

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three and nine months ended September 30, 2021 and 2020
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	September 30, 2021	December 31, 2020
Assets		
Non-current assets:		
Investment properties (note 6)	\$ 1,371,393	\$ 1,372,184
Instalment notes receivable	197	245
Deposits and other assets (note 5)	5,374	3,850
Total non-current assets	1,376,964	1,376,279
Current assets:		
Tenant and other receivables (note 7)	1,350	2,429
Prepaid expenses and deposits	5,422	1,523
Instalment notes receivable	65	71
Cash and cash equivalents	6,054	24,580
Total current assets	12,891	28,603
Total assets	\$ 1,389,855	\$ 1,404,882
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 8)	\$ 736,960	\$ 776,045
Derivative instruments (note 12)	955	3,701
Class B LP Units (note 9)	21,886	24,333
Total non-current liabilities	759,801	804,079
Current liabilities:		
Mortgages payable (note 8)	61,903	36,444
Tenant rental deposits and prepayments	7,483	7,595
Accounts payable and accrued liabilities (note 11)	29,772	30,254
Derivative instruments (note 12)	1,176	1,298
Total current liabilities	100,334	75,591
Total liabilities	860,135	879,670
Unitholders' equity (note 13)	529,720	525,212
Total liabilities and unitholders' equity	\$ 1,389,855	\$ 1,404,882

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on November 3, 2021.

"William J. Biggar" Trustee

"Roland A. Cardy" 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, 2021 and 2020
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Revenue (note 15)	\$ 34,222	\$ 33,914	\$ 103,062	\$ 103,242
Expenses:				
Property operating	9,012	8,126	25,924	24,746
Realty taxes	4,655	4,887	14,962	15,495
	20,555	20,901	62,176	63,001
Other income (expenses):				
General and administration expenses	(1,409)	(1,412)	(5,243)	(4,103)
Finance costs (note 16)	(7,121)	(7,233)	(21,426)	(21,676)
Transaction costs on sale of investment properties	—	(160)	(623)	(160)
Distributions on Class B LP Units (note 9)	(462)	(573)	(1,435)	(1,718)
Fair value adjustment of Class B LP Units (note 9)	514	(579)	(3,087)	6,092
Fair value adjustment of investment properties (note 6)	3,372	(1,806)	(1,142)	(4,597)
Unrealized gain (loss) on change in fair value of derivative instruments (note 12)	398	243	2,868	(5,386)
Net income and comprehensive income	\$ 15,847	\$ 9,381	\$ 32,088	\$ 31,453

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, 2021 and 2020
(Unaudited)

	Unit capital	Income and distributions	Total
	(note 13(b))		
Unitholders' equity, January 1, 2020	\$ 519,197	\$ 8,133	\$ 527,330
Changes during the period:			
Units issued, net of costs	14	—	14
Net income and comprehensive income for the period	—	31,453	31,453
Distributions	—	(38,039)	(38,039)
Issue of units under DRIP (note 13(e))	6,946	—	6,946
Unitholders' equity, September 30, 2020	526,157	1,547	527,704
Changes during the period:			
Units issued, net of costs	(50)	—	(50)
Net income and comprehensive income for the period	—	8,299	8,299
Distributions	—	(12,809)	(12,809)
Issue of units under DRIP (note 13(e))	2,068	—	2,068
Unitholders' equity, December 31, 2020	528,175	(2,963)	525,212
Changes during the period:			
Units issued, net of costs	6,394	—	6,394
Net income and comprehensive income for the period	—	32,088	32,088
Distributions	—	(38,960)	(38,960)
Issue of units under DRIP (note 13(e))	4,986	—	4,986
Unitholders' equity, September 30, 2021	\$ 539,555	\$ (9,835)	\$ 529,720

