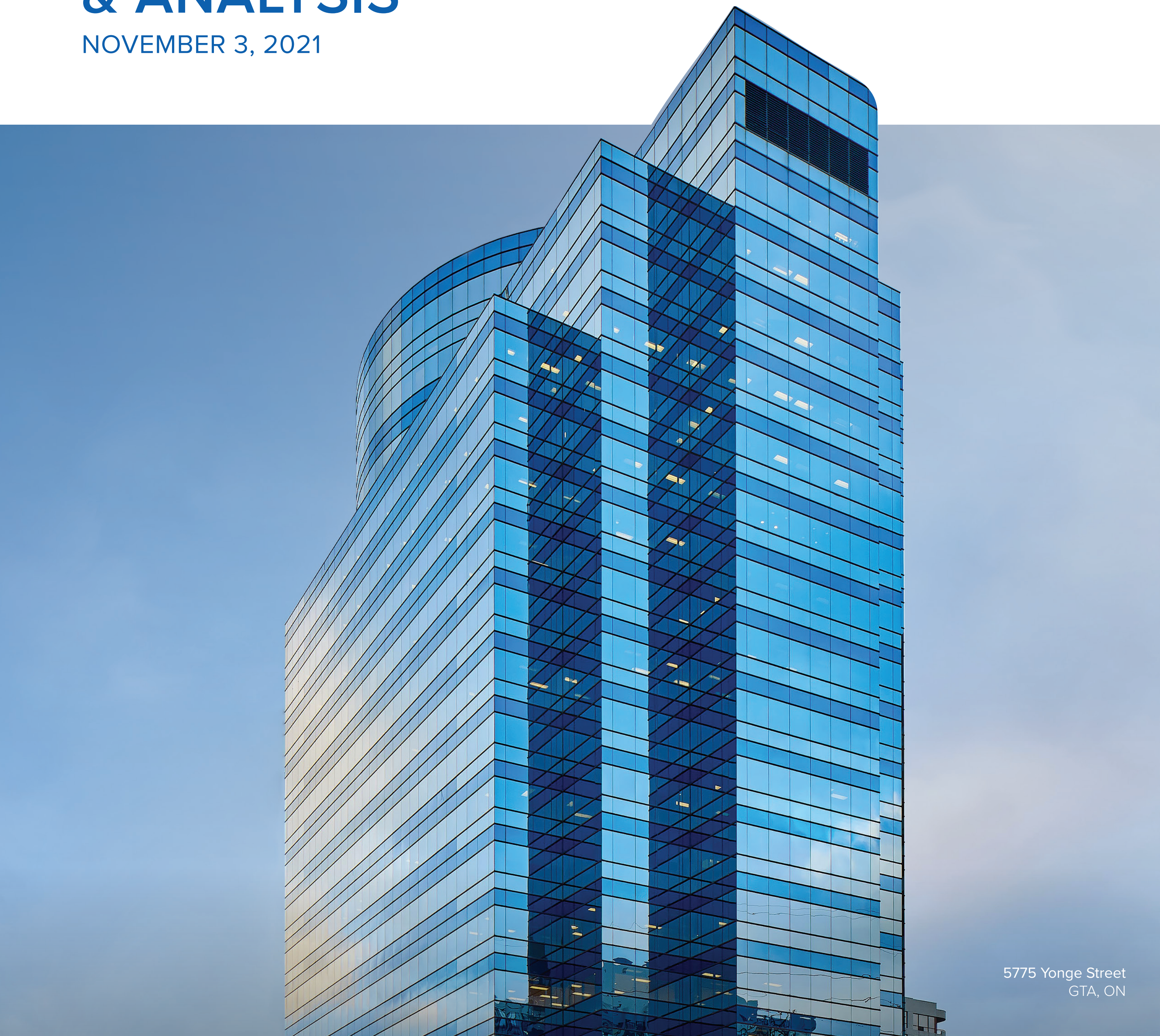
TSX: TNT.UN

True North COMMERCIAL REIT

Q3 2021

MANAGEMENT'S DISCUSSION & ANALYSIS

NOVEMBER 3, 2021



5775 Yonge Street
GTA, ON

AT A GLANCE

True North Commercial REIT has demonstrated a solid track record

$1.4 B
Total Assets

$659 M
Market Capitalization

4.6 YR
Weighted Average Lease Term

45
Properties

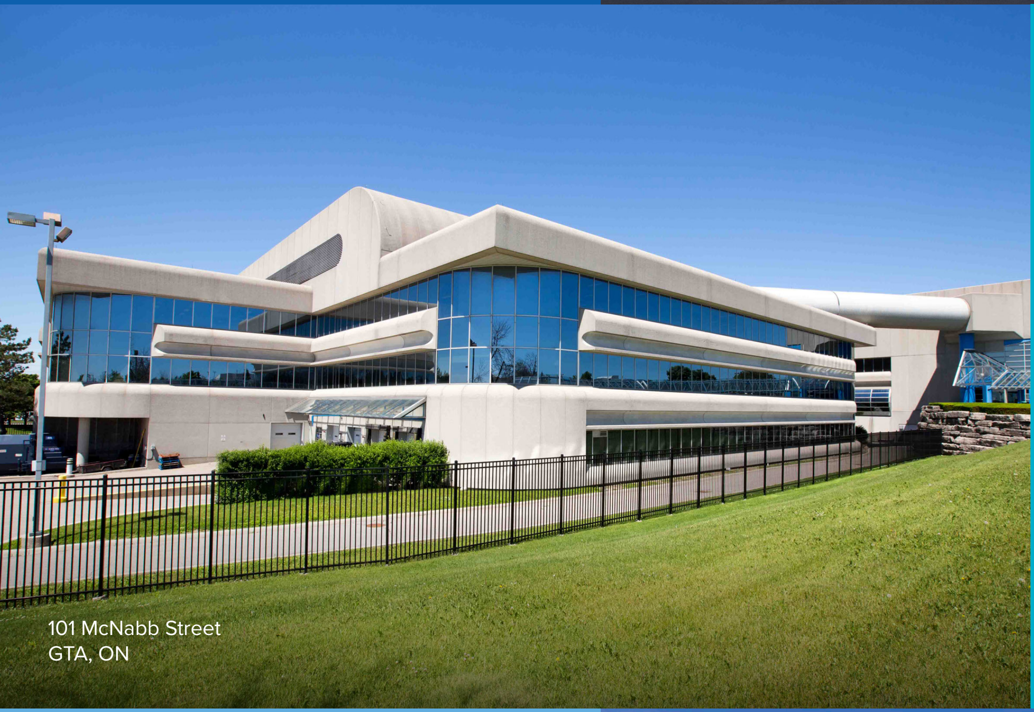
96%
Occupancy

76%
Revenues Generated from Goverment & Credit rated Tenants

120, 130, 134, 140 Eileen Stubbs Avenue
Halifax, NS

Stable
Contractual
Cash flow

6925 Century Avenue
GTA, ON


101 McNabb Street
GTA, ON

High Quality
Tenant Base

Focus on
Urban Areas


675 Cochrane Drive
GTA, ON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the consolidated financial results of True North Commercial Real Estate Investment Trust (the "REIT") is intended to provide readers with an assessment of the performance of the REIT for the three and nine months ended September 30, 2021 and 2020 and should be read in conjunction with the REIT's annual audited consolidated financial statements for the years ended December 31, 2020 and 2019, and accompanying notes thereto. These documents can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com and on the REIT's website at https://truenorthreit.com/ under the tab "Financial Reports" in the "Investor" section.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking statements are provided for the purposes of assisting the reader in understanding the REIT's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future. Readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking information may relate to future results, performance, achievements, events, prospects or opportunities for the REIT or the real estate industry and may include statements regarding the financial position, business strategy, budgets, projected costs, capital expenditures, financial results, taxes, plans and objectives of or involving the REIT. In some cases, forward-looking information can be identified by such terms as "may", "might", "will", "could", "should", "would", "expect", "plan", "anticipate", "believe", "intend", "seek", "aim", "estimate", "target", "goal", "project", "predict", "forecast", "potential", "continue", "likely", or the negative thereof or other similar expressions suggesting future outcomes or events.

