, approval from the unitholders of the REIT, and certain other conditions and third party approvals. Completion of the Acquisition is expected to occur on or about June 27, 2014.



**Combined Financial Statements**  
(In Canadian dollars)

**TC2 PORTFOLIO**

Period from January 1, 2013 to October 14, 2013

## **Independent Auditors' Report**

To the Owners of TC2 Portfolio

We have audited the accompanying combined financial statements of TC2 Portfolio, which comprise the combined statement of financial position as at October 14, 2013, the combined statements of income and comprehensive income, changes in co-owners' equity and cash flows for the period from January 1, 2013 to October 14, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Combined Financial Statements*

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements present fairly, in all material respects, the combined financial position of TC2 Portfolio as at October 14, 2013 and its combined financial performance and its combined cash flows for the period from January 1, 2013 to October 14, 2013 in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without modifying our opinion, we draw attention to note 1 to the combined financial statements which describes the basis of preparation used in these combined financial statements. The combined financial statements are prepared for inclusion in the short-form prospectus relating to the public offering of extendible convertible unsecured subordinated debentures by True North Apartment Real Estate Investment Trust.

### *Comparative Information*

The combined financial statements of TC2 Portfolio as at December 31, 2012 and for the period from June 29, 2012 to December 31, 2012 are unaudited. Accordingly, we express no opinion on these combined financial statements.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

**Chartered Professional Accountants, Licensed Public Accountants**

May 9, 2014

Toronto, Canada

**TC2 PORTFOLIO**  
**COMBINED STATEMENT OF FINANCIAL POSITION**  
(In Canadian dollars)

**October 14, 2013, with comparative information for December 31, 2012**

	<b>2013</b>	<b>2012</b>
		(Unaudited)
<b>Assets</b>		
Investment properties (note 5) . . . . .	\$5,000,000	\$60,230,000
Tenant receivables . . . . .	11,726	119,786
Prepaid expenses and other assets . . . . .	7,660	100,178
Due from owner . . . . .	839,589	195,953
Cash . . . . .	—	184,608
	<b>\$5,858,975</b>	<b>\$60,830,525</b>
 <b>Liabilities and Co-owners' Equity</b>		
Liabilities:		
Mortgages payable (note 6) . . . . .	\$2,711,093	\$38,997,593
Tenant rental deposits and prepaid rents . . . . .	16,865	527,184
Accounts payable and accrued liabilities . . . . .	161,583	534,366
	2,889,541	40,059,143
Co-owners' equity . . . . .	2,969,434	20,771,382
Commitments and contingencies (note 10)		
Subsequent event (note 13)		
	<b>\$5,858,975</b>	<b>\$60,830,525</b>

*See accompanying notes to combined financial statements.*

**TC2 PORTFOLIO**  
**COMBINED STATEMENT OF INCOME AND COMPREHENSIVE INCOME**  
(In Canadian dollars)

**Period from January 1, 2013 to October 14, 2013, with comparative information for  
the period from June 29, 2012 to December 31, 2012**

	2013	2012
		(Unaudited)
Revenue from property operations . . . . .	\$ 4,185,244	\$ 3,190,048
Expenses:		
Property taxes . . . . .	555,525	392,110
Property operating costs . . . . .	2,230,661	1,281,520
Finance costs (note 9) . . . . .	949,580	746,259
Fair value adjustment of investment properties (note 5) . . . . .	2,316,250	4,499,942
Loss from write-off of financing costs and other items on disposition of investment properties . . . . .	372,489	—
	6,424,505	6,919,831
Loss for the period and comprehensive loss . . . . .	\$(2,239,261)	\$(3,729,783)

*See accompanying notes to combined financial statements.*

**TC2 PORTFOLIO**  
**COMBINED STATEMENT OF CHANGES IN CO-OWNERS' EQUITY**  
(In Canadian dollars)

**Period from January 1, 2013 to October 14, 2013, with comparative information for  
the period from June 29, 2012 to December 31, 2012**

	<b>2013</b>	<b>2012</b>
		(Unaudited)
Co-owners' equity, beginning of period . . . . .	\$ 20,771,382	\$ —
Loss for the period and comprehensive loss . . . . .	(2,239,261)	(3,729,783)
Contributions . . . . .	3,018,533	24,946,465
Distributions . . . . .	(18,581,220)	(445,300)
Co-owners' equity, end of period . . . . .	\$ 2,969,434	\$20,771,382

*See accompanying notes to combined financial statements.*

**TC2 PORTFOLIO**  
**COMBINED STATEMENT OF CASH FLOWS**  
(In Canadian dollars)

**Period from January 1, 2013 to October 14, 2013, with comparative information for  
the period from June 29, 2012 to December 31, 2012**

	<b>2013</b>	<b>2012</b>
		(Unaudited)
Cash flows from (used in) operating activities:		
Loss for the period and comprehensive loss . . . . .	\$ (2,239,261)	\$ (3,729,783)
Adjustments for:		
Fair value adjustment of investment properties (note 5) . . . . .	2,316,250	4,499,942
Finance costs (note 9) . . . . .	949,580	746,259
Loss from write-off of financing costs and other items on disposition of properties . . . . .	372,489	—
Change in non-cash operating working capital:		
Tenant receivables . . . . .	108,060	(119,786)
Prepaid expenses and other . . . . .	92,518	(17,350)
Accounts payable and accrued liabilities . . . . .	(670,112)	388,965
Tenant rental deposits and prepaid rent . . . . .	(510,319)	75,075
	419,205	1,843,322
Cash flows from (used in) financing activities:		
Mortgage principal repayments . . . . .	(3,547,161)	(266,415)
Mortgage proceeds . . . . .	—	3,060,000
Due from owner . . . . .	(643,636)	(195,953)
Financing costs paid . . . . .	(1,186,398)	(903,228)
Co-owners' contributions . . . . .	3,018,533	24,946,465
Co-owners' distributions . . . . .	(18,581,220)	(445,300)
	(20,939,882)	26,195,569
Cash flows from (used in) investing activities:		
Disposition of investments properties, net of debt assumed (note 4) . . . . .	22,710,319	—
Acquisition of investment properties, net of debt assumed (note 3) . . . . .	—	(27,267,903)
Capital improvements to investment properties . . . . .	(2,374,250)	(586,380)
	20,336,069	(27,854,283)
Increase (decrease) in cash . . . . .	(184,608)	184,608
Cash, beginning of period . . . . .	184,608	—
Cash, end of period . . . . .	\$ —	\$ 184,608

*See accompanying notes to combined financial statements.*

**TC2 PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Period from January 1, 2013 to October 14, 2013**  
**(In Canadian dollars)**

The TC2 Portfolio (the “Portfolio”) as presented in these combined financial statements is not a legal entity and represents the combination of three investment properties located in Canada. The Portfolio consists of the following properties: 7-11 Manhattan Court, 740-758 Kipps Lane and 915 44<sup>th</sup> Street SE. These investment properties and their related assets and liabilities were subject to a Co-ownership Agreement and are owned by Mustang Equities Inc. and TC Core LP (collectively, the “Co-ownership”) for the periods presented. Timbercreek Asset Management Inc. (“TAMI”), as manager of the Co-ownership (the “Manager”), is responsible for the day to day operations, property management and asset management. The registered office of the Co-ownership is 1000 Yonge Street, Suite 500, Toronto, Ontario M4W 2K2.

These combined financial statements have been prepared for the specific purpose of reporting on the assets, liabilities, revenue, expenses, co-owners’ equity and cash flows of the Portfolio included in, and for inclusion in, the prospectus relating to the public offering of extendible convertible unsecured subordinated debentures by True North Apartment Real Estate Investment Trust.

These combined financial statements have been prepared on a carve-out basis from the financial statements of the Co-ownership and present the financial position, financial performance and cash flows of the Portfolio, by the Co-ownership, as if the Portfolio has been accounted for on a stand-alone basis and include the properties’ share of assets, liabilities, revenue and expenses. Balances and transactions, and any unrealized income and expenses arising from the intra-group transactions, are eliminated in preparing these combined financial statements.

The following significant adjustment and assumptions have been made in the preparation of these combined financial statements:

- As at December 31, 2012, a mortgage payable with carrying value of \$3,060,000 was allocated to these combined financial statements based on the relative fair value of the specific investment property to which it is secured by in relation to the overall fair value of the investment properties secured by the mortgage payable at the Co-ownership. During 2013, the mortgage payable was removed upon disposition of the investment property (note 4(a)).
- General and administrative expenses related to the Co-ownership have not been allocated to the Portfolio.

Because this Portfolio was part of a Co-ownership, these combined financial statements depict the Co-owners’ equity, representing the amount associated specifically with this Portfolio. Management’s estimates, when necessary, have been used to prepare such allocations.

These combined financial statements are not necessarily indicative of the results that would have been attained if the Portfolio had been operated as a separate legal entity during the period presented and, therefore, are not necessarily indicative of future operating results.

**1. BASIS OF PREPARATION:**

Basis of presentation and statement of compliance:

The combined financial statements of the Portfolio have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”).

