

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	September 30, 2023	December 31, 2022
Assets		
Non-current assets:		
Investment properties (note 6)	\$ 1,282,639	\$ 1,340,583
Derivative instruments (note 12)	2,950	2,338
Other assets (note 5)	944	1,103
Total non-current assets	1,286,533	1,344,024
Current assets:		
Investment properties held for sale (note 6)	31,047	84,250
Tenant and other receivables (note 7)	6,156	7,318
Prepaid expenses and deposits	4,057	3,279
Derivative instruments (note 12)	2,392	1,943
Cash and cash equivalents	6,383	9,501
Total current assets	50,035	106,291
Total assets	\$ 1,336,568	\$ 1,450,315
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 8)	\$ 703,836	\$ 683,393
Class B LP Units (note 9)	5,207	14,628
Total non-current liabilities	709,043	698,021
Current liabilities:		
Mortgages payable (note 8)	100,284	163,296
Credit Facility (note 10)	18,100	14,400
Tenant rental deposits and prepayments	7,129	8,259
Accounts payable and accrued liabilities (note 11)	38,225	44,201
Total current liabilities	163,738	230,156
Total liabilities	872,781	928,177
Unitholders' equity (note 13)	463,787	522,138
Total liabilities and unitholders' equity	\$ 1,336,568	\$ 1,450,315

Subsequent events (note 22).

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on November 13, 2023.

“Sandy Poklar” _____ Trustee

“Alon Ossip” _____ Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Revenue (note 15)	\$ 32,789	\$ 36,677	\$ 99,337	\$ 108,124
Expenses:				
Property operating	9,699	9,526	28,800	27,048
Realty taxes	5,008	5,175	15,335	15,221
	18,082	21,976	55,202	65,855
Other income (expenses):				
General and administration expenses	(1,349)	(1,294)	(4,307)	(4,180)
Finance costs (note 16)	(8,756)	(7,725)	(25,374)	(22,225)
Transaction costs on sale of investment properties	(1,131)	—	(1,375)	—
Distributions on Class B LP Units (note 9)	(181)	(400)	(679)	(1,298)
Fair value adjustment of Class B LP Units (note 9)	584	1,629	9,179	5,045
Fair value adjustment of investment properties and investment properties held for sale (note 6)	(50,087)	(6,842)	(68,391)	(10,122)
Unrealized gain on change in fair value of derivative instruments (note 12)	366	702	1,061	5,362
Net income and comprehensive income	\$ (42,472)	\$ 8,046	\$ (34,684)	\$ 38,437

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Nine months ended September 30, 2023 and 2022
(Unaudited)

	Unit capital	Income and distributions	Total
	(note 13(b))		
Unitholders' equity, January 1, 2022	\$ 544,117	\$ (4,048)	\$ 540,069
Changes during the period:			
Units issued, net of costs	12,624	—	12,624
Net income and comprehensive income for the period	—	38,437	38,437
Distributions	—	(40,002)	(40,002)
Issue of Units under DRIP (note 13(e))	4,989	—	4,989
Unitholders' equity, September 30, 2022	561,730	(5,613)	556,117
Changes during the period:			
Units issued, net of costs	(1)	—	(1)
Net income and comprehensive income for the period	—	(21,905)	(21,905)
Distributions	—	(13,621)	(13,621)
Issue of Units under DRIP (note 13(e))	1,548	—	1,548
Unitholders' equity, December 31, 2022	563,277	(41,139)	522,138
Changes during the period:			
Units issued and repurchased, net of costs	(206)	—	(206)
Net income and comprehensive income for the period	—	(34,684)	(34,684)
Distributions	—	(25,052)	(25,052)
Issue of Units under DRIP (note 13(e))	1,591	—	1,591
Unitholders' equity, September 30, 2023	\$ 564,662	\$ (100,875)	\$ 463,787