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, 2021 and 2020
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Operating activities:				
Net income and comprehensive income for the period	\$ 15,847	\$ 9,381	\$ 32,088	\$ 31,453
Adjustments for financing activities included in income:				
Finance costs (note 16)	7,121	7,233	21,426	21,676
Unrealized gain (loss) on change in fair value of derivative instruments (note 12)	(398)	(243)	(2,868)	5,386
Distributions on Class B LP Units (note 9)	462	573	1,435	1,718
Fair value adjustment of Class B LP Units (note 9)	(514)	579	3,087	(6,092)
Adjustments for items not involving cash:				
Fair value adjustment of investment properties (note 6)	(3,372)	1,806	1,142	4,597
Unit-based compensation expense	2	52	731	(280)
Change in other non-cash operating items	1,549	524	3,735	1,056
Change in non-cash operating working capital (note 17)	(2,550)	3,307	(2,910)	11,147
Cash provided by operating activities	18,147	23,212	57,866	70,661
Investing activities:				
Proceeds from sale of investment properties, net (note 4)	—	401	11,589	401
Additions to investment properties (note 6)	(617)	(3,968)	(18,136)	(16,082)
Cash provided by (used in) investing activities	(617)	(3,567)	(6,547)	(15,681)
Financing activities:				
Proceeds from credit facility	7,700	—	15,300	4,350
Repayment of credit facility	(9,800)	—	(15,300)	(4,350)
Proceeds from mortgage refinancing, net of costs	46,310	23,234	46,302	151,265
Repayments of mortgage refinancing	(35,994)	(21,003)	(35,994)	(109,196)
Repayment of mortgages on sale of investment properties	—	(1,128)	(7,481)	(1,128)
Principal payments on mortgages	(5,720)	(5,620)	(17,397)	(16,200)
Payments received on instalment notes receivable	17	22	54	65
Finance costs paid	(7,224)	(7,373)	(21,704)	(21,756)
Proceeds from issuance of Units, net of costs	—	(42)	432	(257)
Cash distributions to unitholders	(11,338)	(10,215)	(34,057)	(31,410)
Cash used in financing activities	(16,049)	(22,125)	(69,845)	(28,617)
(Decrease) increase in cash and cash equivalents	1,481	(2,480)	(18,526)	26,363
Cash and cash equivalents, beginning of period	4,573	34,512	24,580	5,669
Cash and cash equivalents, end of period	\$ 6,054	\$ 32,032	\$ 6,054	\$ 32,032
Supplemental cash flow information:				
Vendor take-back mortgages on sale of investment properties (note 4)	\$ —	\$ 1,725	\$ 1,550	\$ 1,725
Units issued under DRIP – unitholders	1,689	2,507	4,821	6,568
Units issued under DRIP – Class B LP Units	55	129	165	378
Units issued in exchange for Class B LP Units (note 9)	1,008	—	5,534	—

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, 2021 and 2020
(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”) 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 preparation:

(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, 2020. 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 3, 2021.

(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 (“Unit”) options, incentive units and derivative instruments, which are stated at their fair values.

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, 2021 and 2020
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1. Basis of preparation (continued):

(c) Critical judgments and estimates:

In preparing these condensed consolidated interim financial statements, significant judgments 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, 2020.

2. Significant accounting policies:

The accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its audited consolidated financial statements as at and for the year ended December 31, 2020.

3. Impact of COVID-19:

With over 70% of Canada's population fully vaccinated, there is widespread optimism that employers can initiate return to office plans in the near-term. Further, companies are making preparations to return to work, with many large employers implementing fully vaccinated mandates for employees following the announcement by the federal government requiring all public service employees to be fully vaccinated upon return to the workplace. As the winter season approaches, uncertainty surrounding case counts and hospitalization remain, particularly given the emergence of COVID-19 variants of concern that are more transmissible and carry increased health risks.

As a result of pandemic, the Canadian federal and provincial governments have enacted subsidies and other stimulus in an attempt to stabilize economic conditions. Since the pandemic was declared, certain tenants of the REIT have required financial assistance in the form of short-term rental deferrals or participation in the Canadian Emergency Commercial Rent Assistance ("CECRA") program and the Canada Emergency Rent Subsidy program ("CERS"). These programs were created to assist businesses experiencing a significant drop in revenue as a result of the COVID-19 pandemic. The CERS program ended on October 23, 2021.

The REIT recognized a \$23 and \$74 expense in property operating expenses representing its rental contribution granted to tenants as part of the CERS program for the three and nine months ended September 30, 2021 (\$116 and \$186 for the three months and nine months ended September 30, 2020 as part of the CECRA program).

The REIT deferred a total of \$446 of rental payments for certain tenants since the start of the pandemic. All deferred rental payments had been received as of September 30, 2021.

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 COVID-19.

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

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3. Impact of COVID-19 (continued):

Fair value of investment properties

Throughout Canada, investment activity at the start of the pandemic was limited. However since the second quarter of 2021, investment activity has picked up substantially as a result of economic optimism due to Canada's ongoing COVID-19 vaccination campaign and the gradual lifting of COVID-19 restrictions. The fair value of the REIT's investment properties at September 30, 2021 is based upon best available market data, including capitalization rates; however given the continued uncertainty around the duration of the pandemic and the potential negative impact it may have on certain sectors of the real estate industry and its tenants, it is not possible to predict how the fair value of the REIT's investment properties may be impacted in the longer term.