The combined financial statements have been prepared on a historical cost basis, except for investment properties and certain financial instruments which are stated at their fair values.

The combined financial statements are presented in Canadian dollars, which is the functional currency of the Portfolio.

The combined financial statements were approved and authorized for issue by TAMI on May 9, 2014.

**2. SIGNIFICANT ACCOUNTING POLICIES:**

(a) Investment properties:

The Co-ownership accounts for real estate classified as investment properties using the fair value method. A property is determined to be an investment property when it is principally held to earn rental income, capital appreciation, or both. Investment properties are initially measured at cost, including transaction costs associated with acquiring the property. Subsequent to initial recognition, investment properties are measured at fair value.

The fair values of investment properties are determined by external appraisers on a semi-annual basis. The Co-ownership may also use alternative valuation methods such as discounted cash flow projections or income capitalization methods where appropriate. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. It also reflects any cash outflows (excluding those relating to future capital expenditures) that could be expected in respect of the properties.

The Manager has established a Valuation Committee that has overall responsibility for overseeing the fair value measurement and reports directly to the Board of Directors of the Manager. The Valuation Committee regularly reviews significant unobservable

**TC2 PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2013 to October 14, 2013**  
**(In Canadian dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

inputs and valuation adjustments but will use market observable data when available. Where third party information such as appraisal services are used to measure fair values, the Valuation Committee assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which valuations should be classified.

Subsequent capital expenditures are charged to investment properties only when it is probable that future economic benefits of the expenditure will flow to the Company and the cost can be measured reliably.

Gains or losses from the disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount and are recognized in the combined statement of income and comprehensive income in the year of disposal.

(b) Revenue recognition:

Revenue from property operations includes rent, parking and other sundry revenue. Residential tenant leases are normally one year leases and are accounted for as operating leases with the related revenue recognized on a monthly basis as services are provided to tenants.

Parking and other sundry revenue is recognized at the time the service is provided.

(c) Financial instruments:

The following summarizes the Co-ownership's classification and measurement of financial assets and liabilities:

	<u>Classification</u>	<u>Measurement</u>
Financial assets:		
Tenant receivables . . . . .	Loans and receivables	Amortized cost
Due from owner . . . . .	Loans receivable	Amortized cost
Financial liabilities:		
Mortgages payable . . . . .	Other financial liabilities	Amortized cost
Tenant rental deposits and prepaid rent . . . . .	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities . . . . .	Other financial liabilities	Amortized cost

The Co-ownership has neither available-for-sale nor held-to-maturity instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception, except for those financial assets or financial liabilities classified as fair value through profit or loss, where transaction costs are expensed as incurred.

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

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 Co-ownership to its counterparties; the credit risk of the Co-ownership's counterparties relative to the Co-ownership; the estimated future cash flows; and discount rates.

(d) Fair value:

The Co-ownership measures financial instruments such as derivatives and non-financial instruments such as investment properties, at fair value at each balance sheet date. Fair value is 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 under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Co-ownership.



**TC2 PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2013 to October 14, 2013**  
**(In Canadian dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Co-ownership uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the combined financial statements on a recurring basis, the Co-ownership determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Co-ownership has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(e) Income taxes:

A provision has not been made for income taxes as the Portfolio is not a legal entity and each Co-owner is responsible for income taxes on its share of income or loss from the Portfolio.

(f) Critical judgments and estimates:

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

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

(i) Investment properties:

The critical estimates and assumptions underlying the valuation of investment properties are described in (a). In applying this policy, judgment is applied in determining certain assumptions such as capitalization rates, future rental income, operating expenses and capital expenditures to be used to value each investment property.

(ii) 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 treatment of transactions costs, the allocation of acquisition costs and whether or not goodwill is recognized. The Co-ownership's acquisitions are generally determined to be asset purchases as the Co-ownership does not acquire an integrated set of processes as part of the transaction normally associated with the acquisition of a business.

**TC2 PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2013 to October 14, 2013**  
**(In Canadian dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

(g) Changes in accounting policies:

Except for the changes below, the Co-ownership has consistently applied the accounting policies set out to all periods presented in these combined financial statements.

The Co-ownership has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2013.

- (i) IFRS 10, Consolidated Financial Statements (2011)
- (ii) IFRS 11, Joint Arrangements
- (iii) IFRS 12, Disclosure of Interests in Other Entities
- (iv) IFRS 13, Fair Value Measurement (“IFRS 13”)
- (v) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
- (vi) IAS 19, Employee Benefits (2011)

With the exception of IFRS 13 there were no material effects upon adoption of these new standards and amendments to standards.

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of 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. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7, Financial Instruments — Disclosures. As a result, the Co-ownership has included additional disclosures in this regard (refer to (a) and (f)).

In accordance with the transition provisions of IFRS 13, the Portfolio has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Portfolio’s assets and liabilities.

(h) Future changes in accounting policies:

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2014 and have not been applied in preparing these combined financial statements. Those which may be relevant to the Portfolio are set out below. The Co-ownership does not plan to adopt these standards prior to their mandatory adoption date.

(i) IFRS 9, Financial Instruments (“IFRS 9”):

IFRS 9 which replaces International Accounting Standard (“IAS”) 39, Financial Instruments: Recognition and Measurement (“IAS 39”), addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the four categories of financial assets as required by IAS 39 and replaces them with two measurement categories as follows: (i) those measured at fair value; and (ii) those measured at amortized cost. Changes in fair value will be recorded in net earnings under IFRS 9 instead of through other comprehensive income (loss) under IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in the Co-ownership’s credit risk are presented in other comprehensive income (loss) instead of through net earnings unless this would create an accounting mismatch. An accounting mismatch may occur when financial liabilities that are measured at fair value are managed with assets that are measured at fair value through profit or loss. A mismatch could arise because the entire change in the fair value of the financial assets would be presented in net earnings (loss) but a portion of the change in the fair value of the related financial liabilities would not. In February 2014, the IASB tentatively selected January 1, 2018 as the effective date for mandatory association of IFRS 9, with early adoption being permitted. The Co-ownership is currently assessing the potential impact of this standard.

(ii) IFRIC 21, Levies (“IFRIC 21”):

In May 2013, the IASB issued IFRIC 21. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively.

IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in

**TC2 PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2013 to October 14, 2013**  
**(In Canadian dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

accordance with legislation. It also notes that levies do not arise from executor contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The Co-Ownership is currently assessing the potential impact of this interpretation.

**3. ACQUISITIONS:**

The investment properties have been recorded as asset acquisitions and recognized initially at fair value plus transaction costs with financial performance included in these combined financial statements from the date of acquisition.

On June 29, 2012, the Co-owners acquired a number of multi-suite residential investment properties from a third party which included the Portfolio properties. The net consideration of \$28,006,465 represents the allocated fair value of the Portfolio acquired out of the total value of all the multi-suite residential investment properties acquired by the Co-owners. A summary of the purchase of these properties is as follows:

Investment properties . . . . .	\$64,143,562
Other assets and liabilities, net . . . . .	<u>369,281</u>
Total purchase price allocation . . . . .	<u>\$64,512,843</u>
Mortgages assumed . . . . .	\$36,049,922
Mortgage premium (mark-to-market adjustment) . . . . .	456,456
New financing obtained and used for acquisitions . . . . .	3,060,000
Co-owners' contribution . . . . .	<u>24,946,465</u>
	<u>\$64,512,843</u>

**4. DISPOSITIONS:**

- (a) On July 4, 2013, the Portfolio disposed of 100% interest in one investment property totaling 40 units located in Ontario, to a third party at a selling price of \$3,908,000. The transaction was settled through cash of \$3,908,000 before working capital adjustments.
- (b) On September 4, 2013, the Portfolio disposed of 100% interest in one investment property totaling 666 units located in Ontario, to a third party at a selling price of \$51,380,000. The transaction was settled through the assumption of its mortgages of \$32,577,681 and cash of \$18,802,319 before working capital adjustments.

**5. INVESTMENT PROPERTIES:**

	<u>2013</u>	<u>2012</u>
		(Unaudited)
Balance, beginning of period . . . . .	\$ 60,230,000	\$ —
Acquisition of investment properties . . . . .	—	64,143,562
Additions — capital expenditures . . . . .	2,374,250	586,380
Dispositions of investment properties . . . . .	(55,288,000)	—
Fair value adjustment . . . . .	<u>(2,316,250)</u>	<u>(4,499,942)</u>
Balance, end of period . . . . .	<u>\$ 5,000,000</u>	<u>\$60,230,000</u>

As at October 14, 2013, the fair value of the Portfolio was determined based on the Agreement of Purchase and Sale (note 13) agreed to by the Co-owners and a third party.