This MD&A, and the documents incorporated by reference herein, contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the REIT's business and results of operations and the effect of the coronavirus (SARS-CoV-2) ("COVID-19") pandemic on the REIT's business and operations. Forward-looking statements involve known and unknown risks and uncertainties, which may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, assumptions may not be correct and objectives, strategic goals and priorities may not be achieved. A variety of factors, many of which are beyond the REIT's control, affect the operations, performance and results of the REIT and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to, risks and uncertainties related to the trust units of the REIT ("Units"), risks related to the REIT and its business, and any risks related to the uncertainties surrounding the duration and the direct and indirect impact of the COVID-19 pandemic on the business, operations and financial condition of the REIT and its tenants, as well as on consumer behavior and the economy in general, including the ability to enforce leases, perform capital expenditure work, increase rents, raise capital through the issuance of Units or other securities of the REIT and obtain mortgage financing on the REIT's properties. The foregoing is not an exhaustive list of factors that may affect the REIT's forward-looking statements. Other risks and uncertainties not presently known to the REIT could also cause actual results or events to differ materially from those expressed in its forward-looking statements. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance actual results will be consistent with such forward-looking statements.

Information contained in forward-looking statements is based upon certain material assumptions applied in drawing a conclusion or making a forecast or projection, including management's perception of historical trends, current conditions and expected future developments, as well as other considerations believed to be appropriate in the circumstances. There can be no assurance regarding: (a) the impact of COVID-19 on the REIT's business, operations and performance, including the performance of its Units; (b) the REIT's ability to mitigate any impacts related to COVID-19; (c) the effectiveness, acceptance and availability of vaccines, as well as the duration of associated immunity and efficacy of the vaccines against variants of COVID-19 which may prolong the impacts of COVID-19 on the Canadian economy, the retail and commercial real estate industries, occupancy levels and the REIT; (d) credit, market, operational, and liquidity risks generally; (e) Starlight Group Property Holdings Inc., or any of its affiliates

("Starlight"), continuing as asset manager of the REIT in accordance with its current asset management agreement; and (f) other risks inherent to the REIT's business and/or factors beyond its control which could have a material adverse effect on the REIT.