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows
(In thousands of Canadian dollars)
Three and nine months ended September 30, 2023 and 2022
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Operating activities:				
Net income and comprehensive income for the period	\$ (42,472)	8,046	\$ (34,684)	38,437
Adjustments for financing activities included in income:				
Finance costs (note 16)	8,756	7,725	25,374	22,225
Unrealized gain on change in fair value of derivative instruments (note 12)	(366)	(702)	(1,061)	(5,362)
Distributions on Class B LP Units (note 9)	181	400	679	1,298
Fair value adjustment of Class B LP Units (note 9)	(584)	(1,629)	(9,179)	(5,045)
Adjustments for items not involving cash:				
Fair value adjustment of investment properties and investment properties held for sale (note 6)	50,087	6,842	68,391	10,122
Unit-based compensation expense	114	93	446	541
Fair value adjustment of Unit-based compensation	(54)	(105)	(486)	(587)
Straight-line rental revenue	(226)	581	(710)	1,537
Amortization of leasing costs and tenant inducements	2,428	1,584	6,735	4,772
Transaction costs on sale of investment properties	1,131	—	1,375	—
Change in non-cash operating working capital (note 17)	(2,426)	(702)	(6,080)	(1,709)
Cash provided by operating activities	16,569	22,133	50,800	66,229
Investing activities:				
Dispositions (acquisitions) (note 4)	40,368	(41,147)	47,374	(41,147)
Additions to investment properties and investment properties held for sale (note 6)	(3,590)	(4,208)	(10,304)	(12,469)
Cash provided by (used in) investing activities	36,778	(45,355)	37,070	(53,616)
Financing activities:				
Proceeds from Credit Facility	6,200	11,900	19,200	29,400
Repayment of Credit Facility	(10,600)	(17,400)	(15,500)	(25,300)
Proceeds from mortgage financing, net of costs	36,312	80,989	67,249	112,271
Repayment of mortgage financing	(36,452)	(35,892)	(61,704)	(61,585)
Repayment of mortgages on sale of investment properties	(27,535)	—	(31,057)	—
Principal payments on mortgages	(5,840)	(5,964)	(18,085)	(18,098)
Payments received on instalment notes receivable	13	16	41	48
Proceeds from vendor take-back mortgage	—	1,120	—	1,120
Cash distributions on Class B LP Units	(181)	(370)	(689)	(1,158)
Finance costs paid	(8,288)	(7,221)	(24,070)	(21,076)
Units repurchased and cancelled under NCIB	(200)	—	(500)	—
Proceeds from issuance of Units, net of costs	13	7,502	(89)	9,063
Cash distributions to unitholders	(6,833)	(11,807)	(25,784)	(35,038)
Cash (used in) provided by financing activities	(53,391)	22,873	(90,988)	(10,353)
(Decrease) increase in cash and cash equivalents	(44)	(349)	(3,118)	2,260
Cash and cash equivalents, beginning of period	6,427	8,085	9,501	5,476
Cash and cash equivalents, end of period	\$ 6,383	7,736	\$ 6,383	7,736
Supplemental cash flow information:				
Units issued under DRIP – unitholders	—	1,591	1,536	4,824
Units issued under DRIP – Class B LP Units	—	55	55	165
Units issued in exchange for Class B LP Units	—	3,182	242	3,182

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

Organization:

True North Commercial Real Estate Investment Trust (the “REIT”) is an unincorporated, open-ended real estate investment trust established pursuant to the third amended and restated declaration of trust made as of May 11, 2021 (“DOT”), and governed by the laws of the Province of Ontario. The REIT incorporated True North Commercial General Partner Corp. (“TNCGP”) on November 16, 2012 and with TNCGP, formed True North Commercial Limited Partnership (“TNCLP”) on November 16, 2012.

The REIT is listed on the Toronto Stock Exchange (“TSX”) under the symbol TNT.UN. The registered office of the REIT is 1400 - 3280 Bloor Street West, Centre Tower, Toronto, Ontario, Canada, M8X 2X3.

1. Basis of Presentation

(a) Statement of compliance:

These condensed consolidated interim financial statements of the REIT have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Selected explanatory notes are included to explain significant events and transactions to understand the changes in financial position and performance of the REIT since the last audited annual consolidated financial statements as at and for the year ended December 31, 2022. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed.

The condensed consolidated interim financial statements were approved on behalf of the board of trustees (“Trustees”) on November 13, 2023.

(b) Basis of presentation:

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

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

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for investment properties, class B limited partnership units of TNCLP (“Class B LP Units”), trust unit (“Units”) options, incentive units under the REIT’s incentive trust unit plan dated June 19, 2019 as amended and restated on March 21, 2022 and March 14, 2023 (the “Incentive Unit Plan”) and derivative instruments, which are stated at their fair values.

(c) Critical judgments and estimates:

In preparing these condensed consolidated interim financial statements, significant judgments and estimates made by management in applying accounting policies were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2022.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

2. Accounting policies:

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the REIT's annual consolidated financial statements for the year ended December 31, 2022, except for the adoption of new standards effective January 1, 2023. The REIT has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The amendments that apply for the first time in 2023 do not have a material impact on the condensed consolidated interim financial statements of the REIT.

3. Current economic conditions:

The overall impact that the Bank of Canada's fiscal interventions is expected to have on debt and equity markets, as well as the general economy, remains unknown. Rising interest rates may continue to put downward pressure on the fair value of investment properties. The future cash flows of an investment property are based upon rental income from current leases and assumptions about occupancy rates, market rents from future leases and the cash outflows arising from current and future leases.