The REIT continues to monitor the economic impact COVID-19 is having on its operations and future cash flows, which ultimately impacts the value of the underlying real estate. 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, it is not possible to determine with certainty how COVID-19 will continue to impact the REIT's investment properties. Significant changes in rental income, occupancy rates, tenant inducements and market rents could negatively impact future valuations of the REIT's investment properties.

4. Acquisitions and dispositions:

On April 12, 2021 and June 1, 2021 the REIT completed the sale of 529 Exmouth Street, Sarnia, Ontario and 5900 Explorer Drive, Mississauga, Ontario for a sale price of \$1,850 and \$11,900, respectively. The proceeds from these dispositions net of costs were \$1,682 and \$11,445. The sale of 529 Exmouth Street included an interest-only vendor take-back mortgage of \$1,550 which is reported in deposits and other assets (note 5). The assets and liabilities associated with the property dispositions have been derecognized.

The REIT did not acquire investment properties during the three and nine months ended September 30, 2021. As at September 30, 2021 the REIT incurred \$1,069 of deposits and expenses related to the acquisition of a property on October 13, 2021 (note 22) which are included in prepaid expenses and deposits.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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5. Deposits and other assets:

	September 30, 2021	December 31, 2020
Mortgage loans receivable	\$ 4,395	\$ 2,845
Deposits	979	1,005
	\$ 5,374	\$ 3,850

On April 12, 2021, the REIT completed the sale of 529 Exmouth Street, Sarnia, Ontario. The proceeds from the sale included an interest-only vendor take-back mortgage of \$1,550 which bears interest at 5.5% per annum and matures on April 30, 2024.

During the year ended December 31, 2020 the REIT completed the sale of two properties for a combined sale price of \$3,650. The proceeds from these dispositions included interest-only vendor take-back mortgages of \$2,845. These mortgages bear interest at 3.45% per annum and mature on November 1, 2023 and December 1, 2023.

6. Investment properties:

The following table summarizes the changes in investment properties for the nine months ended September 30, 2021 and 2020:

	Investment properties
Balance, December 31, 2019	\$ 1,362,517
Additions	16,082
Dispositions	(2,250)
Amortization of leasing costs, tenant inducements and straight-line rents	(757)
Fair value adjustment	(4,597)
Balance, September 30, 2020	1,370,995
Additions	3,917
Dispositions	(1,400)
Amortization of leasing costs, tenant inducements and straight-line rents	(213)
Fair value adjustment	(1,115)
Balance, December 31, 2020	1,372,184
Additions	17,067
Dispositions	(13,750)
Amortization of leasing costs, tenant inducements and straight-line rents	(2,966)
Fair value adjustment	(1,142)
Balance, September 30, 2021	\$ 1,371,393

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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6. Investment properties (continued):

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:

	September 30, 2021	September 30, 2020
Terminal and direct capitalization rates - range	4.75% to 10.25%	4.75% to 10.25%
Terminal and direct capitalization rate - weighted average	6.26%	6.27%
Discount rates - range	5.75% to 10.25%	5.75% to 10.25%
Discount rate - weighted average	7.06%	7.07%

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 will be 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, 2021 there were four (December 31, 2020 - fourteen) properties externally appraised representing a total fair value of \$216,423 (December 31, 2020 - \$284,513).

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:

	September 30, 2021	September 30, 2020
Weighted average terminal and direct capitalization rate:		
25-basis points increase	\$ (42,922)	\$ (43,375)
25-basis points decrease	46,826	46,490
Weighted average discount rate:		
25-basis points increase	(39,971)	(41,128)
25-basis points decrease	42,889	43,294

Refer to note 3, Impact of COVID-19, for a discussion of the impact of COVID-19 on the REIT's business and operations, including the valuation of investment properties.

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

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(Unaudited)

7. Tenant and other receivables:

	September 30, 2021	December 31, 2020
Tenant receivables	\$ 996	\$ 2,004
Other receivables	354	425
	<u>\$ 1,350</u>	<u>\$ 2,429</u>

For the three and nine months ended September 30, 2021, the REIT recognized a \$41 and \$147 expense, respectively, in property operating expenses related to bad debt provisions (\$116 and 186 for three months and nine months ended September 30, 2020).