**TC2 PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2013 to October 14, 2013**  
**(In Canadian dollars)**

**6. MORTGAGES PAYABLE:**

	<b>2013</b>	<b>2012</b>
Mortgages payable . . . . .	\$2,718,665	\$38,843,507
Mark-to-market adjustment . . . . .	—	310,892
Unamortized financing costs . . . . .	(7,572)	(156,806)
	\$2,711,093	\$38,997,593

As at October 14, 2013, the contractual principal payments outstanding on mortgages payable amounted to \$2,718,665. The mortgage payable carries an interest rate of 3.90% and a term to maturity of eight years. The debt is secured by first charge on specific investment properties and is repayable as follows:

	<b>Regular principal payments</b>	<b>Balance due on maturity</b>	<b>Total</b>	<b>Scheduled interest payments</b>
2013 — remainder of year . . . . .	\$ 11,960	\$ —	\$ 11,960	\$ 17,559
2014 . . . . .	73,700	—	73,700	103,413
2015 . . . . .	76,602	—	76,602	100,510
2016 . . . . .	79,341	—	79,341	97,771
2017 . . . . .	82,744	—	82,744	94,369
2018 . . . . .	86,002	—	86,002	91,111
Thereafter . . . . .	197,629	2,110,687	2,308,316	192,379
Face value . . . . .	\$607,978	\$2,110,687	\$2,718,665	\$697,112

**7. SEGMENTED DISCLOSURE:**

All of the Portfolio's assets and liabilities are in, and its revenue derived from, multi-family residential Canadian real estate. The Portfolio's investment properties are, therefore, considered by management to have similar economic characteristics. No single tenant accounts for 10% or more of the Portfolio's rental revenue.

**8. PERSONNEL COSTS:**

	<b>2013</b>	<b>2012</b>
Short-term employee benefits . . . . .	\$308,055	(Unaudited) \$166,045

Short-term employee benefits include salary, bonus and other short-term benefits and are included within property operating costs.

**9. FINANCE COSTS:**

The following table presents the finance costs incurred for the period from June 29, 2012 to December 31, 2012 and for the period from January 1, 2013 to October 14, 2013:

	<b>2013</b>	<b>2012</b>
Interest on mortgages payable . . . . .	\$1,052,434	(Unaudited) \$ 815,265
Amortization of mark-to-market adjustment of mortgages payable . . . . .	(215,900)	(145,564)
Amortization of financing costs . . . . .	113,046	76,558
	\$ 949,580	\$ 746,259

**TC2 PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2013 to October 14, 2013**  
**(In Canadian dollars)**

**10. COMMITMENTS AND CONTINGENCIES:**

- (a) The Portfolio is involved in litigation and claims in relation to the investment properties that arise from time to time in the normal course of business. In the opinion of management, none of these, individually or in aggregate, would result in the recognition of a liability that would have a significant adverse effect on the financial position of the Portfolio.
- (b) Property and asset and corporate management agreements:  
The Portfolio is subject to property and asset and corporate management agreements with the Manager. The Manager is responsible for property leasing, acquisition, disposition, financing, operation and redevelopment of the investment properties.

**11. CAPITAL RISK MANAGEMENT:**

The Portfolio manages its capital structure in order to support ongoing operations while focusing on its primary objective of maximizing value through the ongoing active management of the Portfolio's assets, which are leased to creditworthy tenants, as opportunities arise.

The Portfolio reviews its capital structure on an ongoing basis and adjusts its capital structure in response to changes to economic conditions and investment strategies.

As part of the management of its mortgages payable, the Portfolio is required to meet certain financial covenants, as defined in the respective loan agreements. As at October 14, 2013, there were no externally imposed financial requirements.

**12. RISK MANAGEMENT AND FAIR VALUES:**

In the normal course of operations, the Portfolio is exposed to various financial risks, including changes in interest rates and government regulatory controls. The following describes these financial risks and how they are managed by the Portfolio.

(a) Financial risk management:

(i) Market risk:

Market risk is the risk that changes in market prices, such as interest rate, will affect the Portfolio's financial instruments.

(ii) Interest rate risk:

Management regularly reviews upcoming mortgage renewals for opportunities to convert existing debt into more favourable terms and rates. Generally, the Portfolio seeks to fix the term of long-term debt within a range from 5 to 10 years.

The Portfolio is not exposed to any other significant form of market risk.

(iii) Credit risk:

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

The Portfolio is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the combined statement of financial position. The Portfolio monitors its risk exposure regarding obligations with counterparties (Canadian chartered banks) through the regular assessment of counterparties' credit positions.

The Portfolio 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 Portfolio monitors its collection process on a month-to-month basis to ensure that a stringent policy is adopted to provide for all past due amounts. All receivables from past tenants and tenant receivable balances exceeding 90 days are provided for as bad debt expense in the combined statement of income and comprehensive income.

(iv) Liquidity risk:

Liquidity risk is the risk that the Portfolio 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

**TC2 PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2013 to October 14, 2013**  
**(In Canadian dollars)**

**12. RISK MANAGEMENT AND FAIR VALUES: (Continued)**

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 Portfolio staggers the maturity dates of its mortgage portfolio over a number of years. In addition, the Portfolio 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.

(b) Fair values of financial instruments:

The fair values of the Portfolio's financial assets and liabilities, which include tenant receivables, cash, prepaid expenses and other assets, accounts payable and other liabilities, and tenant deposits and prepaid rent approximate their carrying values at October 14, 2013 due to their short-term nature.

As at October 14, 2013, the estimated fair market value (Level 3) of the mortgages payable was \$2,629,865 (2012 — \$39,320,712). The fair market value of the mortgages payable has been determined by discounting the cash flows of these mortgages using estimated market rates determined by the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated risk premium at the reporting date.

**13. SUBSEQUENT EVENT:**

On October 7, 2013, the Co-owners entered into an Agreement of Purchase and Sale with Starlight Investments Ltd., in trust, to dispose of the Portfolio for a gross purchase price of \$5,000,000. The sale closed on October 15, 2013.

**Combined Financial Statements**  
(In Canadian dollars)

**TGA3 REIT PORTFOLIO**

Period from January 1, 2012 to June 29, 2012  
(date of REIT privatization) and year ended  
December 31, 2011

**TGA3 REIT PORTFOLIO**  
**COMBINED STATEMENTS OF FINANCIAL POSITION**  
(In thousands of Canadian dollars)  
(Unaudited)

	<u>June 29, 2012</u> (date of REIT privatization)	<u>December 31,</u> <u>2011</u>
<b>Assets</b>		
Investment properties (note 4) . . . . .	\$166,625	\$136,762
Instalment notes receivable (note 5) . . . . .	1,570	1,986
Deposits . . . . .	306	311
Tenant and other receivables (note 6) . . . . .	151	177
Prepaid expenses and other assets . . . . .	550	385
Restricted cash (note 7) . . . . .	379	354
Cash . . . . .	872	879
Total assets . . . . .	<u>\$170,453</u>	<u>\$140,854</u>
<b>Liabilities and Divisional Equity</b>		
Mortgages payable (note 8) . . . . .	\$ 82,398	\$ 83,982
Tenant rental deposits . . . . .	1,204	1,179
Accounts payable and accrued liabilities . . . . .	601	1,184
Finance costs payable . . . . .	325	333
Total liabilities . . . . .	<u>84,528</u>	<u>86,678</u>
Divisional equity . . . . .	<u>85,925</u>	<u>54,176</u>
Total liabilities and divisional equity . . . . .	<u>\$170,453</u>	<u>\$140,854</u>

These combined financial statements were approved and authorized for issue by the Owners of the TGA3 REIT Portfolio on May 9, 2014.

*See accompanying notes to combined financial statements.*



**TGA3 REIT PORTFOLIO**  
**COMBINED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**  
**(In thousands of Canadian dollars)**  
**(Unaudited)**

	<b>Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)</b>	<b>Year ended December 31, 2011</b>
Revenue from property operations . . . . .	\$ 8,237	\$ 12,101
Property operating costs . . . . .	(3,097)	(4,136)
Realty taxes . . . . .	(1,050)	(1,548)
Fair value adjustment of investment properties (note 4) . . . . .	27,909	(10,811)
Finance income . . . . .	36	46
Finance costs (note 12) . . . . .	(1,393)	(2,100)
Net income (loss) and comprehensive income (loss) . . . . .	\$30,642	\$ (6,448)

*See accompanying notes to combined financial statements.*

**TGA3 REIT PORTFOLIO**  
**COMBINED STATEMENTS OF CHANGES IN DIVISIONAL EQUITY**  
(In thousands of Canadian dollars)  
(Unaudited)

Divisional equity, December 31, 2010 .....	\$45,859
Net loss and comprehensive loss .....	(6,448)
Net contributions .....	<u>14,765</u>
Divisional equity, December 31, 2011 .....	54,176
Net income and comprehensive income .....	30,642
Net contributions .....	<u>1,107</u>
Divisional equity, June 29, 2012 .....	<u><u>\$85,925</u></u>