The REIT continues to revise its estimates concerning rental growth and lease renewal assumptions to reflect expected market conditions, and currently, future cash flows are predicted to remain relatively stable as government and credit rated tenants comprise the majority of the REIT's tenant base. However, given the continued uncertainty surrounding the approach by certain tenants to continue working from home, combined with rising interest rates and the potential negative impact these may have on certain sectors of the real estate industry, it is not possible to predict how the fair value of the REIT's investment properties may be impacted in the longer term. Significant changes in rental income, occupancy rates, tenant inducements and market rents could negatively impact future valuations of the REIT's investment properties. The fair value of the REIT's investment properties as at September 30, 2023 is based upon available market data which given the lack of relevant transactions is limited.

The REIT's assessment of expected credit losses is subjective and is based upon forward looking assessments of collectability. As a result, any expected credit loss is uncertain and the assumptions upon which it is based may change due to the ongoing uncertainty caused by shifting economic conditions.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

4. Acquisitions and Dispositions:

The REIT completed the sale of the following properties during the nine months ended September 30, 2023:

Property	Sale Date	Sale Price	Net Proceeds
400 Carlingview Drive, Toronto, Ontario	March 10, 2023	\$ 7,250	\$ 7,006
360 Laurier Avenue West, Ottawa, Ontario	July 10, 2023	\$ 17,500	\$ 17,080
32071 South Fraser Way, Abbotsford, British Columbia	July 31, 2023	\$ 24,000	\$ 23,288

All three properties were classified under investment properties held for sale as at December 31, 2022. The assets and liabilities associated with the disposition of these properties have been derecognized.

There were no acquisitions completed during the nine months ended September 30, 2023.

The REIT acquired 400 Cumberland Street, Ottawa, Ontario on August 22, 2022. The acquisition was accounted for as an asset acquisition. The fair value of consideration was allocated to the identifiable assets acquired and liabilities assumed based on their fair values at the date of acquisition.

Nine months ended September 30, 2022:

	400 Cumberland Street	
	August 22, 2022	
Acquisition date	August 22, 2022	
Net assets acquired:		
Investment properties (including acquisition costs of \$1,333)	\$	38,845
Other receivables		2,970
Prepaid expenses and deposits		323
Tenant rental deposits		(7)
Accounts payable and accrued liabilities		(984)
	\$	41,147
Consideration:		
Cash on hand	\$	10,929
Mortgage financing, net of financing costs of \$157		30,218
	\$	41,147

5. Other assets:

	September 30, 2023	December 31, 2022
Instalment notes receivable	92	128
Deposits	852	975
	\$ 944	\$ 1,103

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

6. Investment properties and investment properties held for sale:

The following table summarizes the changes in investment properties and investment properties held for sale for the nine months ended September 30, 2023 and 2022:

	Investment properties	Investment properties held for sale	Total
Balance, December 31, 2021	\$ 1,403,579	—	1,403,579
Acquisitions	38,845	—	38,845
Additions	12,469	—	12,469
Amortization of leasing costs, tenant inducements and straight-line rents	(4,802)	—	(4,802)
Fair value adjustment	(10,122)	—	(10,122)
Balance, September 30, 2022	1,439,969	—	1,439,969
Additions	19,184	—	19,184
Amortization of leasing costs, tenant inducements and straight-line rents	(2,517)	—	(2,517)
Fair value adjustment	(31,803)	—	(31,803)
Investment properties held for sale	(84,250)	84,250	—
Balance, December 31, 2022	1,340,583	84,250	1,424,833
Additions	10,012	292	10,304
Dispositions	—	(48,750)	(48,750)
Amortization of leasing costs, tenant inducements and straight-line rents	(3,994)	(316)	(4,310)
Fair value adjustment	(63,962)	(4,429)	(68,391)
Balance, September 30, 2023	\$ 1,282,639	31,047	1,313,686

During the nine months ended September 30, 2023 the REIT disposed of three properties which were classified as held for sale as at December 31, 2022 (note 4).

The REIT determines the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and the direct capitalization method, both of which are generally accepted appraisal methodologies. The key valuation assumptions for the REIT's investment properties are set out in the following table:

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

6. Investment properties and investment properties held for sale (continued):

	September 30, 2023	September 30, 2022
Terminal and direct capitalization rates – range	5.50% to 9.50%	4.25% to 9.50%
Terminal and direct capitalization rate – weighted average	6.59%	6.21%
Discount rates – range	6.00% to 9.75%	5.75% to 9.75%
Discount rate – weighted average	7.15%	6.96%

Investment properties are independently appraised at the time of acquisition. In addition, the REIT engages independent valuation firms to appraise its investment properties such that the majority of the portfolio is independently appraised at least once over a three year period. When an independent appraisal is obtained, the reasonableness of the assumptions are assessed and adjustments made to the internal valuations as required. During the nine months ended September 30, 2023 there were ten (for the year ended December 31, 2022 – 21) properties externally appraised representing a total fair value of \$190,607 (for the year ended December 31, 2022 – \$747,910).

