Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three months ended March 31, 2021 and 2020
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	March 31, 2021	December 31, 2020
Assets		
Non-current assets:		
Investment properties (note 5)	$ 1,381,816	$ 1,372,184
Instalment notes receivable	228	245
Deposits and other assets (note 4)	3,824	3,850
Total non-current assets	1,385,868	1,376,279
Current assets:		
Tenant and other receivables (note 6)	1,799	2,429
Prepaid expenses and deposits	2,345	1,523
Instalment notes receivable	69	71
Cash and cash equivalents	5,921	24,580
Total current assets	10,134	28,603
Total assets	$ 1,396,002	$ 1,404,882
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 7)	$ 739,819	$ 776,045
Derivative instruments (note 11)	1,264	3,701
Class B LP Units (note 8)	21,702	24,333
Total non-current liabilities	762,785	804,079
Current liabilities:		
Mortgages payable (note 7)	67,150	36,444
Tenant rental deposits and prepayments	7,179	7,595
Accounts payable and accrued liabilities (note 10)	29,436	30,254
Derivative instruments (note 11)	1,280	1,298
Total current liabilities	105,045	75,591
Total liabilities	867,830	879,670
Unitholders' equity (note 12)	528,172	525,212
Total liabilities and unitholders' equity	$ 1,396,002	$ 1,404,882

Subsequent events (note 21)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on May 5, 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 months ended March 31, 2021 and 2020
(Unaudited)

	2021	2020
Revenue (note 14)	$ 34,944	$ 35,329
Expenses:		
Property operating	8,525	8,775
Realty taxes	5,329	5,445
	21,090	21,109
Other income (expenses):		
General and administration expenses	(1,904)	(1,196)
Finance costs (note 15)	(7,174)	(7,182)
Distributions on Class B LP Units (note 8)	(504)	(573)
Fair value adjustment of Class B LP Units (note 8)	(1,895)	9,370
Fair value adjustment of investment properties (note 5)	(2,348)	1,176
Unrealized gain (loss) on change in fair value of derivative instruments (note 11)	2,455	(5,094)
Net income and comprehensive income	$ 9,720	$ 17,610

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)

Three months ended March 31, 2021 and 2020
(Unaudited)

	Unit capital	Income and distributions	Total
	(note 12(b))		
Unitholders' equity, January 1, 2020	$ 519,197	$ 8,133	$ 527,330
Changes during the period:			
Units issued, net of costs	188	—	188
Net income and comprehensive income for the period	—	17,610	17,610
Distributions	—	(12,615)	(12,615)
Issue of units under DRIP (note 12(e))	1,927	—	1,927
Unitholders' equity, March 31, 2020	521,312	13,128	534,440
Changes during the period:			
Units issued, net of costs	(224)	—	(224)
Net income and comprehensive income for the period	—	22,142	22,142
Distributions	—	(38,233)	(38,233)
Issue of units under DRIP (note 12(e))	7,087	—	7,087
Unitholders' equity, December 31, 2020	528,175	(2,963)	525,212
Changes during the period:			
Units issued, net of costs	4,531	—	4,531
Net income and comprehensive income for the period	—	9,720	9,720
Distributions	—	(12,917)	(12,917)
Issue of units under DRIP (note 12(e))	1,626	—	1,626
Unitholders' equity, March 31, 2021	$ 534,332	$ (6,160)	$ 528,172

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 months ended March 31, 2021 and 2020
(Unaudited)

	2021	2020
Operating activities:		
Net income and comprehensive income for the period	$ 9,720	$ 17,610
Adjustments for financing activities included in income:		
Finance costs (note 15)	7,174	7,182
Unrealized (loss) gain on change in fair value of derivative instruments (note 11)	(2,455)	5,094
Distributions on Class B LP Units (note 8)	504	573
Fair value adjustment of Class B LP Units (note 8)	1,895	(9,370)
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 5)	2,348	(1,176)
Unit-based compensation expense	332	(476)
Change in other non-cash operating items	580	262
Change in non-cash operating working capital (note 16)	(1,901)	3,751
Cash provided by operating activities	18,197	23,450
Investing activities:		
Additions to investment properties (note 5)	(12,510)	(8,873)
Cash used in investing activities	(12,510)	(8,873)
Financing activities:		
Proceeds from mortgage refinancing, net of costs	—	92,894
Repayments of mortgage refinancing	—	(67,641)
Principal payments on mortgages	(5,828)	(5,135)
Payments received on instalment notes receivable	19	22
Finance costs paid	(7,238)	(7,247)
Proceeds from issuance of Units, net of costs	—	(83)
Cash distributions to unitholders	(11,299)	(10,792)
Cash (used in) provided by financing activities	(24,346)	2,018
(Decrease) increase in cash and cash equivalents	(18,659)	16,595
Cash and cash equivalents, beginning of period	24,580	5,669
Cash and cash equivalents, end of period	$ 5,921	$ 22,264
Supplemental cash flow information:		
Units issued under DRIP – unitholders	$ 1,571	$ 1,808
Units issued under DRIP – Class B LP Units	55	119

See accompanying notes to condensed consolidated interim financial statements.