*See accompanying notes to combined financial statements.*

**TGA3 REIT PORTFOLIO**  
**COMBINED STATEMENTS OF CASH FLOWS**  
(In thousands of Canadian dollars)  
(Unaudited)

	<u>Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)</u>	<u>Year ended December 31, 2011</u>
Cash provided by (used in):		
Operating activities:		
Net income (loss) . . . . .	\$ 30,642	\$ (6,448)
Adjustments for financing activities included in net income:		
Finance income . . . . .	(36)	(46)
Finance costs (note 12) . . . . .	1,393	2,100
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 4) . . . . .	(27,909)	10,811
Change in non-cash operating working capital (note 14) . . . . .	(692)	681
Cash provided by operating activities . . . . .	<u>3,398</u>	<u>7,098</u>
Financing activities:		
Mortgages payable:		
Proceeds . . . . .	2,835	4,008
Discharge of mortgages . . . . .	(2,956)	(7,026)
Principal payments . . . . .	(783)	(1,169)
Financing costs paid . . . . .	(2,081)	(2,632)
Instalment notes receivable:		
Principal receipts . . . . .	416	332
Interest receipts . . . . .	36	46
Net divisional contributions . . . . .	<u>1,107</u>	<u>14,765</u>
Cash provided by (used in) financing activities . . . . .	(1,426)	8,324
Investing activities:		
Acquisitions of investment properties (note 3) . . . . .		(13,636)
Additions to investment properties . . . . .	(1,954)	(1,908)
Change in restricted cash . . . . .	(25)	2
Cash used in investing activities . . . . .	<u>(1,979)</u>	<u>(15,542)</u>
Decrease in cash . . . . .	(7)	(120)
Cash, beginning of period . . . . .	<u>879</u>	<u>999</u>
Cash, end of period . . . . .	<u>\$ 872</u>	<u>\$ 879</u>

*See accompanying notes to combined financial statements.*

**TGA3 REIT PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)**  
**and year ended December 31, 2011**  
**(In thousands of Canadian dollars, except per unit amounts, unless otherwise stated)**  
**(Unaudited)**

TGA3 REIT Portfolio (the “Portfolio”), as presented in these combined financial statements, is not a legal entity and represents the combination of 18 investment properties located in Canada. For the periods presented, these investment properties and their related assets and liabilities were owned and managed by TransGiobe Apartment Real Estate Investment Trust (the “REIT”), having acquired these investment properties from TransGiobe Investment Management Ltd. and certain of its affiliates (“DrimmerCo”) and certain third party co-owners. The registered office of the REIT was: 5935 Airport Road, Suite 600, Mississauga, Ontario, Canada, L4V 1W5.

These combined financial statements have been prepared for the specific purpose of reporting on the assets, liabilities, revenue, expenses, divisional equity and cash flows of the Portfolio included in, and for inclusion in, the prospectus relating to the public offering of extendible convertible unsecured subordinated debentures by True North Apartment Real Estate Investment Trust.

These combined financial statements have been prepared on a carve-out basis from the financial statements of the REIT and present the financial position, financial performance and cash flows of the Portfolio, by the REIT, as if the Portfolio has been accounted for on a stand-alone basis and include the properties’ share of assets, liabilities, revenue and expenses. Balances and transactions and any unrealized income and expenses arising from the intra-group transactions are eliminated in preparing these combined financial statements.

The following significant adjustments and assumptions have been made in the preparation of these combined financial statements:

- (a) at June 29, 2012 and December 31, 2011, \$55,859 and \$59,293 of mortgages payable have been allocated to the Portfolio based on the fair value of the properties secured by the original mortgage payable;
- (b) at June 29, 2012 and December 31, 2011, \$1,570 and \$1,986, respectively, of instalment notes receivables have been allocated to the Portfolio, based on the relative fair value of the properties acquired to which the instalment notes relate;
- (c) the Portfolio does not maintain individual cash and restricted cash accounts. As at June 29, 2012 and December 31, 2011, an adjustment was made to the cash balances in order to approximate the sum of the tenant rental deposits liability balance, net of restricted rental deposits already held in restricted cash relating to the Portfolio;
- (d) a property management fee of 3% of revenue from property operations has been assumed for all periods; and
- (e) trust expense relating to the REIT have not been allocated to the Portfolio.

Because these properties were part of a corporate group, these combined financial statements depict the divisional equity in net assets, representing the amount associated specifically with these properties. Management’s estimates, when necessary, have been used to prepare such allocations.

These combined financial statements are not necessarily indicative of the results that would have been attained if the Portfolio had been operated as a separate legal entity during the periods presented and, therefore, are not necessarily indicative of future operating results.

**1. BASIS OF PREPARATION:**

- (a) Basis of presentation and statement of compliance:

These combined financial statements of the Portfolio have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”). These are the Portfolio’s first combined financial statements prepared in accordance with IFRS and the Portfolio adopted IFRS in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards. The date of transition to IFRS is January 1, 2011. A reconciliation of how the transition to IFRS has affected the Portfolio’s financial position, performance and cash flows has not been presented as the Portfolio has not presented financial statements in previous periods.

The combined financial statements have been prepared on a historical cost basis, except for investment properties and certain financial instruments which are stated at their fair values.

The combined financial statements are presented in Canadian dollars, which is the functional currency of the Portfolio, and rounded to the nearest thousand, except as otherwise stated.

- (b) Critical judgments and estimates:

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

**TGA3 REIT PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)**  
**and year ended December 31, 2011**  
**(In thousands of Canadian dollars, except per unit amounts, unless otherwise stated)**  
**(Unaudited)**

**1. BASIS OF PREPARATION: (Continued)**

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

(i) Critical judgments in applying accounting policies:

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

Accounting for acquisitions:

The Portfolio assesses whether an acquisition transaction should be accounted for as an asset acquisition or a business combination under IFRS 3, Business Combinations (“IFRS 3”). This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business, and the REIT obtains control of the business. All of the Portfolio’s acquisitions have been accounted for as asset acquisitions as no core processes were acquired by the Portfolio.

(ii) Key sources of estimation uncertainty:

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

(a) Investment properties:

The critical assumptions and estimates used when determining the fair value of investment properties are: capitalization rates and stabilized future cash flows. The capitalization rate applied is reflective of the characteristics, location and market of each investment property. The stabilized future cash flows of each 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. The Portfolio determines fair value internally utilizing internal financial information, external market data and capitalization rates provided by independent industry experts and third party appraisals. Further information on investment properties estimates and assumptions is provided in note 4.

(b) 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 Portfolio to its counterparties, the credit risk of the Portfolio’s counterparties relative to the Portfolio, and estimated future cash flows and discount rates. Further information on financial instruments is provided in note 17.

**2. SIGNIFICANT ACCOUNTING POLICIES:**

(a) Investment properties:

The Portfolio selected the fair value method to account for real estate classified as investment properties. 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 properties are initially measured at the purchase price, including directly attributable costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are recognized in the combined statements of income (loss) and comprehensive income (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 investment properties.

(b) Revenue recognition:

The Portfolio has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases.

**TGA3 REIT PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)**  
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**(In thousands of Canadian dollars, except per unit amounts, unless otherwise stated)**  
**(Unaudited)**

**2. SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

Revenue from investment properties includes all rental income earned from the investment properties, including residential and commercial tenant rental income, parking income, laundry income, cable and antenna income and all other miscellaneous income paid by the tenants under the terms of their existing leases. Revenue recognition under a lease commences when a tenant has a right to use the leased asset, and revenue is recognized pursuant to the terms of the lease agreement.

(c) Income taxes:

Provision has not been made for income taxes as the Portfolio is not a legal entity and the investment properties contained within the Portfolio are owned by partnerships which are not taxable entities. Income taxes, if any, are liabilities of the partners.

(d) Acquisitions:

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

The Portfolio accounts for an acquisition as a business combination if the assets acquired and liabilities assumed constitute a business and the Portfolio 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 Portfolio accounts for the acquisition as an asset acquisition. The investment properties acquired are initially measured at the purchase price, including directly attributable costs. Subsequent to initial measurement, investment properties are carried at fair value.

(e) Financial instruments:

Financial instruments are classified as one of the following: (i) fair value through profit or 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 the combined statements of income (loss) and comprehensive income (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 in other comprehensive income (loss).

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

The following summarizes the Portfolio's classification and measurement of financial assets and liabilities:

	<u>Classification</u>	<u>Measurement</u>
Financial assets:		
Instalment notes receivable . . . . .	Loans and receivables	Amortized cost
Deposits . . . . .	Loans and receivables	Amortized cost
Tenant and other receivables . . . . .	Loans and receivables	Amortized cost
Restricted cash . . . . .	Loans and receivables	Amortized cost
Cash . . . . .	Loans and receivables	Amortized cost
Financial liabilities:		
Mortgages payable . . . . .	Other liabilities	Amortized cost
Tenant rental deposits . . . . .	Other liabilities	Amortized cost
Accounts payable and accrued liabilities . . . . .	Other liabilities	Amortized cost
Finance costs payable . . . . .	Other liabilities	Amortized cost

**TGA3 REIT PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)**  
**and year ended December 31, 2011**  
**(In thousands of Canadian dollars, except per unit amounts, unless otherwise stated)**  
**(Unaudited)**

**2. SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or financial liabilities, other than financial assets and financial 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 financial liabilities classified as 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 combined financial statements at fair value, except for embedded derivatives exempted from derivative accounting treatment.