The fair value of the REIT's investment properties are sensitive to changes in key valuation assumptions. Changes in the terminal and direct capitalization rates and discount rates would result in changes to the fair value of the REIT's investment properties as set out in the following table:

	2023	
Weighted average terminal, direct capitalization and discount rate:		
25-basis point increase	\$	(81,242)
25-basis point decrease		24,076

7. Tenant and other receivables:

	September 30, 2023	December 31, 2022
Tenant receivables	\$ 2,430	\$ 1,655
Mortgage loan receivable	1,725	1,725
Instalment notes receivable	49	54
Other receivables	1,952	3,884
	\$ 6,156	\$ 7,318

Mortgage loan receivable consists of a vendor take-back mortgage on an investment property disposition. This mortgage bears interest at 3.45% per annum and was repaid on October 20, 2023.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

8. Mortgages payable:

As at September 30, 2023, the REIT had \$807,164 (December 31, 2022 – \$850,434) of mortgage principal balances outstanding. The mortgages carry a weighted average fixed interest rate of 4.03% (December 31, 2022 – 3.54%) and a weighted average term to maturity of 2.99 years (December 31, 2022 – 3.27 years). All interest rates are fixed for the term of the respective mortgage except for three (December 31, 2022 – two) of the REIT's mortgages, two (December 31, 2022 - two) of which have utilized interest rate swaps to fix their floating interest rates (note 12). The mortgages are secured by first and second charges on the respective properties.

As at September 30, 2023, mortgages including mortgages payable associated with investment properties held for sale (note 6) are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2023 – remainder of year	\$ 5,651	\$ 63,679	\$ 69,330	\$ 30,714
2024	22,220	81,598	103,818	26,075
2025	15,071	197,178	212,249	17,892
2026	13,485	145,486	158,971	15,644
2027	8,265	78,910	87,175	10,335
Thereafter	9,786	165,835	175,621	8,528
Face value	<u>\$ 74,478</u>	<u>\$ 732,686</u>	<u>\$ 807,164</u>	<u>\$ 109,188</u>
Unamortized mark to market mortgage adjustments			136	
Unamortized financing costs			(3,180)	
Total mortgages payable			<u>\$ 804,120</u>	

The outstanding balance of mortgages payable associated with investment properties held for sale as at September 30, 2023 was \$26,108 (December 31, 2022 - \$58,330).

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

8. Mortgages payable (continued):

The following table provides a breakdown of the current and non-current portions of mortgages payable including mortgages payable associated with investment properties held for sale (note 6):

	September 30, 2023	December 31, 2022
Current:		
Mortgages payable	\$ 101,483	\$ 164,521
Unamortized mark to market mortgage adjustments	31	34
Unamortized financing cost	(1,230)	(1,259)
	100,284	163,296
Non-current:		
Mortgages payable	705,681	685,913
Unamortized mark to market mortgage adjustments	105	127
Unamortized financing cost	(1,950)	(2,647)
	703,836	683,393
	\$ 804,120	\$ 846,689

9. Class B LP Units:

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

The following table summarizes the changes in Class B LP Units for the nine months ended September 30, 2023 and 2022:

	Class B LP Units	Amount
Outstanding, January 1, 2022	3,022,849	\$ 22,400
Class B LP Units exchanged to Units	(496,435)	(3,182)
Fair value adjustment	—	(5,045)
Outstanding, September 30, 2022	2,526,414	14,173
Fair Value Adjustment	—	455
Outstanding, December 31, 2022	2,526,414	14,628
Class B LP Units exchanged to Units	(93,750)	(242)
Fair value adjustment	—	(9,179)
Outstanding, September 30, 2023	2,432,664	\$ 5,207

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

9. Class B LP Units (continued):

During the three and nine months ended September 30, 2023 and 2022, distributions on Class B LP Units were \$181 (three months ended September 30, 2022 - \$400) and \$679 (nine months ended September 30, 2022 - \$1,298), respectively, and have been recorded as an expense in the condensed consolidated interim statements of income and comprehensive income.

10. Credit facility:

The REIT has a \$60,000 floating rate revolving credit facility ("Credit Facility") with a Canadian chartered bank which is comprised of two tranches: (i) up to \$35,000 secured by first and second charges on certain investment properties, bearing interest on cash advances at 95 basis points per annum above the prime rate or 195 basis points per annum over the floating banker's acceptance rate; and (ii) \$25,000 unsecured, bearing interest on cash advances at 190 basis points per annum above the prime rate or 290 basis points per annum over the floating banker's acceptance rate.

On August 19, 2022, the REIT renewed its Credit Facility for a further two years maturing December 1, 2024, which included an increase to \$68,000 from \$60,000, with the additional \$8,000 having expired on July 31, 2023 to align with the sale of 32071 South Fraser Way.

As at September 30, 2023, the REIT had \$18,100 drawn on the Credit Facility (\$14,400 - December 31, 2022).