Organization:

True North Commercial Real Estate Investment Trust (the “REIT”) is an unincorporated, open-ended real estate investment trust established pursuant to the second amended and restated declaration of trust made as of May 22, 2014 (“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 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 May 5, 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.

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:

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 was a global pandemic which resulted in the federal and provincial governments enacting a series of public health and emergency measures thus impacting business operations both nationally and internationally. As at March 31, 2021, many of these measures remain in place as governments continue to combat the spread of the virus.

The duration and impact of COVID-19 is currently unknown and 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 which concluded on September 30, 2020 and the Canada Emergency Rent Subsidy program (“CERS”) which was effective October 9, 2020. These programs were created to assist businesses experiencing a significant drop in revenue as a result of the COVID-19 pandemic. The REIT recognized a $25 expense in property operating expenses representing it's rental contribution granted to tenants as part of the CERS and deferral programs for the three months ended March 31, 2021.

For the three months ended March 31, 2021, the REIT agreed to defer rental payments of approximately $4 for one tenant. The REIT deferred a total of $442 of rental payments for certain tenants since the start of the pandemic. Pursuant to the deferral agreements $425 of these rental payments had been received as of March 31, 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.

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

3. Impact of COVID-19 (continued):

Fair value of investment properties

Throughout Canada, investment activity during the pandemic has been limited. The fair value of the REIT's investment properties at March 31, 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.

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. It is not possible however, 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. Deposits and other assets:

		March 31, 2021		December 31, 2020
Vendor take-back mortgage loan receivable	$	2,845	$	2,845
Deposits		979		1,005
	$	3,824	$	3,850

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.

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

5. Investment properties:

The following table summarizes the changes in investment properties for the three months ended March 31, 2021 and 2020:

	Investment properties
Balance, December 31, 2019	$ 1,362,517
Additions	8,873
Amortization of leasing costs, tenant inducements and straight-line rents	(224)
Fair value adjustment	1,176
Balance, March 31, 2020	1,372,342
Additions	11,126
Dispositions	(3,650)
Amortization of leasing costs, tenant inducements and straight-line rents	(746)
Fair value adjustment	(6,888)
Balance, December 31, 2020	1,372,184
Additions	12,510
Amortization of leasing costs, tenant inducements and straight-line rents	(530)
Fair value adjustment	(2,348)
Balance, March 31, 2021	$ 1,381,816

The REIT did not acquire or dispose of any investment properties during the three months ended March 31, 2021 and 2020.

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:

	March 31, 2021	March 31, 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%	6.28%
Discount rates - range	5.75% to 10.25%	5.75% to 10.25%
Discount rate - weighted average	7.06%	7.13%

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

5. Investment properties (continued):

Properties are independently appraised at the time of acquisition. In addition, the REIT has engaged 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 internal valuation team will assess the reasonableness of the assumptions within. Adjustments will be made to the internal valuations as needed. During the three months ended March 31, 2021 there were three (December 31, 2020 - fourteen) properties externally appraised representing a total fair value of $157,740 (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:

	March 31, 2021	March 31, 2020
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (42,613)	$ (43,230)
25-basis points decrease	47,215	46,884
Weighted average discount rate:		
25-basis points increase	(39,774)	(40,905)
25-basis points decrease	43,394	43,614

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.

6. Tenant and other receivables:

	March 31, 2021	December 31, 2020
Tenant receivables	$ 1,432	$ 2,004
Other receivables	367	425
	$ 1,799	$ 2,429

For the three months ended March 31, 2021, the REIT recognized a $25 expense in property operating expenses related to bad debt provisions as part of its deferral program and CERS program (March 31, 2020 - $nil). Refer to note 3, for a discussion of the impact of COVID-19 on the REIT's business and operations.

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

7. Mortgages payable:

As at March 31, 2021, the REIT had $810,520 (December 31, 2020 – $816,349) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.37% (December 31, 2020 – 3.37%) and a weighted average term to maturity of 3.81 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 11). The mortgages are secured by first and second charges on the respective properties.