8. Mortgages payable:

As at September 30, 2021, the REIT had \$802,350 (December 31, 2020 – \$816,349) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.35% (December 31, 2020 – 3.37%) and a weighted average term to maturity of 3.57 years (December 31, 2020 – 4.06 years). All interest rates are fixed for the term of the respective mortgages except for two (December 31, 2020 – two) of the REIT's mortgages that 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, 2021, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2021 - remainder of year	\$ 5,916	\$ —	\$ 5,916	\$ 6,688
2022	23,275	120,388	143,663	25,453
2023	17,675	141,596	159,271	18,432
2024	16,105	79,399	95,504	15,290
2025	8,896	189,469	198,365	7,885
Thereafter	17,235	182,396	199,631	13,088
Face value	<u>\$ 89,102</u>	<u>\$ 713,248</u>	<u>\$ 802,350</u>	<u>\$ 86,836</u>
Unamortized mark to market mortgage adjustments			218	
Unamortized financing costs			(3,705)	
Total mortgages payable			<u>\$ 798,863</u>	

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, 2021 and 2020
(Unaudited)

8. Mortgages payable (continued):

The following table provides a breakdown of the current and non-current portions of mortgages payable:

	September 30, 2021	December 31, 2020
Current:		
Mortgages payable	\$ 63,120	\$ 37,649
Unamortized mark to market mortgage adjustments	48	51
Unamortized financing cost	(1,265)	(1,256)
	61,903	36,444
Non-current:		
Mortgages payable	739,230	778,700
Unamortized mark to market mortgage adjustments	170	206
Unamortized financing cost	(2,440)	(2,861)
	736,960	776,045
	\$ 798,863	\$ 812,489

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 holder.

The following table summarizes the changes in Class B LP Units for the nine months ended September 30, 2021 and 2020:

	Class B LP Units	Amount
Outstanding, January 1, 2020	3,856,182	\$ 28,111
Fair value adjustment	—	(6,092)
Outstanding, September 30, 2020	3,856,182	22,019
Fair value adjustment	—	2,314
Outstanding, December 31, 2020	3,856,182	24,333
Class B LP Units exchanged to Units	(833,333)	(5,534)
Fair value adjustment	—	3,087
Outstanding, September 30, 2021	3,022,849	\$ 21,886

During the three and nine months ended September 30, 2021 and 2020, distributions on Class B LP Units were \$462 (September 30, 2020 - \$573) and \$1,435 (September 30, 2020 - \$1,718), respectively, and have been recorded as an expense in the condensed consolidated interim statements of income and comprehensive income.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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10. Credit facility:

The REIT has a \$60,000 floating rate revolving credit facility ("Credit Facility") with a Canadian chartered bank which is made up of two tranches: (i) up to \$30,000 secured by 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) \$30,000 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.

The Credit Facility matures on December 1, 2022 and was undrawn as at September 30, 2021 and December 31, 2020.

11. Accounts payable and accrued liabilities:

	September 30, 2021	December 31, 2020
Accounts payable and accrued liabilities	\$ 22,196	\$ 23,120
Finance costs payable	1,985	2,079
Distributions payable	4,357	4,274
Unit-based compensation liability (note 13(c))	1,234	781
	<u>\$ 29,772</u>	<u>\$ 30,254</u>

12. Derivative instruments:

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

The combined notional principal amount of the outstanding interest swap contracts at September 30, 2021 was \$77,067 (December 31, 2020 – \$78,619). Total unrealized gain (loss) on change in the fair value of the derivative instruments for the three and nine months ended September 30, 2021 was \$398 (2020 - \$243) and \$2,868 (2020 - \$(5,386)), respectively.

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. The Units have no par value.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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13. Unitholders' equity (continued):

(b) Units outstanding:

The following table summarizes the changes in Units for the nine months ended September 30, 2021 and 2020:

	Units	Amount
Balance, December 31, 2019	84,762,429	\$ 519,197
Issue of Units – DRIP	1,192,667	6,946
Issue of Units – options exercised	35,112	271
Issuance costs	—	(257)
Balance, September 30, 2020	85,990,208	526,157
Issue of Units – DRIP	355,811	2,068
Issuance costs	—	(50)
Balance, December 31, 2020	86,346,019	528,175
Issue of Units – DRIP	717,500	4,986
Issue of Units – options exercised	117,812	860
Issue of Units - exchange of Class B LP Units (note 9)	833,333	5,534
Balance, September 30, 2021	88,014,664	\$ 539,555

(c) Unit-based compensation plans:

(i) Incentive Unit Plan:

The Incentive Unit Plan issues two types of units: (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 and vest immediately. Trustees are required to receive at least 50% of their annual retainer in the form of Deferred Units.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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13. Unitholders' equity (continued):

The following table summarizes the changes in Deferred Units for the nine months ended September 30, 2021 and 2020:

	Deferred Units	Amount
Balance at January 1, 2020	16,977	\$ 121
Granted and reinvested	25,480	138
Fair value adjustments	—	(16)
Balance, September 30, 2020	42,457	243
Granted and reinvested	8,517	54
Fair value adjustments	—	24
Balance, December 31, 2020	50,974	321
Granted and reinvested	20,010	147
Fair value adjustments	—	45
Balance, September 30, 2021	70,984	\$ 513

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 that 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, 2021 and 2020:

	Restricted Units	Amount
Balance January 1, 2020	—	—
Granted and reinvested	43,172	27
Balance, September 30, 2020	43,172	27
Granted and reinvested	1,080	37
Fair value adjustments	—	7
Balance, December 31, 2020	44,252	71
Granted and reinvested	44,322	185
Fair value adjustments	—	50
Balance, September 30, 2021	88,574	\$ 306

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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13. Unitholders' equity (continued):

(ii) Unit Options:

Prior to June 10, 2019, the Trustees had the discretion to grant certain Trustees, officers of the REIT and its subsidiaries and certain eligible service providers, non-transferable options to purchase Units pursuant to the REIT's Unit option plan. This plan has been suspended and no further options will be granted. Options that have or will vest are eligible to be exercised prior to the applicable expiry dates.

The following table summarizes the changes in Unit based options outstanding for the nine months ended September 30, 2021 and 2020:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2019	1,415,173	\$ 6.38	2.83	785,313
Unit options exercised	(254,998)	6.29	—	—
Outstanding, September 30, 2020	1,160,175	6.41	2.17	840,819
Unit options cancelled	(25,002)	6.42	—	—
Outstanding, December 31, 2020	1,135,173	6.41	1.92	922,992
Unit options cancelled or exercised	(583,836)	6.34	—	—
Outstanding, September 30, 2021	551,337	\$ 6.47	1.47	551,337

Options outstanding as of September 30, 2021 consist of the following:

Exercise price	Unit Options Outstanding	Unit Options exercisable	Expiry Date
\$6.17	85,001	85,001	August 11, 2022
\$6.44	119,001	119,001	November 16, 2022
\$6.43	158,334	158,334	March 9, 2023
\$6.66	189,001	189,001	September 20, 2023
	551,337	551,337	

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

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13. Unitholders' equity (continued):

The REIT's unit-based compensation expense recognized in general and administrative expense was:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Unit options	\$ (33)	\$ 28	\$ 603	\$ (195)
Restricted Units	70	27	235	27
Deferred Units	37	58	192	122
Unit-based compensation expense	\$ 74	\$ 113	\$ 1,030	\$ (46)
Fair value remeasurement expense included in the above:				
Unit options	\$ (35)	\$ 22	\$ 598	\$ (216)
Restricted Units	7	—	50	—
Deferred Units	(12)	(2)	45	(16)
	\$ (40)	\$ 20	\$ 693	\$ (232)

As at September 30, 2021 the carrying value of the unit-based compensation liability was \$1,234 (December 31, 2020 - \$781) (note 11).

(d) Distributions:

Under the DOT, the total amount of income 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 under Part I of the *Tax Act* (Canada) for any year.

The REIT currently pays a monthly distribution of \$0.0495 per Unit or \$0.594 per Unit on an annualized basis. For the nine months ended September 30, 2021 and 2020, the REIT declared distributions of \$38,960 and \$38,039, respectively.

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

Pursuant to the DRIP, unitholders can elect to reinvest cash distributions into additional Units at a 1% discount to the weighted average closing price of the Units for the five trading days immediately preceding the applicable date of distribution.

For the nine months ended September 30, 2021 and 2020, the REIT issued 717,500 and 1,192,667 Units under the DRIP for a value of \$4,986 and \$6,946, respectively.

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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 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.

- (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.

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14. Transactions with related parties (continued):

The following table presents the expenses incurred for the three and nine months ended September 30, 2021 and 2020:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Asset management fees	\$ 1,138	\$ 1,143	\$ 3,392	\$ 3,401
Other expenses	47	120	155	173

At September 30, 2021, \$462 (December 31, 2020 - \$416) 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, 2021 and 2020.