11. Accounts payable and accrued liabilities:

	September 30, 2023	December 31, 2022
Accounts payable and accrued liabilities	\$ 33,437	\$ 36,974
Finance costs payable	2,182	1,925
Class B LP distributions payable	60	125
Distributions payable	2,277	4,545
Unit-based compensation liability (note 13(c))	269	632
	<u>\$ 38,225</u>	<u>\$ 44,201</u>

12. Derivative instruments:

The REIT has entered into interest rate swaps to eliminate its interest rate exposure for certain floating rate mortgages. The interest rate swaps expire co-terminously upon the maturity of the corresponding mortgages.

The combined notional principal amount of the outstanding interest rate swap contracts at September 30, 2023 was \$72,712 (December 31, 2022 - \$74,383). Total unrealized gain on change in the fair value of the derivative instruments for the three and nine months ended September 30, 2023 was \$366 (three months ended September 30, 2022 - \$702) and \$1,061 (nine months ended September 30, 2022 - \$5,362), respectively.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

13. Unitholders' equity:

(a) Units:

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units. Each Unit confers the right to one vote at any meeting of unitholders and to participate *pro rata* in all distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. The unitholders of the REIT have the right to require the REIT to redeem their Units on demand as set out in the DOT. The Units have no par value.

(b) Units outstanding:

The following table summarizes the changes in Units for the nine months ended September 30, 2023 and 2022:

	Units	Amount
Balance, December 31, 2021	88,718,265	\$ 544,117
Issue of Units:		
DRIP	763,959	4,989
Options exercised	61,986	398
Exchange of Class B LP Units (note 9)	496,435	3,182
ATM Program	1,450,800	9,460
Incentive Units redeemed	55,314	368
Issuance costs	—	(784)
Balance, September 30, 2022	91,546,759	561,730
Issue of Units:		
DRIP	266,314	1,548
Issuance costs	—	(1)
Balance, December 31, 2022	91,813,073	563,277
Issue of Units:		
DRIP	269,370	1,591
Exchange of Class B LP Units (note 9)	93,750	242
Incentive Units redeemed	39,958	141
Units repurchased and cancelled under NCIB	(208,400)	(500)
Issuance costs	—	(89)
Balance, September 30, 2023	92,007,751	\$ 564,662

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

13. Unitholders' equity (continued):

During the nine months ended September 30, 2023 the REIT did not issue Units through the at-the-market equity program ("ATM Program"). For the year ended December 31, 2022 the REIT issued 1,450,800 Units for cash of \$9,460 through the ATM Program.

During the nine months ended September 30, 2023 the REIT repurchased and cancelled 208,400 Units for cash of \$500 through the normal course issuer bid ("NCIB").

(c) Unit-based compensation plan:

(i) Incentive Unit Plan:

The Incentive Unit Plan issues two types of securities: (i) deferred units ("Deferred Units") and (ii) restricted units ("Restricted Units").

Deferred Units

Deferred Units are granted to the non-executive Trustees as part of a Trustee's annual board retainer, including any chairman retainers, and vest immediately. Trustees are required to receive at least 50% of their annual retainer in the form of Deferred Units.

The following table summarizes the changes in Deferred Units for the nine months ended September 30, 2023 and 2022:

	Deferred Units	Amount
Balance at January 1, 2022	77,813	\$ 576
Granted and reinvested	23,171	148
Redeemed	(61,676)	(390)
Fair value adjustment	—	(114)
Balance, September 30, 2022	39,308	220
Granted and reinvested	7,919	46
Fair value adjustment	—	7
Balance, December 31, 2022	47,227	273
Granted and reinvested	46,544	121
Redeemed	(3,600)	(22)
Fair value adjustment	—	(179)
Balance, September 30, 2023	90,171	\$ 193

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

13. Unitholders' equity (continued):

Restricted Units

The Trustees may, at their discretion, grant Restricted Units to certain Trustees, officers of the REIT and its subsidiaries and certain eligible service providers, subject to such restrictions including vesting requirements the Trustees may impose. The Trustees may not extend any vesting conditions beyond November 30 of the third calendar year following grant date.

The following table summarizes the changes in Restricted Units for the nine months ended September 30, 2023 and 2022:

	Restricted Units	Amount
Balance at January 1, 2022	90,377	393
Granted and reinvested	102,324	392
Redeemed and expired	(101,775)	(436)
Fair value adjustment	—	(100)
Balance, September 30, 2022	90,926	249
Granted and reinvested	2,318	79
Fair value adjustment	—	3
Balance, December 31, 2022	93,244	331
Granted and reinvested	96,884	326
Redeemed and expired	(87,019)	(301)
Fair value adjustment	—	(280)
Balance, September 30, 2023	103,109	\$ 76

On July 4, 2023, the REIT issued 38,291 Restricted Units at a price of \$2.3504 per Unit. On March 14, 2023, the REIT issued 50,982 Restricted Units at a price of \$5.8013 per Unit.