As at March 31, 2021, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2021 - remainder of year	$ 17,607	$ 14,210	$ 31,817	$ 20,113
2022	22,123	147,869	169,992	24,466
2023	16,307	141,596	157,903	17,333
2024	14,703	79,399	94,102	14,226
2025	7,426	190,497	197,923	6,830
Thereafter	16,103	142,680	158,783	12,317
Face value	$ 94,269	$ 716,251	$ 810,520	$ 95,285
Unamortized mark to market mortgage adjustments			244	
Unamortized financing costs			(3,795)	
Total mortgages payable			$ 806,969	

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

	March 31, 2021	December 31, 2020
Current:		
Mortgages payable	$ 68,337	$ 37,649
Unamortized mark to market mortgage adjustments	50	51
Unamortized financing cost	(1,237)	(1,256)
	67,150	36,444
Non-current:		
Mortgages payable	742,183	778,700
Unamortized mark to market mortgage adjustments	194	206
Unamortized financing cost	(2,558)	(2,861)
	739,819	776,045
	$ 806,969	$ 812,489

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

8. 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 three months ended March 31, 2021 and 2020:

	Class B LP Units		Amount
Outstanding, January 1, 2020	3,856,182	$	28,111
Fair value adjustment	—		(9,370)
Outstanding, March 31, 2020	3,856,182		18,741
Fair value adjustment	—		5,592
Outstanding, December 31, 2020	3,856,182		24,333
Class B LP Units exchanged to Units	(697,380)		(4,526)
Fair value adjustment	—		1,895
Outstanding, March 31, 2021	3,158,802	$	21,702

During the three months ended March 31, 2021 and 2020, distributions on Class B LP Units were $504 and $573, respectively, and have been recorded as an expense in the condensed consolidated interim statements of income and comprehensive income.

9. 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, 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, secured by second charges on certain investment properties; 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 March 31, 2021 and December 31, 2020.

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

10. Accounts payable and accrued liabilities:

	March 31, 2021	December 31, 2020
Accounts payable and accrued liabilities	$ 21,924	$ 23,120
Finance costs payable	2,034	2,079
Distributions payable	4,321	4,274
Unit-based compensation liability (note 12(c))	1,157	781
	$ 29,436	$ 30,254

11. 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 March 31, 2021 was $78,106 (December 31, 2020 – $78,619). Total unrealized gain (loss) on change in the fair value of the derivative instruments for the three months ended March 31, 2021 and 2020 was $2,455 and $5,094, respectively.

12. 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.

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

12. Unitholders' equity (continued):

(b) Units outstanding:

The following table summarizes the changes in Units for the three months ended March 31, 2021 and 2020:

	Units	Amount
Balance, December 31, 2019	84,762,429	$ 519,197
Issue of Units – DRIP	279,802	1,927
Issue of Units – options exercised	35,112	271
Issuance costs	—	(83)
Balance, March 31, 2020	85,077,343	521,312
Issue of Units – DRIP	1,268,676	7,087
Issuance costs	—	(224)
Balance, December 31, 2020	86,346,019	528,175
Issue of Units – DRIP	255,425	1,626
Issue of Units – options exercised	774	5
Issue of Units - exchange of Class B LP Units (note 8)	697,380	4,526
Balance, March 31, 2021	87,299,598	$ 534,332

(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.

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

12. Unitholders' equity (continued):

The following table summarizes the changes in Deferred Units for the three months ended March 31, 2021 and 2020:

	Deferred Units		Amount
Balance at January 1, 2020	16,977	$	121
Granted and reinvested	8,432		37
Fair value adjustments	—		(35)
Balance, March 31, 2020	25,409		123
Granted and reinvested	25,565		155
Fair value adjustments	—		43
Balance, December 31, 2020	50,974		321
Granted and reinvested	6,836		50
Fair value adjustments	—		26
Balance, March 31, 2021	57,810	$	397

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 three months ended March 31, 2021 and 2020:

	Restricted Units		Amount
Balance, March 31, 2020	—		—
Granted and reinvested	44,252		64
Fair value adjustments	—		7
Balance, December 31, 2020	44,252		71
Granted and reinvested	40,823		46
Fair value adjustments	—		14
Balance, March 31, 2021	85,075	$	131

On March 12, 2021, the REIT issued 39,792 Restricted Units to eligible participants at a price of $6.59 per Unit.

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

12. 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 have been 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 three months ended March 31, 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, March 31, 2020	1,160,175	6.41	2.67	637,813
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	(23,000)	6.42	—	—
Outstanding, March 31, 2021	1,112,173	6.41	1.68	1,005,833

Options outstanding as of March 31, 2021 consist of the following:

Exercise price	Unit Options Outstanding	Unit Options exercisable	Expiry Date
$6.04	85,000	85,000	August 5, 2021
$6.28	110,834	110,834	November 14, 2021
$6.17	176,669	176,669	August 11, 2022
$6.44	194,835	194,835	November 16, 2022
$6.43	257,501	257,501	March 9, 2023
$6.66	287,334	180,994	September 20, 2023
	1,112,173	1,005,833	

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

12. Unitholders' equity (continued):

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

On April 15, 2021, 55,000 Unit options were exercised to acquire 4,720 Units, at prices ranging from \$6.04 to \$6.28 per Unit.