(f) Future accounting changes:

The following new standards and amendments to existing standards issued by the International Accounting Standards Board may be relevant to the Portfolio in preparing its combined financial statements in future periods:

<u>Standards</u>	<u>Effective date</u>
IAS 1, Presentation of Financial Statements (amendments) . . . . .	Annual period beginning on or after July 1, 2012
IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interest in Other Entities . . . . .	Annual period beginning on or after January 1, 2013
IFRS 13, Fair Value Measurement . . . . .	Annual period beginning on or after January 1, 2013
IAS 32, Financial Instruments — Presentation (amendments) . . . . .	Annual period beginning on or after January 1, 2014
IFRIC 21, Levies . . . . .	Annual period beginning on or after January 1, 2014
IFRS 9, Financial Statements (2010) . . . . .	Annual period beginning on or after January 1, 2015

The Portfolio intends to adopt these standards on their respective effective dates. The adoption of these standards is not expected to have a significant impact on the Portfolio's assets, liabilities, reserves and expenses.

**TGA3 REIT PORTFOLIO**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)**

**and year ended December 31, 2011**

**(In thousands of Canadian dollars, except per unit amounts, unless otherwise stated)**

**(Unaudited)**

**3. ACQUISITIONS:**

On September 1, 2011, the REIT acquired a portfolio of multi-suite residential rental properties (the “September 2011 Acquisition”) from DrimmerCo, a related party, for net consideration of \$13,636. This acquisition has been 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 . . . . .	\$ 51,889
Present value of instalment note payments due from DrimmerCo . . . . .	1,626
Assumed mortgages, including mark-to-market adjustment of \$2,250 . . . . .	(39,612)
Cash paid for working capital . . . . .	(267)
	<u>\$ 13,636</u>
Consideration paid, funded by:	
Contribution to divisional equity . . . . .	<u>\$ 13,636</u>

Cash paid for working capital assumed on the September 2011 Acquisition included tenant rental deposits of \$418, net of prepaid expenses and other assets of \$151.

**4. INVESTMENT PROPERTIES:**

The following table summarizes the changes in the investment properties for the period from January 1, 2012 to June 29, 2012 (date of REIT privatization) and the year ended December 31, 2011:

Balance, December 31, 2010 . . . . .	\$ 93,776
Acquisitions of investment properties (note 3) . . . . .	51,889
Additions — capital expenditures . . . . .	1,908
Fair value adjustment . . . . .	(10,811)
Balance, December 31, 2011 . . . . .	136,762
Additions — capital expenditures . . . . .	1,954
Fair value adjustment . . . . .	27,909
Balance, June 29, 2012 . . . . .	<u>\$166,625</u>

The following table reconciles the cost base of investment properties to their fair value. The components of the reconciliation are included within their relevant combined statements of financial position headings:

	<b>June 29, 2012 (date of REIT privatization)</b>	<b>December 31, 2011</b>
Cost base . . . . .	\$149,455	\$147,501
Cumulative fair value adjustment . . . . .	<u>17,170</u>	<u>(10,739)</u>
Fair value . . . . .	<u>\$166,625</u>	<u>\$136,762</u>



**TGA3 REIT PORTFOLIO**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)**

**and year ended December 31, 2011**

**(In thousands of Canadian dollars, except per unit amounts, unless otherwise stated)**

**(Unaudited)**

**4. INVESTMENT PROPERTIES: (Continued)**

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

	<b>June 29, 2012 (date of REIT privatization)</b>	<b>December 31, 2011</b>
Capitalization rates — range . . . . .	5.25%-6.00%	6.00%-6.75%
Capitalization rate — weighted average . . . . .	5.76%	6.44%
Market occupancy rate — weighted average . . . . .	95.55%	94.84%
Market rental rates — average (in actual dollars) . . . . .	\$821	\$799

The capitalized earnings reflect rental income from current leases and assumptions about rental income from future leases and occupancy reflecting market conditions at the reporting date, less future cash outflows in respect of such leases.

The fair values of the Portfolio's investment properties are sensitive to changes in the key valuation assumptions. Changes in the weighted average capitalization rates, market rental rates, and occupancy would result in a change to the fair value of the Portfolio's investment properties as set out in the following table:

<b>Key assumptions</b>	<b>Change</b>	<b>June 29, 2012 (date of REIT privatization)</b>	<b>December 31, 2011</b>
Weighted average — capitalization rate . . . . .	25-basis-points increase	\$(6,946)	\$(5,114)
Weighted average — capitalization rate . . . . .	25-basis-points decrease	7,599	5,531
Occupancy rate . . . . .	1.00% increase	3,036	2,643
Occupancy rate . . . . .	1.00% decrease	(3,019)	(2,642)
Market rental rates — average . . . . .	1.00% increase	2,903	2,505
Market rental rates — average . . . . .	1.00% decrease	(2,886)	(2,507)

**5. INSTALMENT NOTES RECEIVABLE:**

Pursuant to the terms of the September 2011 Acquisition, as discussed in note 3, the Portfolio received certain demand, non-interest bearing instalment notes from DrimmerCo with a present value of \$1,626.

The following table summarizes the instalment notes receivable and receipts on instalment notes receivable:

Balance, January 1, 2011 . . . . .	\$ 692
Present value of notes receivable — September 2011 Acquisition . . . . .	1,626
Receipts on instalment notes receivable . . . . .	(332)
Balance, December 31, 2011 . . . . .	1,986
Receipts on instalment notes receivable . . . . .	(416)
Balance, June 29, 2012 . . . . .	<u>\$1,570</u>

The monthly instalment payments provide the Portfolio with an effective interest rate of 3.49% on certain assumed mortgages. For the period from January 1, 2012 to June 29, 2012 (date of REIT privatization) and the year ended December 31, 2011, the Portfolio received principal instalment payments of \$332 and \$416, respectively. These instalment notes mature on September 1, 2015.

**TGA3 REIT PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)**  
**and year ended December 31, 2011**  
**(In thousands of Canadian dollars, except per unit amounts, unless otherwise stated)**  
**(Unaudited)**

**5. INSTALMENT NOTES RECEIVABLE: (Continued)**

The scheduled principal instalment receipts at June 29, 2012 are as follows:

	<u>Principal receipts</u>	<u>Interest receipts</u>
2012 — remainder of period . . . . .	\$ 414	\$ 33
2013 . . . . .	806	58
2014 . . . . .	266	14
2015 . . . . .	84	6
	<u>\$1,570</u>	<u>\$111</u>

**6. TENANT AND OTHER RECEIVABLES:**

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

	<u>June 29, 2012 (date of REIT privatization)</u>	<u>December 31, 2011</u>
Tenant receivables, net . . . . .	\$ 78	\$ 78
Other receivables . . . . .	73	99
	<u>\$151</u>	<u>\$177</u>

As at the dates specified, all tenant receivables that were past due but not impaired were outstanding for 90 days or less. All other tenant receivables have been provided for.

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

**7. RESTRICTED CASH:**

The following table presents details of the restricted cash balances:

	<u>June 29, 2012 (date of REIT privatization)</u>	<u>December 31, 2011</u>
Restricted rental deposits . . . . .	\$332	\$300
Escrow realty taxes . . . . .	47	54
	<u>\$379</u>	<u>\$354</u>

**8. MORTGAGES PAYABLE:**

As at June 29, 2012, the Portfolio had \$80,548 (December 31, 2011 — \$81,452) of principal balance of mortgages payable. The mortgages carry a weighted average interest rate of 3.64% (December 31, 2011 — 3.64%) after giving effect to the instalment note payments and a weighted average term to maturity of 2.24 years (December 31, 2011 — 2.42 years). All interest rates are fixed for the

**TGA3 REIT PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)**  
**and year ended December 31, 2011**  
**(In thousands of Canadian dollars, except per unit amounts, unless otherwise stated)**  
**(Unaudited)**

**8. MORTGAGES PAYABLE: (Continued)**

term of the respective mortgages. The mortgages are secured by first or second charges on specific investment properties and are repayable as follows:

	<u>Scheduled principal payments</u>	<u>Debt maturing during the period</u>	<u>Total mortgages payable</u>
2012 — remainder of period . . . . .	\$ 741	\$11,522	\$12,263
2013 . . . . .	1,451	1,939	3,390
2014 . . . . .	788	50,389	51,177
2015 . . . . .	286	7,113	7,399
2016 . . . . .	141		141
Thereafter . . . . .	<u>681</u>	<u>5,497</u>	<u>6,178</u>
Face value . . . . .	\$4,088	\$76,460	80,548
Mortgage premium (December 31, 2011 — \$2,559) . . . . .			1,914
Unamortized financing costs (December 31, 2011 — \$29) . . . . .			<u>(64)</u>
			<u>\$82,398</u>

**9. SEGMENT DISCLOSURE:**

All of the Portfolio's assets and liabilities are in, and its revenue derived from, multi-suite residential Canadian real estate. The Portfolio's investment properties are, therefore, considered by management to have similar economic characteristics. No single tenant accounts for 10% or more of the Portfolio's rental revenue.

**10. TRANSACTIONS WITH RELATED PARTIES:**

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

DrimmerCo is considered a related party due to the significance of the level of ownership interest in and arrangements with the Portfolio.