15. Revenue:

The components of the REIT's revenues for the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Base rent	\$ 19,379	\$ 19,765	\$ 58,929	\$ 59,511
Property operating and realty tax recoveries	13,792	13,224	41,388	40,902
Parking and other	1,051	925	2,745	2,829
	\$ 34,222	\$ 33,914	\$ 103,062	\$ 103,242

16. Finance costs:

The following table presents the financing costs incurred for the three and nine months ended September 30, 2021 and 2020:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Interest on mortgages payable	\$ 6,718	\$ 6,940	\$ 20,275	\$ 20,738
Other interest expense and standby fees	79	18	219	100
Amortization of mortgage discounts (premiums)	(13)	(5)	(39)	(17)
Amortization of financing costs	337	280	971	855
	\$ 7,121	\$ 7,233	\$ 21,426	\$ 21,676

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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, 2021 and 2020 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Deposits	\$ —	\$ 6	\$ 26	\$ (414)
Tenant and other receivables	(510)	418	1,079	(78)
Prepaid expenses and deposits	(316)	846	(2,830)	1,038
Tenant rental deposits and prepayments	(606)	526	(112)	2,060
Accounts payable and accrued liabilities	(1,118)	1,511	(1,073)	8,541
	\$ (2,550)	\$ 3,307	\$ (2,910)	\$ 11,147

18. Commitments and contingencies:

As at September 30, 2021, the REIT has entered into commitments for building renovations totaling \$3,150 (December 31, 2020 - \$3,190). As at September 30, 2021, \$627 (December 31, 2020 - \$1,649) of this amount was included in accounts payable and accrued liabilities (note 11).

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.

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, 2020.

The REIT was in compliance with all financial covenants as at September 30, 2021.

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:

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21. Risk management and fair values (continued):

(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 or more favourable than 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, 2021 and December 31, 2020, the REIT's interest-bearing financial instruments were:

	Carrying value	
	September 30, 2021	December 31, 2020
Fixed-rate instruments:		
Mortgages payable	\$ 802,350	\$ 816,349
Variable-rate instruments:		
Credit Facility	\$ —	\$ —

The REIT is exposed to interest rate risk on its floating-rate debt on certain of its properties which 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, 2021 for the REIT's variable-rate financial instruments would have no significant impact on net income and comprehensive income.

(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.

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21. Risk management and fair values (continued):

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits, 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 who participated in the CECRA and CERS programs, as discussed in note 3, the REIT reviewed all outstanding receivables and assessed the risk of uncollectability to be low.

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

	September 30, 2021	December 31, 2020
0 to 30 days	\$ 600	\$ 429
31 to 90 days	724	233
Over 90 days	59	366
Total	\$ 1,383	\$ 1,028

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

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21. Risk management and fair values (continued):

The tables below presents the REIT's assets and liabilities measured or disclosed at fair value:

September 30, 2021	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ —	\$ —	\$ 1,371,393	\$ 1,371,393
Instalment notes receivable	—	416	—	416
	\$ —	\$ 416	\$ 1,371,393	\$ 1,371,809
Liabilities:				
Mortgages payable	\$ —	\$ 801,500	\$ —	\$ 801,500
Class B LP Units	21,886	—	—	21,886
Derivative instruments	—	2,131	—	2,131
	\$ 21,886	\$ 803,631	\$ —	\$ 825,517
December 31, 2020				
	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ —	\$ —	\$ 1,372,184	\$ 1,372,184
Instalment notes receivable	—	492	—	492
	\$ —	\$ 492	\$ 1,372,184	\$ 1,372,676
Liabilities:				
Mortgages payable	\$ —	\$ 841,900	\$ —	\$ 841,900
Class B LP Units	24,333	—	—	24,333
Derivative instruments	—	4,999	—	4,999
	\$ 24,333	\$ 846,899	\$ —	\$ 871,232

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

(i) Investment properties:

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 is described in note 6.

(ii) 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

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21. Risk management and fair values (continued):

comparable financial instrument. The estimated fair value of instalment notes receivable at September 30, 2021 was approximately \$416 (December 31, 2020 - \$492).

(iii) 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, 2021 was approximately \$801,500 (December 31, 2020 - \$841,900).

(iv) 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.

(v) Derivative instruments:

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

22. Subsequent Event:

On October 13, 2021, the REIT acquired a 52,000 square foot office property located at 1112 Fort Street, Victoria, British Columbia for approximately \$22,000 plus closing costs. The purchase price was satisfied by first mortgage financing of approximately \$14,300 with an interest rate of 2.49% for a five-year term and cash on hand.