On June 30, 2023, 35,262 Restricted Units were redeemed for 16,385 Units at a price of \$2.3351 per Unit. On May 15, 2023, 4,316 Restricted Units were redeemed for 2,052 Units at a price of \$2.6462 per Unit. On March 21, 2023, 33,201 Restricted Units were redeemed for 13,977 Units at a price of \$3.7645 per Unit. On March 13, 2023, 14,064 Restricted Units were redeemed for 6,052 Units at a price of \$5.8688 per Unit.

On June 30, 2022, 5,331 Restricted Units were redeemed for 2,417 Units at a price of \$6.3235 per Unit. On March 21, 2022, the REIT issued 96,029 Restricted Units and 57,044 Restricted Units were redeemed for 24,619 Units at a price of \$7.0459 per Unit.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

13. Unitholders' equity (continued):

(ii) Unit Options:

The Unit option plan has been suspended and no further options may be granted. As at September 30, 2023, all Unit options have vested and expired.

The following table summarizes the changes in Unit options outstanding for the nine months ended September 30, 2023 and 2022:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2021	501,336	\$ 6.48	1.23	501,336
Unit options exercised	(108,334)	6.28	—	—
Outstanding, September 30, 2022	393,002	6.53	0.58	393,002
Unit options expired or exercised	(102,334)	6.44	—	—
Outstanding, December 31, 2022	290,668	6.56	0.49	290,668
Unit options expired or exercised	(290,668)	6.56	—	—
Outstanding, September 30, 2023	—	—	—	—

There are no Unit options outstanding as of September 30, 2023.

Unit options expense is determined using the Black-Scholes option pricing model.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

13. Unitholders' equity (continued):

The REIT's Unit-based compensation expense recognized in general and administrative expense for the three and nine months ended September 30, 2023 and 2022 was:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Unit options	\$ —	\$ (89)	\$ (27)	\$ (373)
Restricted Units	28	55	46	293
Deferred Units	32	22	(59)	34
Unit-based compensation expense	\$ 60	\$ (12)	\$ (40)	\$ (46)
Fair value remeasurement expense included in the above:				
Unit options	\$ —	\$ (89)	\$ (27)	\$ (373)
Restricted Units	(35)	5	(280)	(100)
Deferred Units	(19)	(21)	(179)	(114)
	\$ (54)	\$ (105)	\$ (486)	\$ (587)

As at September 30, 2023 the carrying value of the unit-based compensation liability was \$269 (December 31, 2022 – \$632) (note 11).

(d) Distributions:

Under the DOT, the total amount of income of the REIT to be distributed to unitholders for each calendar month is at the discretion of the Trustees, however, the total income distributed shall not be less than the amount necessary to ensure the REIT will not be liable to pay income tax for any year.

The REIT paid a monthly distribution of \$0.0495 per Unit or \$0.594 per Unit on an annualized basis until March 14, 2023, when the REIT reduced its monthly cash dividend from \$0.0495 per Unit to \$0.02475 per Unit or \$0.297 per Unit on an annualized basis. The new declared distribution was paid on April 17, 2023 to unitholders of record on March 31, 2023. For the nine months ended September 30, 2023 and 2022, the REIT declared distributions of \$25,052 and \$40,002 respectively.

(e) Dividend reinvestment plan ("DRIP"):

On April 12, 2023, the REIT announced the suspension of the DRIP until further notice. As a result, unitholders received distributions in cash effective with the distribution paid on April 17, 2023 to unitholders of record on March 31, 2023. For the nine months ended September 30, 2023 and 2022, the REIT issued 269,370 and 763,959 Units under the DRIP for a value of \$1,591 and \$4,989, respectively.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

13. Unitholders' equity (continued):

(f) Short form base shelf prospectus:

On February 17, 2022, the REIT filed a short-form base shelf prospectus which is valid for a 25 month period, during which time the REIT may issue the following securities: (i) Units; (ii) preferred units; (iii) unsecured debt securities; (iv) subscription receipts exchangeable for Units and/or other securities of the REIT; (v) warrants exercisable to acquire Units and/or other securities of the REIT; and (vi) securities comprised of more than one of Units, debt securities, subscription receipts and/or warrants offered together as a unit, or any combination thereof in amounts, at prices and on terms based on market conditions at the time of sale and set forth in an accompanying prospectus supplement, for an aggregate offering amount of up to \$500,000.

On April 21, 2022 the REIT filed a prospectus supplement to establish an ATM Program that allows the REIT to issue up to \$50 million of Units to the public, at the REIT's discretion and expires coterminous with the base shelf prospectus.

During the nine months ended September 30, 2023, the REIT did not issue any Units (for the year ended December 31, 2022, 1,450,800 Units were issued for \$9,460) through the ATM Program.