Arrangements with DrimmerCo:

On September 1, 2011, the REIT entered into an Internalization and Separation Agreement with DrimmerCo. As a result of this agreement, administration of the day-to-day property operations and strategic management and administration responsibilities were internalized and the REIT took over management of all its investment properties previously managed by DrimmerCo. Therefore, no amounts were paid in respect of these services after September 1, 2011.

Prior to September 1, 2011, DrimmerCo administered the day-to-day property operations of certain investment properties in the Portfolio for which it received partnership distributions equal to 3% of the gross property revenue from the investment properties, payable monthly.

For the year ended December 31, 2011, property management fees relating to the administration of the day-to-day property operations paid to DrimmerCo amounted to \$196 and are included in property operating costs.

**TGA3 REIT PORTFOLIO**

**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**

**Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)**

**and year ended December 31, 2011**

**(In thousands of Canadian dollars, except per unit amounts, unless otherwise stated)**

**(Unaudited)**

**11. PERSONNEL COSTS:**

	<b>Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)</b>	<b>Year ended December 31, 2011</b>
Short-term employee benefits . . . . .	\$443	\$508

Short-term employee benefits include salary, bonus and other short-term benefits.

**12. FINANCE COSTS:**

The following table presents the finance costs incurred for the period from January 1, 2012 to June 29, 2012 (date of REIT privatization) and the year ended December 31, 2011:

	<b>Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)</b>	<b>Year ended December 31, 2011</b>
Mortgages payable . . . . .	\$2,022	\$2,762
Interest on tenant rental deposits . . . . .	12	2
Amortization of premium on mortgages payable . . . . .	(645)	(666)
Amortization of financing costs . . . . .	4	2
	<u>\$1,393</u>	<u>\$2,100</u>

**13. COMMITMENTS AND CONTINGENCIES:**

At the combined statements of financial position dates, the Portfolio had no commitments for future minimum lease payments under non-cancellable operating leases.

The Portfolio is involved in litigation and claims in relation to the investment properties that arise from time to time in the normal course of business. In the opinion of management, none of these, individually or in aggregate, would result in the recognition of a liability that would have a significant adverse effect on the financial position of the Portfolio.

**14. CHANGE IN NON-CASH OPERATING WORKING CAPITAL:**

The change in non-cash operating working capital for the period from January 1, 2012 to June 29, 2012 (date of REIT privatization) and the year ended December 31, 2011 is as follows:

	<b>Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)</b>	<b>Year ended December 31, 2011</b>
Deposits . . . . .	\$ 5	\$(172)
Tenant and other receivables . . . . .	26	(67)
Prepaid expenses and other assets . . . . .	(165)	122
Tenant rental deposits . . . . .	25	68
Accounts payable and accrued liabilities . . . . .	(583)	730
	<u>\$(692)</u>	<u>\$ 681</u>

**TGA3 REIT PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)**  
**and year ended December 31, 2011**  
**(In thousands of Canadian dollars, except per unit amounts, unless otherwise stated)**  
**(Unaudited)**

**15. CAPITAL MANAGEMENT:**

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 value through the ongoing active management of the Portfolio's assets, which are leased to creditworthy tenants, as opportunities arise.

The Portfolio was in compliance with all financial covenants as at June 29, 2012 and December 31, 2011.

**16. RISK MANAGEMENT:**

In the normal course of business, the Portfolio 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:

(a) Market risk:

Market risk is the risk that changes in market prices, such as interest rate, will affect the Portfolio's financial instruments.

The Portfolio 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 mortgages payable will not be able to be refinanced on terms similar to those of the existing indebtedness.

The Portfolio's objective of managing interest rate risk is to minimize the volatility of earnings. At June 29, 2012 and December 31, 2011, none of the Portfolio's mortgages payable bore interest at floating rates.

The Portfolio is not exposed to any other form of market risk.

(b) Credit risk:

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

The Portfolio is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the combined statements of financial position. The Portfolio monitors its risk exposure regarding obligations with counterparties (Canadian chartered banks) through the regular assessment of counterparties' credit positions.

The Portfolio 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 Portfolio monitors its collection process on a month-to-month basis to ensure that a stringent policy is adopted to provide for all past due amounts. All receivables from past tenants and tenant receivable balances exceeding 90 days are provided for as bad debt expense in the combined statements of income (loss) and comprehensive income (loss).

(c) Liquidity risk:

Liquidity risk is the risk that the Portfolio 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 Portfolio staggers the maturity dates of its mortgage portfolio over a number of years.

**17. FAIR VALUE MEASUREMENT:**

The tables below present the fair value of the Portfolio's assets and liabilities, reflecting the significance of inputs used when determining the fair value as at June 29, 2012 and December 31, 2011:

<b>2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Investment properties . . . . .	\$	\$	\$166,625	\$166,625
Instalment notes receivable . . . . .		1,271		1,271
	<u>\$</u>	<u>\$ 1,271</u>	<u>\$166,625</u>	<u>\$167,896</u>
<b>Liabilities</b>				
Mortgages payable . . . . .	\$	\$83,682	\$	\$ 83,682
	<u>\$</u>	<u>\$83,682</u>	<u>\$</u>	<u>\$ 83,682</u>

**TGA3 REIT PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**Period from January 1, 2012 to June 29, 2012 (date of REIT privatization)**  
**and year ended December 31, 2011**  
**(In thousands of Canadian dollars, except per unit amounts, unless otherwise stated)**  
**(Unaudited)**

**17. FAIR VALUE MEASUREMENT: (Continued)**

<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Investment properties . . . . .	\$	\$	\$136,762	\$136,762
Instalment notes receivable . . . . .		1,667		1,667
	<u>\$</u>	<u>\$ 1,667</u>	<u>\$136,762</u>	<u>\$138,429</u>
<b>Liabilities</b>				
Mortgages payable . . . . .	\$	\$85,005	\$	\$ 85,005
	<u>\$</u>	<u>\$85,005</u>	<u>\$</u>	<u>\$ 85,005</u>

The Portfolio uses various methods in estimating the fair values recognized in the combined 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 Portfolio's financial instruments:

(a) 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 spread rates used as at June 29, 2012 ranged from 1.12% to 2.02% (December 31, 2011 — 1.44% to 2.07%), depending on the nature and terms of the respective mortgages.

(b) Instalment notes receivable:

The fair value of instalment notes receivable is estimated based on the present value of future receipts, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying instalment note, plus an estimated credit spread at the reporting date for a comparable instalment note (Level 2). The spread rates used as at June 29, 2012 was 2.02% (December 31, 2011 — 2.07%).

(c) Other financial assets and financial liabilities:

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

**18. SUBSEQUENT EVENT:**

On June 29, 2012, the unitholders of the REIT approved the privatization of the REIT pursuant to the acquisition agreement with a third party.

**Pro Forma Consolidated Financial Statements**  
(In Canadian dollars)

**TRUE NORTH APARTMENT REAL  
ESTATE INVESTMENT TRUST**

As at and for the three months ended March 31, 2014  
and the year ended December 31, 2013  
(Unaudited)

**TRUE NORTH APARTMENT REAL ESTATE INVESTMENT TRUST**  
**PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(In thousands of Canadian dollars)

March 31, 2014

(Unaudited)

	<u>True North Apartment REIT</u>	<u>Private Portfolio II</u>	<u>Notes</u>	<u>Pro forma adjustments</u>	<u>Total</u>
<b>Assets</b>					
Investment properties . . . . .	\$530,467	\$294,305	3(b)	\$(15,539)	\$809,233
Instalment notes receivable . . . . .	1,139	—	3(b)(d)	1,500	2,639
Deposits . . . . .	542	327	3(b)	(327)	542
Tenant and other receivables . . . . .	2,104	256	3(b)	(256)	2,104
Prepaid expenses and other assets . . . . .	1,354	731	3(b)	(731)	1,354
Restricted cash . . . . .	1,545	728	3(b)	(728)	1,545
Cash and cash equivalents . . . . .	108	1,950	3(b)	(1,950)	
			3(f)	3,599	3,707
	<u>\$537,259</u>	<u>\$298,297</u>		<u>\$(14,432)</u>	<u>\$821,124</u>
<b>Liabilities and Unitholders' Equity</b>					
<b>Liabilities:</b>					
Mortgages payable . . . . .	\$294,490	\$231,446	3(c)	\$(40,076)	
			3(c)	331	
			3(b)(c)	(2,276)	
			3(b)(c)	637	\$484,552
Convertible unsecured debentures . . . . .	—	—	3(a)	20,000	20,000
Class B LP Units . . . . .	38,490	—	3(e)	73,257	111,747
Revolving credit facility . . . . .	12,950	—		—	12,950
Tenant rental deposits . . . . .	2,779	2,538	3(b)	—	5,317
Accounts payable and accrued liabilities . . .	8,092	4,817	3(b)	(4,817)	8,092
Finance costs payable . . . . .	1,056	969	3(b)	(969)	1,056
Distributions payable . . . . .	1,096	—		—	1,096
	358,953	239,770		46,087	644,810
Unitholders' equity . . . . .	178,306	58,527		(60,519)	176,314
Total liabilities and unitholders' equity . . . . .	<u>\$537,259</u>	<u>\$298,297</u>		<u>\$(14,432)</u>	<u>\$821,124</u>