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

NON-IFRS FINANCIAL MEASURES

Certain terms used in this MD&A such as funds from operations ("FFO"), adjusted funds from operations ("AFFO"), net operating income ("NOI"), same property net operating income ("Same Property NOI"), indebtedness ("Indebtedness"), gross book value ("GBV"), Indebtedness to GBV ratio, net earnings before interest, tax, depreciation and amortization and fair value gain (loss) on financial instruments and investment properties ("Adjusted EBITDA"), interest coverage ratio, and adjusted cash provided by operating activities are not measures defined by International Financial Reporting Standards ("IFRS") as prescribed by the International Accounting Standards Board, do not have standardized meanings prescribed by IFRS and should not be compared to or construed as alternatives to profit/loss, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. FFO, AFFO, NOI, Same Property NOI, Indebtedness, GBV, Indebtedness to GBV ratio, Adjusted EBITDA, interest coverage ratio and adjusted cash provided by operating activities as computed by the REIT may not be comparable to similar measures presented by other issuers.

FFO is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for capital needs. The REIT calculates FFO in accordance with the guidelines set out by the Real Property Association of Canada ("Realpac"). Management considers this non-IFRS measure to be an important measure of the REIT's operating performance.

AFFO is an important performance measure to determine the sustainability of future distributions paid to holders of Units ("Unitholders"). In calculating AFFO, the REIT makes certain non-cash adjustments to FFO such as: amortization of fair value mark-to-market adjustments on assumed mortgages, amortization of deferred financing costs, straight-line rent, instalment note receipts and non-cash Unit-based compensation expense and a deduction of a reserve for capital expenditures, tenant inducements, and leasing costs. The method applied by the REIT to calculate AFFO differs from the definition of AFFO as defined by Realpac. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance.

For the purposes of calculating FFO and AFFO per Unit, class B limited partnership units ("Class B LP Units") of True North Commercial Limited Partnership are included as Units outstanding on both a basic and diluted basis. Diluted amounts assume the conversion of any vested, unexercised and in the money Unit options. Diluted amounts also include Incentive Units (as defined herein) of the REIT.

NOI is defined by the REIT as rental revenue from property operations less property operating costs and realty taxes. NOI is presented in this MD&A because management considers this non-IFRS measure to be a valuable measure for evaluating the operating performance of the REIT's properties.

Same Property NOI is defined by the REIT as NOI for properties owned for an entire quarter or annual reporting period in both the current and comparative period. Adjustments are made to Same Property NOI to exclude non-cash items such as amortization of tenant inducements, leasing costs and straight-line rent. Same Property NOI is presented in this MD&A because management considers this non-IFRS measure to be a valuable measure for evaluating the operating performance of the REIT's properties excluding the impact attributable to property acquisitions and dispositions.

Indebtedness is defined in the REIT's third amended and restated declaration of trust dated as of May 11, 2021 ("DOT") and is a measure of the amount of leverage utilized by the REIT. GBV is defined in the DOT and is a measure of the value of the REIT's total assets. The Indebtedness to GBV ratio is a compliance measure in the DOT and establishes the limit of financial leverage for the REIT. The Indebtedness to GBV ratio is presented in this MD&A as management considers this non-IFRS measure to be an important measure of the REIT's financial position.

Adjusted EBITDA is defined by the REIT as net earnings before, where applicable, interest, taxes, depreciation, amortization and fair value gain (loss) on financial instruments and investment properties and excludes non-recurring items such as transaction costs on the sale of investment properties.

The interest coverage ratio is used by the REIT to monitor the REIT's ability to service interest requirements of its outstanding debt. The ratio is calculated by dividing Adjusted EBITDA by the REIT's interest obligations for the period. Management considers this non-IFRS measure useful in assessing the REIT's ability to service its debt.

Adjusted cash provided by operating activities measures the amount of sustainable cash provided by operating activities less interest expense. Adjusted cash provided by operating activities is presented in this MD&A because management considers this non-IFRS measure to be an important measure in assessing the REIT's availability of cash flow for distribution.

675 Cochrane Drive
GTA, ON

TABLE OF CONTENTS

BASIS OF PRESENTATION

The REIT's condensed consolidated financial statements for the three and nine months ended September 30, 2021 and 2020 have been prepared in accordance with IFRS. The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of dollars, except for Unit and per Unit information.

Certain time periods used in this MD&A are used interchangeably such as three and nine months ended September 30, 2021 ("Q3-2021") and ("YTD-2021"), respectively, three and nine months ended September 30, 2020 ("Q3-2020") and ("YTD-2020"), respectively, and six months ended June 30, 2021 ("Q2-2021").