(g) Normal course issuer bid:

On April 12, 2023, the REIT announced the intention to commence a NCIB, as approved by the TSX. Under the NCIB, the REIT has the ability to purchase for cancellation up to a maximum of 8,239,557 of its Units, representing 10% of the REIT's public float of 82,395,573 Units through the facilities of the TSX or through a Canadian alternative trading system and in accordance with applicable regulatory requirements at a price per Unit equal to the market price at the time of acquisition. The NCIB became effective on April 18, 2023 and will remain in effect until the earlier of April 17, 2024 or the date on which the REIT has purchased the maximum number of Units permitted under the NCIB. Any Units acquired through the NCIB will be cancelled.

During the nine months ended September 30, 2023, the REIT repurchased 208,400 Units for \$500 under the NCIB.

14. Transactions with related parties:

Starlight Group Properties Holdings Inc. ("Starlight") is considered a related party of the REIT as Starlight is controlled by the CEO and Chairman of the Board of the REIT, who is also a significant unitholder of the REIT. The REIT has engaged an affiliate of Starlight to perform certain services, as outlined below.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

14. Transactions with related parties (continued):

- (a) Pursuant to an asset management agreement (the “Asset Management Agreement”), the affiliate of Starlight is to perform asset management services for a base annual management fee calculated and payable on a monthly basis in arrears on the first day of each month equal to 0.35% of the sum of: (i) the historical purchase price of the properties; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties.
- (b) Pursuant to the Asset Management Agreement, the affiliate of Starlight is entitled to receive an acquisition fee in respect of properties announced to be acquired, directly or indirectly, by the REIT as a result of such properties having been presented to the REIT by Starlight and calculated as follows:
 - (i) 1.0% of the purchase price of a property, on the first \$100,000 of properties acquired in each fiscal year;
 - (ii) 0.75% of the purchase price of a property, on the next \$100,000 of properties acquired in each fiscal year; and
 - (iii) 0.50% of the purchase price on properties in excess of \$200,000 of properties acquired in each fiscal year.
- (c) An annual incentive fee is payable by the REIT equal to 15% of the REIT’s funds from operations (“FFO”) per Unit in excess of FFO per Unit for fiscal 2013 plus 50% of the annual increase in the weighted average consumer price index (or other similar metric, as determined by the Trustees) of the jurisdictions in which the properties are located.
- (d) Pursuant to the Asset Management Agreement, the affiliate of Starlight is entitled to a capital expenditure fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of \$1,000, excluding work done on behalf of tenants or any maintenance capital expenditures.
- (e) The REIT reimburses Starlight for all reasonable out-of-pocket expenses in connection with the performance of the services described in the Asset Management Agreement, including capital expenditures, or such other services which the REIT and Starlight agree in writing are to be provided from time to time.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

14. Transactions with related parties (continued):

The following table presents the expenses incurred for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Asset management fees \$	1,173	\$ 1,184	\$ 3,545	\$ 3,471
Acquisition fees	—	405	—	405
Other expenses	24	32	122	95

At September 30, 2023, \$385 (December 31, 2022 – \$417) is included in accounts payable and accrued liabilities.

No incentive fees were earned or capital expenditure fees charged for the three and nine months ended September 30, 2023 and 2022.

15. Revenue:

The components of the REIT's revenue for the three and nine months ended September 30, 2023 and 2022 were as follows:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Base rent	\$ 18,008	\$ 19,315	\$ 55,195	\$ 57,687
Property operating and realty tax recoveries	13,338	14,461	40,486	41,567
Parking and other	1,443	2,901	3,656	8,870
	\$ 32,789	\$ 36,677	\$ 99,337	\$ 108,124

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

16. Finance costs:

The following table presents the financing costs incurred for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Interest on mortgages payable	\$ 8,049	\$ 7,189	\$ 23,250	\$ 20,780
Other interest expense and standby fees	386	142	1,078	348
Amortization of mortgage premiums	(8)	(11)	(25)	(36)
Amortization of financing costs	329	405	1,071	1,133
	\$ 8,756	\$ 7,725	\$ 25,374	\$ 22,225

17. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Deposits	\$ 38	\$ (3)	\$ 123	\$ 16
Tenant and other receivables	988	1,558	1,157	(401)
Prepaid expenses and deposits	242	262	(778)	(1,077)
Tenant rental deposits and prepayments	(11)	(433)	(1,130)	(384)
Accounts payable and accrued liabilities	(3,683)	(2,086)	(5,452)	137
	\$ (2,426)	\$ (702)	\$ (6,080)	\$ (1,709)

18. Commitments and contingencies:

As at September 30, 2023, the REIT has entered into commitments for building renovations totaling \$3,968 (December 31, 2022 – \$476).

19. Segmented disclosure:

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

20. Capital management:

The REIT's capital management objectives and policies are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended December 31, 2022.

The REIT was in compliance with all financial covenants as at September 30, 2023.

21. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

The REIT is subject to the risks associated with debt financing, including the risk of interest rates on floating-rate debt rising before long-term fixed rate debt is arranged and existing mortgages may not be able to be refinanced on terms similar to those currently in place.

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

As at September 30, 2023 and December 31, 2022, the REIT's interest-bearing financial instruments were:

	Carrying value	
	September 30, 2023	December 31, 2022
Fixed-rate instruments:		
Mortgages payable	\$ 794,162	\$ 850,434
Variable-rate instruments:		
Mortgages payable	\$ 13,002	\$ —
Credit Facility	\$ 18,100	\$ 14,400

The REIT is exposed to interest rate risk on its floating-rate debt on three of its properties. For two of these debt instruments, the risk is mitigated by entering into interest rate swaps (note 12). The REIT is also exposed to interest rate risk on its Credit Facility which fluctuates based on prime or floating bankers' acceptance rates. An increase (decrease) of 100 basis points in interest rates at September 30, 2023 for the REIT's variable-rate financial instruments would have minimal impact on net income and comprehensive income.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

21. Risk management and fair values (continued):

(ii) Credit risk:

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

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

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits, and geographically diversifying its portfolio. The REIT monitors outstanding receivables on a monthly basis to ensure a reasonable allowance is provided for all uncollectible amounts with the exception of the tenants for which a bad debt provision is recorded. The REIT reviewed all outstanding receivables and assessed the risk of uncollectability to be low.

An aging of billed tenant receivables, including past due but not impaired amounts is as follows:

	September 30, 2023	December 31, 2022
0 to 30 days	\$ 788	\$ 545
31 to 90 days	112	210
Over 90 days	267	269
Total	\$ 1,167	\$ 1,024

(b) Fair values:

The fair values of the REIT's financial assets and liabilities, except as noted below, approximate their carrying values due to their short-term nature. The REIT uses various methods in estimating the fair values of its financial instruments and investment properties. 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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

21. Risk management and fair values (continued):

- Level 3 - valuation technique for which significant inputs are not based on observable market data.

The tables below present the fair value hierarchy of the REIT's non-current assets and liabilities:

September 30, 2023	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ —	\$ —	\$ 1,282,639	\$ 1,282,639
Investment properties held for sale	—	—	31,047	31,047
Derivative instruments, net	—	5,342	—	5,342
	\$ —	\$ 5,342	\$ 1,313,686	\$ 1,319,028
Liabilities:				
Mortgages payable ⁽¹⁾	\$ —	\$ 756,800	\$ —	\$ 756,800
Class B LP Units	5,207	—	—	5,207
	\$ 5,207	\$ 756,800	\$ —	\$ 762,007

⁽¹⁾ Includes mortgages payable associated with investment properties held for sale (note 6).

December 31, 2022	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ —	\$ —	\$ 1,340,583	\$ 1,340,583
Investment Properties held for sale	—	—	84,250	84,250
Derivative Instruments, net	—	4,281	—	4,281
	\$ —	\$ 4,281	\$ 1,424,833	\$ 1,429,114
Liabilities:				
Mortgages payable ⁽¹⁾	\$ —	\$ 806,900	\$ —	\$ 806,900
Class B LP Units	14,628	—	—	14,628
	\$ 14,628	\$ 806,900	\$ —	\$ 821,528

⁽¹⁾ Includes mortgages payable associated with investment properties held for sale (note 6).

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

- Investment properties and investment properties held for sale:

The REIT determines the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and the direct capitalization method, both of which are generally accepted appraisal methodologies. The key valuation assumptions of the REIT's investment properties are described in note 6.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and nine months ended September 30, 2023 and 2022
(Unaudited)

21. Risk management and fair values (continued):

(ii) Mortgages payable

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at September 30, 2023 was approximately \$756,800 (December 31, 2022 – \$806,900).

(iii) Class B LP Units:

Pursuant to IFRS 13, Fair Value Measurement, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The REIT has chosen to use the closing market price of Units as a practical measure for fair value measurement of its Class B LP Units.

(iv) Derivative instruments:

Derivative instruments, such as interest rate swaps, are valued using a valuation technique with level 2 market-observable inputs. The valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs including forward rates and interest rate curves.

22. Subsequent Events:

On November 13, 2023, the REIT announced that it intends to affect a consolidation of its Units, special voting Units of the REIT and the Class B LP Units on the basis of 5.75:1 voting Units and Class B LP Units. The consolidation is expected to become effective on or about November 22, 2023.

On November 13, 2023, the Trustees determined that the most effective use of available capital was to reallocate substantially all distributions paid to Unitholders for the month commencing November 1, 2023 and ending April 30, 2024 to purchase the maximum number of Units available under the NCIB or through other acquisition programs, with the intention of revisiting the reallocation in approximately six months to reinstate a sustainable distribution to Unitholders.