*See accompanying notes to pro forma consolidated financial statements.*



**TRUE NORTH APARTMENT REAL ESTATE INVESTMENT TRUST**  
**PRO FORMA CONSOLIDATED STATEMENT OF INCOME (LOSS)**  
**AND COMPREHENSIVE INCOME (LOSS)**

(In thousands of Canadian dollars)  
**Three months ended March 31, 2014**  
(Unaudited)

	<u>True North Apartment REIT</u>	<u>Private Portfolio II</u>	<u>Notes</u>	<u>Pro forma adjustments</u>	<u>Total</u>
Revenue . . . . .	\$13,593	\$ 7,277		\$ —	\$20,870
Expenses:					
Property operating costs . . . . .	5,512	2,963		—	8,475
Realty taxes . . . . .	1,651	1,014		—	2,665
Trust expenses . . . . .	864	—	3(h)	293	1,157
Fair value adjustment of investment properties . .	<u>(2,553)</u>	<u>1,365</u>		<u>(1,365)</u>	<u>(2,553)</u>
	<u>5,474</u>	<u>5,342</u>		<u>(1,072)</u>	<u>9,744</u>
Income (loss) before finance income and finance costs . . . . .	8,119	1,935		1,072	11,126
Finance income . . . . .	4	—	3(d)	4	8
Finance costs . . . . .	(2,693)	(3,354)	3(i)(i)	1,485	
			3(i)(i)	(6)	
			3(i)(ii)	200	
Finance costs — distributions on Class B LP Units .	(816)	—	3(i)(iii)	(288)	(4,656)
Finance costs — fair value adjustment of Class B LP Units . . . . .	<u>(1,121)</u>	<u>—</u>	3(i)(iv)	(1,556)	(2,372)
Net income (loss) and comprehensive income (loss)	<u>\$ 3,493</u>	<u>\$(1,419)</u>		<u>\$ 911</u>	<u>\$ 2,985</u>

*See accompanying notes to pro forma consolidated financial statements.*

**TRUE NORTH APARTMENT REAL ESTATE INVESTMENT TRUST**  
**PRO FORMA CONSOLIDATED STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

Year ended December 31, 2013  
(In thousands of Canadian dollars)  
(Unaudited)

	True North Apartment REIT	Private Portfolio II	TC2 Portfolio	Portfolios subtotal	Notes	Pro forma adjustments	Total
Revenue	\$ 50,282	\$ 23,130	\$ 4,185	\$ 27,315		\$ —	\$ 77,597
Expenses:							
Property operating costs	16,781	8,924	2,231	11,155	3(g)	(161)	27,775
Realty taxes	5,877	3,427	555	3,982		—	9,859
Trust expenses	2,895	—	—	—	3(h)	1,170	4,065
Fair value adjustment of investment properties	(23,260)	(3,015)	2,316	(699)	3(b)	699	(23,260)
	<u>2,293</u>	<u>9,336</u>	<u>5,102</u>	<u>14,438</u>		<u>1,708</u>	<u>18,439</u>
Income (loss) before finance income and finance costs	47,989	13,794	(917)	12,877		(1,708)	59,158
Finance income	51	—	—	—	3(d)	16	67
Finance costs	(9,454)	(13,428)	(950)	(14,378)	3(i)(i)	7,226	
					3(i)(i)	(23)	
					3(i)(ii)	476	
					3(i)(iii)	(1,150)	(17,303)
					3(i)(iv)	(6,223)	(9,231)
Finance costs — distributions on Class B LP Units	(3,008)	—	—	—		—	8,289
Finance costs — fair value adjustment of Class B LP Units	8,289	—	—	—		—	(1,992)
Finance costs — fair value adjustment of convertible unsecured debentures	—	—	—	—	3(a)	(1,992)	(372)
Finance costs — distributions on subscription receipts	(372)	—	—	—		—	2,552
Finance costs — gain on extinguishment of subscription receipts	2,552	—	—	—		—	77
Finance costs — gain (loss) on extinguishment of mortgages payable	77	(156)	(372)	(528)	3(i)(v)	528	
Net income (loss) and comprehensive income (loss)	<u>\$ 46,124</u>	<u>\$ 210</u>	<u>\$ (2,239)</u>	<u>\$ (2,029)</u>		<u>\$ (2,850)</u>	<u>\$ 41,245</u>

*See accompanying notes to pro forma consolidated financial statements.*

**TRUE NORTH APARTMENT REAL ESTATE INVESTMENT TRUST**  
**NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

**As at March 31, 2014 and for the three months ended March 31, 2014 and year ended December 31, 2013**  
**(In thousands of Canadian dollars, except per Unit amounts)**  
**(Unaudited)**

**1. BASIS OF PRESENTATION:**

- (a) True North Apartment Real Estate Investment Trust (the “REIT”) is an unincorporated, open-ended real estate investment trust established under, and governed by the laws of the Province of Ontario pursuant to the Declaration of Trust dated May 1, 2012, as amended and restated as of September 28, 2012. The REIT incorporated True North General Partner Corp. (“TNGP”) on May 3, 2012, and together with TNGP formed True North Limited Partnership (“TNLP”) on May 3, 2012. The REIT invests primarily in multi-suite residential properties. The registered office of the REIT is 401 The West Mall, Suite 1100, Toronto, Ontario, Canada, M9C 5J5.

On May 3, 2013, the REIT commenced trading on the Toronto Stock Exchange under the symbol TN.UN, at which time the Units were delisted from, and ceased trading on, the TSX Venture Exchange. Contemporaneously, with the listing on the Toronto Stock Exchange, the Units and the Class B LP Units were consolidated on the basis of one (1) post-consolidated Unit and Class B LP Unit for two and one half (2.5) pre-consolidated Unit and Class B LP Unit (“Unit Consolidation”).

- (b) The unaudited pro forma consolidated financial statements of the REIT have been prepared from the following financial statements:
- Unaudited condensed consolidated interim financial statements of the REIT as at and for the three months ended March 31, 2014;
  - Audited consolidated financial statements of the REIT as at and for the year ended December 31, 2013;
  - Unaudited combined financial statements of the Private Portfolio II as at and for the three months ended March 31, 2014;
  - Audited combined financial statements of the Private Portfolio II as at and for the year ended December 31, 2013;
  - Audited combined financial statements of TC2 Portfolio for the period from January 1, 2013 to October 14, 2013.

The Private Portfolio II financial statements referred to above reflect the financial position and results of operations for the 29 properties contemplated to be acquired by the REIT (the “Acquisition Portfolio”) for the three months ended March 31, 2014. The audited combined financial statements of the Private Portfolio II include the properties of the TC2 Portfolio from the dates they were acquired by the Private Portfolio II during the year ended December 31, 2013.

The accompanying pro forma consolidated financial statements give effect to: (i) the offering of five year extendible unsecured convertible debentures (“the Debentures”) by the REIT (the “Offering”); and (ii) the acquisition of 29 properties that the REIT will acquire through the indirect acquisition of TN 4 LP, TN 5 LP and TN 6 LP (collectively “Acquisition LPs”) from Starlight Investments Inc. (“Starlight” or the “Vendor”) and its general partner (the “Acquisition”).

The unaudited pro forma consolidated statement of financial position gives effect to the transactions in note 3 as if they had occurred on March 31, 2014. The unaudited pro forma consolidated statements of income (loss) and comprehensive income (loss) give effect to the transactions in note 3 as if they had occurred on January 1, 2013.

The unaudited pro forma consolidated financial statements are not necessarily indicative of the results that would have actually occurred had the transactions been consummated at the dates indicated, nor are they necessarily indicative of future operating results or the financial position of the REIT.

**2. SIGNIFICANT ACCOUNTING POLICIES:**

Except as specified below, these pro forma consolidated financial statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (“IFRS”) and incorporate the principal accounting policies used to prepare the REIT and Acquisition Properties financial statements.

The Debentures are convertible into Units of the REIT. As the Units are redeemable at the option of the holder and are considered puttable instruments in accordance with International Accounting Standard (“IAS”) 32, Financial Instruments: Presentation — Offsetting Financial Assets and Liabilities (“IAS 32”), the convertible debentures are considered to be a financial liability containing liability-classified embedded derivatives. The REIT has elected to reflect the full outstanding amount of the convertible debentures at their fair value with the changes in the fair value being recognized as finance costs in the unaudited pro forma consolidated statement of income (loss) and comprehensive income (loss).