OVERVIEW AND STRATEGY

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to the DOT, and governed by the laws of the Province of Ontario. The registered head office of the REIT is 1400 – 3280 Bloor Street West, Centre Tower, Toronto, Ontario, Canada, M8X 2X3. The Units are listed on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN. As at September 30, 2021, the REIT owned and operated a portfolio of 45 office properties across Canada consisting of approximately 4.7 million square feet.

The objectives of the REIT are to:

- generate stable cash distributions on a tax-efficient basis;
- expand the asset base of the REIT and increase its distributable cash flow through acquisitions of commercial rental properties across Canada and such other jurisdictions where opportunities exist; and
- enhance the value of the REIT's assets to maximize long-term Unit value through active management of its assets.

The REIT seeks to identify potential acquisitions using investment criteria that focus on the security of cash flow, capital appreciation, value enhancement through more efficient management of the assets being acquired and growth of FFO and AFFO per Unit.

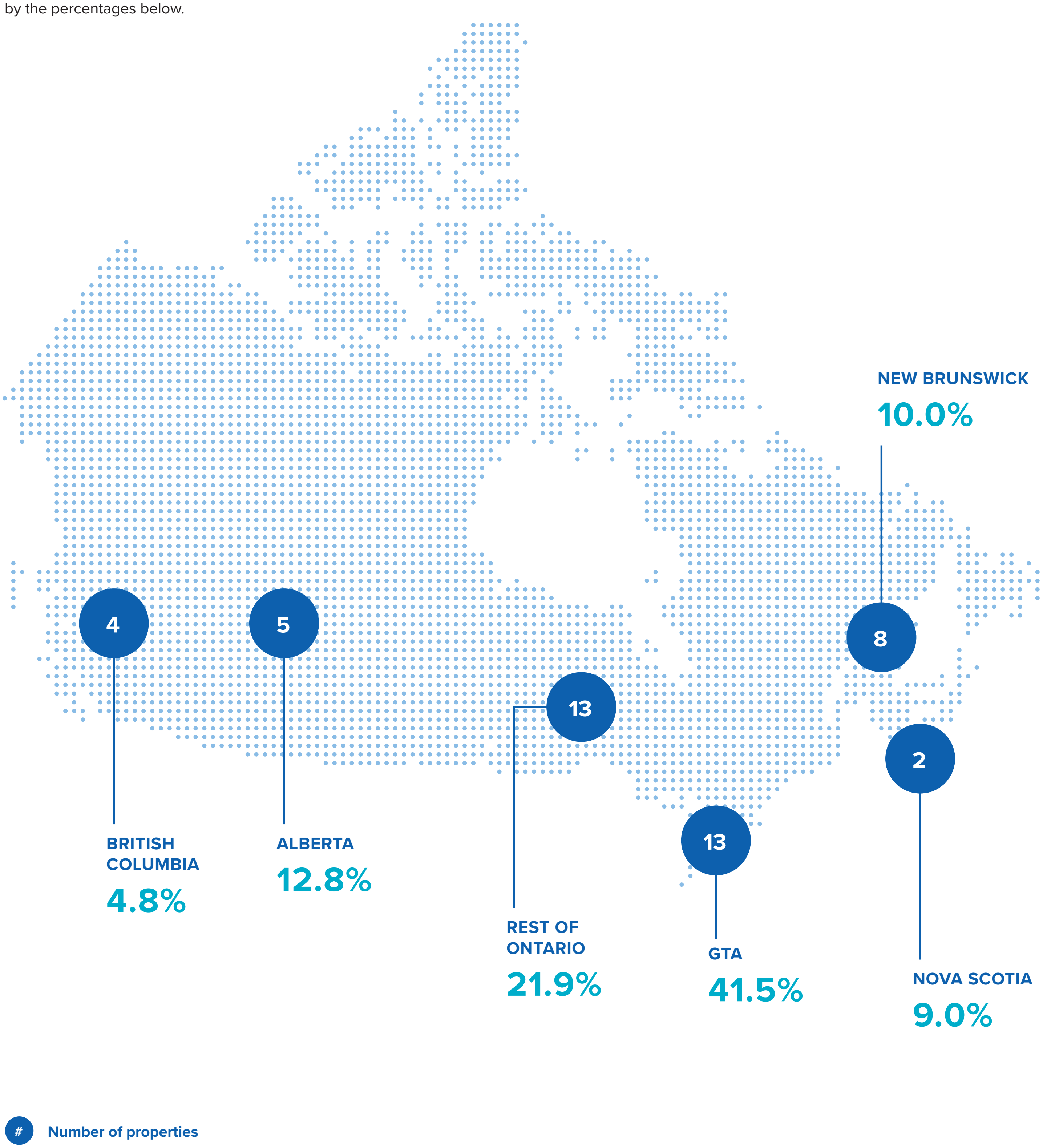
9200 Glenlyon Parkway
Burnaby, BC

PORTFOLIO OVERVIEW

As at September 30, 2021, the REIT's portfolio was comprised of 45 office properties totaling approximately 4.7 million square feet of gross leasable area ("GLA"). See Appendix A for a detailed listing of the REIT's properties.