The REIT's unit-based compensation expense recognized in general and administrative expense for the three months ended March 31, 2021 and 2020 was:

		2021		2020
Unit options	$	248	$	(345)
Restricted Units		60		—
Deferred Units		76		2
Unit-based compensation expense	$	384	$	(343)
Fair value remeasurement expense included in the above:				
Unit options	$	245	$	(354)
Restricted Units		14		—
Deferred Units		26		(35)
	$	285	$	(389)

As at March 31, 2021 the carrying value of the unit-based compensation liability was \$1,157 (December 31, 2020 - \$781) (note 10).

(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 three months ended March 31, 2021 and 2020, the REIT declared distributions of \$12,917 and \$12,615, respectively.

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

Pursuant to the DRIP, as amended on September 15, 2020 and effective October 30, 2020 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.

12. Unitholders' equity (continued):

For the three months ended March 31, 2021 and 2020, the REIT issued 255,425 and 279,802 Units under the DRIP for a value of $1,626 and $1,927, respectively.

13. 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, President and Chief Executive Officer 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.

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

13. Transactions with related parties (continued):

(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.

The following table presents the expenses incurred for the three months ended March 31, 2021 and 2020:

	March 31, 2021	March 31, 2020
Asset management fees	$ 1,123	$ 1,128
Other expenses	62	28

At March 31, 2021, $432 (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 months ended March 31, 2021 and 2020.

14. Revenue:

The components of the REIT's revenues for the three months ended March 31, 2021 and 2020 are as follows:

	2021	2020
Base rent	$ 19,988	$ 19,899
Property operating and realty tax recoveries	14,046	14,436
Parking and other	910	994
	$ 34,944	$ 35,329

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

15. Finance costs:

The following table presents the financing costs incurred for the three months ended March 31, 2021 and 2020:

	2021	2020
Interest on mortgages payable	$ 6,816	$ 6,847
Other interest expense and standby fees	52	65
Amortization of mortgage discounts (premiums)	(13)	(6)
Amortization of financing costs	319	276
	$ 7,174	$ 7,182

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three months ended March 31, 2021 and 2020 are as follows:

	2021	2020
Deposits	$ 26	$ (580)
Tenant and other receivables	630	(875)
Prepaid expenses and deposits	(822)	(1,070)
Tenant rental deposits and prepayments	(416)	1,586
Accounts payable and accrued liabilities	(1,319)	4,690
	$ (1,901)	$ 3,751

17. Commitments and contingencies:

As at March 31, 2021, the REIT has entered into commitments for building renovations totaling $2,431 (December 31, 2020 - $3,190). As at March 31, 2021, $1,324 (December 31, 2020 - $1,649) of this amount was included in accounts payable and accrued liabilities (note 10).

18. 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.

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

19. 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 March 31, 2021.

20. Risk management and fair values:

(a) Risk management:

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are 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 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 March 31, 2021 and December 31, 2020, the REIT's interest-bearing financial instruments were:

	Carrying value	
	March 31, 2021	December 31, 2020
Fixed-rate instruments:		
Mortgages payable	$ 810,520	$ 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 11). An increase (decrease) of 100 basis points in interest rates at March 31, 2021 for the REIT's variable-rate financial instruments would have no impact on net income and comprehensive income.

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

20. 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 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:

		March 31, 2021		December 31, 2020
0 to 30 days	$	762	$	429
31 to 90 days		236		233
Over 90 days		142		366
Total	$	1,140	$	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

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

20. Risk management and fair values (continued):

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

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

March 31, 2021	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ —	$ —	$ 1,381,816	$ 1,381,816
Instalment notes receivable	—	465	—	465
	$ —	$ 465	$ 1,381,816	$ 1,382,281
Liabilities:				
Mortgages payable	$ —	$ 830,200	$ —	$ 830,200
Class B LP Units	21,702	—	—	21,702
Derivative instruments, net	—	2,544	—	2,544
	$ 21,702	$ 832,744	$ —	$ 854,446

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, net	—	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 5.

20. Risk management and fair values (continued):

(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 comparable financial instrument. The estimated fair value of instalment notes receivable at March 31, 2021 was approximately $465 (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 March 31, 2021 was approximately $830,200 (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.

21. Subsequent Events:

On April 12, 2021, the REIT disposed of 529-533 Exmouth Street located in Sarnia, Ontario totaling 15,400 square feet for a sale price of $1,850. The proceeds from this disposition included an interest-only vendor take-back mortgage of $1,550. The mortgage bears interest at 5.5% per annum and matures on April 30, 2024.

On May 3, 2021, the REIT entered into an agreement to dispose of 5900 Explorer Drive, Mississauga, Ontario totaling 40,000 square feet for a sale price of approximately $11,900. Closing is expected to be on or about May 31, 2021.