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

**TRUE NORTH APARTMENT REAL ESTATE INVESTMENT TRUST**  
**NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at March 31, 2014 and for the three months ended March 31, 2014 and year ended December 31, 2013**  
**(In thousands of Canadian dollars, except per Unit amounts)**  
**(Unaudited)**

**3. PRO FORMA ADJUSTMENTS:**

The pro forma adjustments to the unaudited pro forma financial statements have been prepared using the following assumptions to reflect the public offering and the acquisition:

(a) Public Offering:

The unaudited pro forma financial statements assume that the REIT will raise gross proceeds of approximately \$20,000 through the Offering of the Debentures. The Debentures have a coupon rate of 5.75% and mature on June 30, 2019, interest is payable semi-annually on June 30 and December 31 of each year. The conversion price is \$9.30 per Unit. The Debentures are convertible at the debenture holder's option into Units of the REIT. Costs related to the Debentures, including the underwriter's commission, legal and filing fees, are estimated to be \$1,992 and are charged directly to the unaudited pro forma consolidated statement of income (loss) and comprehensive income (loss).

(b) Acquisition:

The REIT will acquire the Acquisition Portfolio and instalment note for a purchase price of \$285,999. On acquisition, the REIT will assume existing mortgage loans with a fair value of \$65,601 (including a mark to market adjustment of \$331 and net of financing costs of \$315).

As consideration, the REIT will assume a vendor take-back mortgage of \$637 (including a mark to market adjustment of \$113), which has been reflected as a reduction in the purchase price.

The REIT will also issue 8,890,466 Class B LP Units of the Acquisition LPs at a price of \$9.00 per Unit for a total of \$80,014. This represents an estimated \$0.76 premium per Unit over the fair value of the Class B LP Units of \$8.24 per unit as at March 31, 2014, resulting in a total premium of \$6,757, which has been reflected as a reduction in the purchase price. The remaining consideration was paid in cash.

The acquisitions of investment properties in the Private Portfolio II have been accounted for as asset acquisitions and, therefore, acquisition costs of \$806 are capitalized on acquisition. Pursuant to the terms of the Acquisition, no acquisition fees were paid to Starlight.

The impact of acquiring the net assets of the Acquisition Portfolio is as follows:

	<b>Acquisition Portfolio</b>
Net assets acquired:	
Investment properties (including acquisition costs of \$806, adjustment for Class B LP Units premium of \$6,757 and a net mark-to-market adjustment of \$218) . . . . .	\$278,766
Present value of instalment note . . . . .	1,500
Mortgages payable (including mark-to-market adjustment of \$331 and net of financing costs of \$315) . . . . .	(65,601)
Tenant rental deposits . . . . .	(2,538)
	<u>\$212,127</u>
Consideration paid:	
Vendor take-back mortgage (including mark-to-market adjustment of \$113) . . . . .	\$ 637
Class B LP Units of the Acquisition LPs issued (net of adjustment for premium of \$6,757) . . . . .	73,257
Cash paid . . . . .	138,233
	<u>\$212,127</u>

The actual calculation and allocation of the purchase price for the transactions outlined above will be based on the assets purchased and liabilities assumed at the effective date of the acquisition and other information available at that date. Accordingly, the actual amounts for each of these assets and liabilities will vary from the pro forma amounts and the variation may be material.

Deposits, tenant and other receivables, prepaid expenses and other assets, restricted cash, cash and cash equivalents, accounts payable and accrued liabilities, finance costs payable and unamortized deferred financing cost will not be assumed on acquisition of

**TRUE NORTH APARTMENT REAL ESTATE INVESTMENT TRUST**

**NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at March 31, 2014 and for the three months ended March 31, 2014 and year ended December 31, 2013  
(In thousands of Canadian dollars, except per Unit amounts)  
(Unaudited)**

**3. PRO FORMA ADJUSTMENTS: (Continued)**

the Private Portfolio II. Tenant rental deposits will be transferred upon completion of the acquisition of the Acquisition Portfolio (the “Closing”).

(c) Debt:

On Closing, the REIT will assume existing mortgages on the Private Portfolio II in the amount of \$65,585, and will record a mark-to-market adjustment of \$331. The remaining existing mortgages amounting to \$166,853 will be discharged by Private Portfolio II prior to Closing, net of \$992 in associated financing costs. The REIT will incur additional financing costs of \$315 in connection with the assumption of mortgages. The mortgages are secured by first charges on the investment properties and have maturity dates ranging from September 1, 2014 to February 1, 2021.

The REIT will obtain new financing by way of 42 new mortgages in the amount of \$126,777, of which 36 of the mortgages will have a 5 year term and the remaining 6 mortgages will have a 1 year term and are secured by a first or second charge on certain properties and bear interest ranging from 100 basis points to 360 basis points over the relevant Government of Canada bond yield. The REIT will incur additional financing costs of \$738 and a Canada Mortgage and Housing Corporation (“CMHC”) premium of \$2,215 in connection with these new mortgages.

The REIT will obtain a \$750 vendor take-back mortgage payable which has a maturity date of five years from the date of Closing and bearing interest at an annual rate of 3%, payable monthly in arrears. This mortgage will be secured by a second charge on one of the REIT’s properties. The vendor take-back mortgage shall be fully open for prepayment without penalty during the first year of the term.

(d) Instalment note receivable and interest income:

As described in note 3(c) above, on acquisition, Starlight will issue to the REIT an instalment note. Starlight will make monthly instalment payments to the REIT under an instalment note receivable to compensate the REIT for assuming mortgages at above prevailing market interest rates. The instalment note has a present value of \$1,500, is non-interest bearing, and matures on various dates between June 2017 and February 2021. Interest income of \$4 and \$16 for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively, at an imputed interest rate of 2.50%, has been included in the pro forma consolidated statement of income (loss) and comprehensive income (loss). The receipt of the principal portion of the instalment payments will be recorded as a reduction of the instalment note receivable and is, therefore, not recorded as revenue.

(e) Class B LP Units:

On Closing, the Acquisition LPs will issue 8,890,466 Class B LP Units of the Acquisition LPs to the Vendor at \$9.00 per Unit for gross proceeds of \$80,014, which reflects a premium of \$6,757 over the closing price of \$8.24 per unit as at March 31, 2014, which has been reflected as a reduction in the purchase price.

(f) Sources and uses of cash:

The REIT’s sources and uses of cash after the completion of the contemplated acquisition are as follows:

	<u>Acquisition Portfolio</u>
Sources:	
New mortgage financing obtained, net of financing costs . . . . .	\$ 123,824
Debentures, net of issue costs . . . . .	18,008
Uses:	
Purchase of the properties . . . . .	<u>(138,233)</u>
Cash . . . . .	<u>\$ 3,599</u>

## TRUE NORTH APARTMENT REAL ESTATE INVESTMENT TRUST

### NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at March 31, 2014 and for the three months ended March 31, 2014 and year ended December 31, 2013  
(In thousands of Canadian dollars, except per Unit amounts)  
(Unaudited)

#### 3. PRO FORMA ADJUSTMENTS: (Continued)

(g) Property operating costs:

The REIT will enter into an external property management agreement for the Acquisition Portfolio on Closing. The net impact of this change on operating expenses for the Private Portfolio II and the TC2 Portfolio is a decrease of \$161 for the year ended December 31, 2013.

(h) Trust expenses:

- (i) Trust expenses have been adjusted to reflect management's best estimate of additional general and administrative expenses for the REIT in the amount of \$43 and \$169 for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively. Trust expenses include legal fees, audit fees, trustee fees, annual report costs, transfer agents fees and other miscellaneous costs.

Included in the REIT's trust expenses for the year ended December 31, 2013 are one-time listing and professional fees of \$244 incurred in connection with the graduation to the Toronto Stock Exchange.

- (ii) Pursuant to the Asset Management Agreement, Starlight provides asset management services to the REIT. Starlight is entitled to an asset management fee of 0.35% of the purchase price of the properties. Trust expenses have also been increased by asset management fees in the amount of \$250 and \$1,001 for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively.

(i) Finance costs have been adjusted for:

(i) Debt:

For the Private Portfolio II, finance costs have been decreased by \$1,485 and \$7,226 for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively, reflecting interest expense on the \$126,777 of new mortgage financing to be obtained, the discharge of mortgages in the amount of \$166,853 and change in interest on the \$65,585 of mortgages assumed.

Finance costs have also been increased by \$6 and \$23 for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively, reflecting interest expense on the vendor take-back mortgages at 3.00% per annum.

(ii) Amortization of mark-to-market premium and deferred financing costs:

Finance costs have been decreased by \$200 and \$476 for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively, to reflect the amortization of mark-to-market premium on mortgages assumed and amortization of deferred financing costs and CMHC premium related to the Acquisition.

(iii) Debentures:

Finance costs have also been increased by \$288 and \$1,150 for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively, to reflect the finance costs on the Debentures. The Debentures have a coupon rate of 5.75% and mature on June 30, 2019.

(iv) Class B LP Units:

Finance costs have been increased to reflect distributions on the Class B LP Units of \$1,556 and \$6,223 for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively, based on an anticipated annual distribution of \$0.70 per Unit.

(v) Gain on extinguishment of mortgages payable:

Finance costs have been decreased by \$528 for the year ended December 31, 2013 to remove the impact of the extinguishment of mortgages payable included in the Private Portfolio II and TC2 Portfolio.

(j) Income taxes:

The REIT is a mutual fund trust and a 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 that 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 that the REIT will not be liable to pay income taxes. Accordingly, no current or deferred income taxes have been recorded in these pro forma consolidated financial statements.