Current Portfolio & Geographic Diversification

GLA by province as at September 30, 2021 is denoted by the percentages below.



TENANT PROFILE

Top 20 tenants account for 69% of revenue. Approximately 76% of the REIT's portfolio revenue is generated by government and credit rated tenants.

35%
government tenants

+

41%
credit rated tenants

=

76%
total government and credit rated tenants

The REIT's top 20 tenants as at September 30, 2021:

TENANT	% OF GROSS REVENUE	GLA	REMAINING LEASE TERM[1]
Federal Government of Canada	14.6%	658,800	6.0 years
Province of Alberta	10.0%	412,800	4.6 years
TD Insurance	6.0%	275,600	3.4 years
Province of Ontario	5.9%	237,200	2.8 years
Golder Associates Ltd.	3.9%	148,300	6.5 years
General Motors of Canada Company	3.6%	154,800	5.0 years
Province of New Brunswick	2.5%	172,400	1.2 years
Stantec Consulting Ltd.	2.4%	105,100	1.8 years
Lumentum Ottawa Inc.	2.3%	148,100	6.3 years
LMI Technologies Inc.	2.1%	90,600	5.3 years
Intact Insurance Co.	2.1%	77,800	3.7 years
Province of British Columbia	2.0%	81,600	6.1 years
Staples Canada ULC	1.9%	122,000	12.0 years
General Dynamics Land Systems	1.8%	148,400	2.2 years
EMS Technologies Canada, Ltd.	1.7%	107,200	2.9 years
Ceridian Canada Ltd.	1.6%	49,800	4.4 years
Smucker Foods of Canada Corporation	1.4%	60,800	8.2 years
Paymentus (Canada) Corporation	1.4%	55,800	9.5 years
ADP Canada Co.	1.2%	65,600	4.7 years
Prospera Credit Union	1.1%	52,300	3.0 years
Total	**69.5%**	**3,225,000**	**4.9 years**

(1) Weighted by annualized gross revenue.

The following sets out the percentage of annualized gross revenue from the REIT's tenants by industry:

Public Administration
36%

Services
26%

Finance, Insurance, Real Estate
17%

Manufacturing
13%

Other
8%

LEASING ACTIVITY

As at September 30, 2021, the REIT's occupancy was 96% (Q2-2021 – 97%) with a weighted average remaining lease term of 4.6 years (Q2-2021 - 4.7 years).

The REIT's overall retention rate since inception continued to hold strong at 80% and occupancy remained stable despite an uncertain leasing environment brought about by the COVID-19 pandemic that has increased vacancy rates and reduced office utilization. The REIT's continued tenant retention has resulted in growth over its expiring rates and mitigated additional leasing costs that would have been required to attract new tenants. Each renewal enables the REIT to preserve its roster of quality tenants who have strong operating fundamentals that have enabled their business to weather this period of uncertainty. This further reinforces the REIT's commitment to strategically occupying its assets with predominantly government and credit rated tenants.

The following table summarizes leasing activity for Q3-2021 and YTD-2021:

	New Lease Deals		Lease Renewals and Replacements		
	Leasable Area	Weighted Average Lease Term	Leasable Area	Weighted Average Lease Term	% Increase In Rents
Q3 2021	5,900 SF	4.2 YR	202,300 SF	4.4 YR	1.5%
YTD 2021	36,800 SF	1.9 YR	490,100 SF	4.8 YR	2.1%

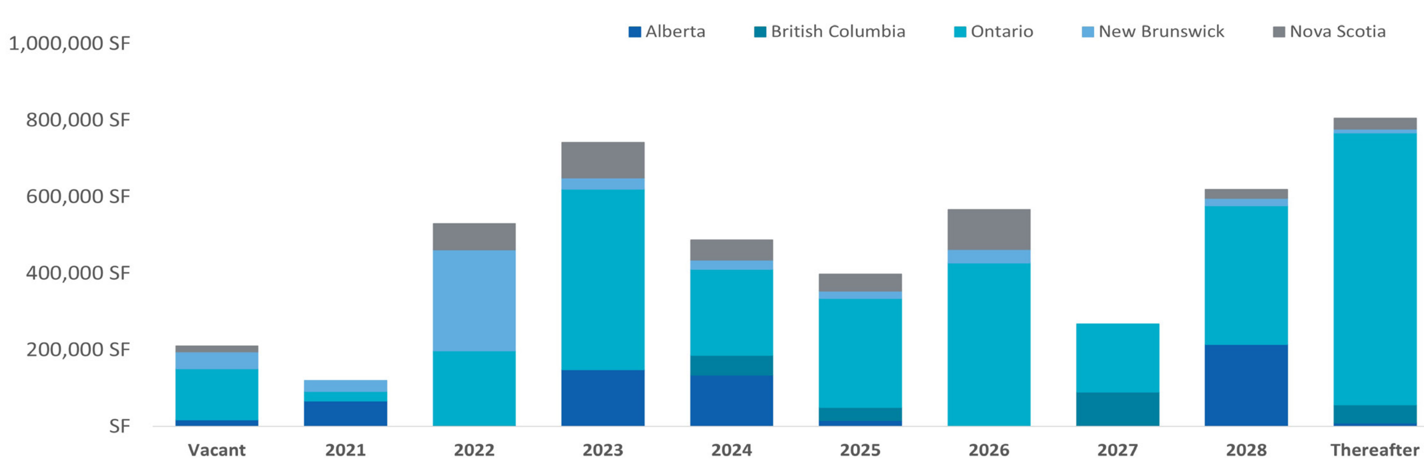
In Q3-2021, the REIT completed 5,900 square feet of new leasing with a 4.2 year weighted average lease term. This included a five-year lease in Edmonton, Alberta, and a three-year lease expansion in Halifax, Nova Scotia, two markets that have experienced lower leasing traction.

During the quarter, the REIT renewed and replaced 202,300 square feet with a weighted average lease term of 4.4 years and a 1.5% increase in base rents over expiring rates. This included a five-year renewal with a credit rated tenant in Ottawa, Ontario for 148,100 square feet.

The REIT's renewal activity YTD-2021 achieved a 2.1% increase in base rents over expiring rates and included 387,000 square feet of government and credit rated tenant renewals with a weighted average lease term of 5.0 years.

LEASE ROLLOVER PROFILE

Lease maturities are based on the square footage of the REIT's leases. As at September 30, 2021, the lease rollover profile was as follows:



IMPACT OF COVID-19

The REIT continues to perform well given the uncertainty surrounding the COVID-19 pandemic. We remain engaged with our tenants and continue working with them on return to office plans. As of November 3, 2021, the REIT had collected, approximately 99.5% of its Q3-2021 and YTD-2021 contractual rents (99% Q3-2020 and YTD-2020). This is reflective of the REIT's high quality tenant base given approximately 35% of its revenue is generated from the Federal Government of Canada and the Provincial Governments of Alberta, British Columbia, New Brunswick and Ontario. Additionally, 41% of its revenue is generated from credit rated tenants that are well capitalized and possess the financial resources to meet their rental obligations.

At the end of Q3-2021, the REIT had access to approximately $66,054 of cash and undrawn credit facilities and a weighted average maturity of 3.57 years for its mortgage portfolio. All 2021 debt maturities have been completed and the REIT is exploring early refinancing opportunities to take advantage of the low interest rate environment for it's 2022 debt maturities.

Since the pandemic was declared, certain tenants 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 ("CERS") program. These programs assist businesses experiencing a significant drop in revenue as a result of COVID-19. The CECRA program concluded on September 30, 2020 with the CERS program becoming effective on September 27, 2020. Businesses that qualify for CERS receive a subsidy for rent or mortgage interest payments, as applicable. CERS subsidizes, on a sliding scale, up to a maximum of 65% of eligible expenses (including rent), as well as an additional 25% to businesses that have been temporarily shut down by a mandatory public health order issued by a qualified public health authority. The program ended on October 23, 2021. As of the date of this MD&A, five of the REIT's tenants totaling 7,700 square feet are participating in CERS. The REIT recognized a $23 and $74 expense in property operating costs representing its rental contribution granted to tenants as part of the CERS program for the three and nine months ended September 30, 2021. The REIT has deferred a total of $446 of rental payments for certain tenants since the start of the pandemic. As of September 30, 2021, all deferred rental payments had been received.

With approximately 84% of Canada's eligible population fully vaccinated as of the date hereof, there is optimism that employers can initiate return to office plans in the near-term. Further, companies are making preparations for return to work, with many large employers requiring employees to be fully vaccinated following the announcement by the federal government requiring all public service employees to be fully vaccinated. 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. Further disruptions caused by the imposition of future lockdowns and emergency measures may negatively impact, among other things: the ability of the REIT to collect rent and implement rent increases; economic activity in regions where the REIT's investment properties are located; the REIT's property operating costs and expenses incurred under the CERS program or any additional programs; and the REIT's ability to raise capital (which, in turn, could materially impact the REIT's business strategy); and to maintain its distributions. Although emergency measures have started to ease in many provinces and territories as more Canadians receive vaccinations and active cases decline, the uncertainty created by variants of concern and potential further closures of certain businesses could impact the REIT's business and operations for a prolonged period.

It remains difficult to predict the continued impact of COVID-19 on the REIT's business and operations, both in the short and long-term. Certain aspects of the REIT's business and operations that could potentially be impacted include, without limitation, rental income, occupancy, tenant inducements, future demand for space and market rents, all of which ultimately may impact the underlying valuation of the REIT's investment properties and its ability to maintain its distributions to Unitholders. See "Risks and Uncertainties" for a discussion about the risks associated with COVID-19.

Management continues to actively assess and respond where possible, to the effects of the COVID-19 pandemic on the REIT's tenants, suppliers and service providers, while monitoring governmental actions being taken to curtail the spread of COVID-19. The REIT is continuing to review its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic, and intends to continue following health and safety guidelines as they evolve.

With a close to fully occupied portfolio of predominantly government and credit rated tenants, the REIT is well positioned to maintain stability through these times of uncertainty. The REIT is confident the strategic measures implemented to date will help to ensure its continued success and its ability to provide value to Unitholders.

THIRD QUARTER AND YEAR TO DATE HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

The REIT has continued to perform in line with management expectations with positive financial results for Q3-2021. Collections remain strong with approximately 99.5% of contractual rents collected for the three and nine months ended September 30, 2021. Q3-2021 occupancy was 96% with an average remaining lease term of 4.6 years and 76% of revenue continues to be generated from government and credit rated tenants.

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Portfolio				
Number of properties			45	48
Portfolio GLA			4,745,300 sf	4,818,500 sf
Occupancy			96 %	98 %
Remaining weighted average lease term			4.6 years	4.8 years
Revenue from government and credit rated tenants			76 %	76 %
Financial				
Revenue	$ 34,222	$ 33,914	$ 103,062	$ 103,242
NOI	20,555	20,901	62,176	63,001
Net income and comprehensive income	15,847	9,381	32,088	31,453
Same Property NOI	22,242	22,015	66,326	66,016
Same Property NOI growth	1.0 %	(1.9)%	0.5 %	(1.1)%
FFO	$ 13,544	$ 13,364	$ 40,491	$ 39,994
FFO per Unit - basic	0.15	0.15	0.45	0.45
FFO per Unit - diluted	0.15	0.15	0.44	0.45
AFFO	$ 12,940	$ 12,852	$ 38,542	$ 38,346
AFFO per Unit - basic	0.14	0.14	0.43	0.43
AFFO per Unit - diluted	0.14	0.14	0.42	0.43
AFFO payout ratio - diluted	105 %	104 %	106 %	104 %
Distributions declared	$ 13,506	$ 13,319	$ 40,394	$ 39,757

The REIT's revenue increased by 1% and NOI decreased by 2%, compared to the same quarter in 2020. The main contributor to the decline in NOI is the sale of four properties during the last 12 months offset by an increase in Same Property NOI of 1%. Three of the dispositions were located in smaller tertiary markets and reflect the REIT's strategy to focus on office properties in larger urban markets. The fourth disposition totaling 40,000 square feet was an opportunistic sale of a smaller asset and the sale price was above both original purchase price and IFRS value.

FFO and AFFO per Unit on both a basic and diluted basis have remained stable at $0.15 and $0.14, respectively, when compared to Q3-2020. YTD-2021 FFO basic per Unit remained at $0.45 and FFO diluted per Unit decreased $0.01 to $0.44 compared to the prior year. YTD-2021 AFFO basic per Unit remained at $0.43 and AFFO diluted per Unit decreased $0.01 to $0.42.

Same Property NOI increased 1.0% for the quarter and 0.5% YTD-2021. While occupancy has decreased, Same Property NOI in Ontario increased mainly due to higher rental rates associated with a 78,000 square foot lease expiry in Q2 and Q3 of 2020, the majority of which was re-leased with revenue commencing in the first half of 2021. Contractual rent step ups and higher project management fees also contributed to increased Same Property NOI. This increase was offset by higher vacancy in the Greater Toronto Area ("GTA") portfolio.

New Brunswick Same Property NOI experienced a decline due to a decrease in occupancy. Nova Scotia continues to be positively impacted by contractual rent step ups and from a new 22,000 square foot short-term lease. Same Property NOI in Alberta increased 4.6% mainly due to a termination payment received from a tenant in our downtown Calgary property. The REIT's Edmonton property continues to experience an increase in NOI due to higher occupancy compared to the same period last year.

In Q3-2021, the REIT completed 5,900 square feet of new leasing including a five year lease in Edmonton, Alberta and a three year lease in Halifax, Nova Scotia. The REIT also renewed and replaced 202,300 square feet with a weighted average lease term of 4.4 years representing a 1.5% increase over expiring rates. This included a five year renewal with a credit rated tenant in Ottawa, Ontario for 148,100 square feet. The REIT's renewal activity YTD-2021 achieved a 2.1% increase in base rents over expiring rates and included 387,000 square feet of government and credit rated tenant renewals with a weighted average lease term of 5.0 years.

	September 30, 2021	December 31, 2020
Indebtedness to GBV ratio	57.5 %	57.8 %
Interest coverage ratio	3.00 x	2.96 x
Indebtedness - weighted average fixed interest rate	3.35 %	3.37 %
Indebtedness - weighted average term to maturity	3.57 years	4.06 years

During Q3-2021 the REIT refinanced a total of $47,000 with a weighted average fixed interest rate of 2.56% (0.27% basis points lower than existing rates) for five year terms providing the REIT with additional liquidity of approximately $10,400. All 2021 debt maturities have been addressed. The REIT is exploring early refinancing opportunities to take advantage of the low interest rate environment for it's 2022 debt maturities. The REIT's weighted average term to maturity of its mortgage portfolio is 3.57 years with a weighted average fixed interest rate of 3.35%.

Dispositions

On April 12, 2021, the REIT disposed of 529-533 Exmouth Street located in Sarnia, Ontario totaling 15,400 square feet for $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 June 1, 2021, the REIT disposed of 5900 Explorer Drive, Mississauga, Ontario totaling 40,000 square feet for $11,900 which was above both the original purchase price and IFRS value.

At-The-Market Equity Program

On May 5, 2021 the REIT filed a prospectus supplement to establish an at-the-market equity program (the "ATM Program") that allows the REIT to issue and sell up to $50 million of Units to the public, from time to time, at the REIT's discretion. Units sold under the ATM Program will be sold through the Toronto Stock Exchange or on other marketplaces to the extent permitted at the prevailing market prices at the time of sale. The REIT intends to use the net proceeds from the ATM Program, if any, to fund potential future acquisitions and for general trust purposes.

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.

QUARTERLY INFORMATION

	Q3-21	Q2-21	Q1-21	Q4-20	Q3-20	Q2-20	Q1-20	Q4-19
Revenue	$34,222	$33,896	$34,944	$36,189	$33,914	$33,999	$35,329	$29,533
Property operating costs	(13,667)	(13,365)	(13,854)	(15,448)	(13,013)	(13,008)	(14,220)	(12,411)
NOI	20,555	20,531	21,090	20,741	20,901	20,991	21,109	17,122
General and administration expenses	(1,409)	(1,930)	(1,904)	(1,662)	(1,412)	(1,495)	(1,196)	(1,498)
Finance costs	(7,121)	(7,131)	(7,174)	(7,200)	(7,233)	(7,261)	(7,182)	(5,698)
Transaction costs on sale of investment properties	—	(623)	—	(73)	(160)	—	—	—
Distributions on Class B LP Units	(462)	(469)	(504)	(573)	(573)	(572)	(573)	(613)
Fair value adjustment of Class B LP Units	514	(1,706)	(1,895)	(2,314)	(579)	(2,699)	9,370	(1,555)
Fair value adjustment of investment properties	3,372	(2,166)	(2,348)	(1,115)	(1,806)	(3,967)	1,176	(6,081)
Unrealized gain (loss) on change in fair value of derivative instruments	398	15	2,455	495	243	(535)	(5,094)	(252)
Net income and comprehensive income for the period	$15,847	$ 6,521	$ 9,720	$ 8,299	$ 9,381	$ 4,462	$ 17,610	$ 1,425
FFO per Unit - basic	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.14
AFFO per Unit - basic	$ 0.14	$ 0.14	$ 0.14	$ 0.14	$ 0.14	$ 0.14	$ 0.14	$ 0.13
AFFO per Unit - diluted	$ 0.14	$ 0.14	$ 0.14	$ 0.14	$ 0.14	$ 0.14	$ 0.14	$ 0.13
AFFO payout ratio - basic	104 %	105 %	105 %	105 %	104 %	103 %	105 %	111 %
AFFO payout ratio - diluted	105 %	106 %	106 %	105 %	104 %	103 %	105 %	112 %
Number of investment properties	45	45	47	47	48	49	49	49
Occupancy rate	96 %	97 %	97 %	98 %	98 %	97 %	97 %	97 %

Q3-2021 revenue increased as a result of higher project management fees and termination payments as well as higher recovery revenue directly attributable to higher utility expenses and repairs and maintenance costs. Utility expenses increased as tenants commenced their return to work initiatives resulting in higher foot traffic combined with higher seasonal temperatures. Repairs and maintenance costs increased as a result of parking lot and electrical repairs at certain properties. NOI increased $24 mainly due to higher one-time fees offset by decreased rental revenue from property dispositions completed during Q2-2021.

Excluding the impact of changes in the fair value of Unit-based compensation, general and administration expenses were lower this quarter because Q2-2021 included fees for the annual Unitholders' meeting.

Finance costs decreased during the quarter due to lower interest expense as a result of the repayment of mortgages on two property dispositions in Q2-2021.

Distributions on Class B LP Units decreased in the quarter due to the exchange of 135,953 Class B LP Units to Units completed on September 9, 2021.

FFO and AFFO per Unit have remained stable when compared to Q2-2021 at $0.15 and $0.14, respectively.

ANALYSIS OF FINANCIAL PERFORMANCE

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

Revenue includes all income earned from the REIT’s properties, including rental income and all other miscellaneous income paid by the tenants under the terms of their existing leases, such as base rent, parking, operating costs and realty tax recoveries, as well as adjustments for the straight-lining of rent and amortization of tenant inducements.

Property operating costs include building maintenance, heating, ventilation and air-conditioning, elevator, insurance, utilities, management fees and other operational costs.

The REIT's revenue increased by 1% and NOI decreased by 2% (YTD-2021 - 1%) compared to the same period in 2020. The decrease in NOI in the quarter is driven by higher Same Property NOI of 1% (YTD-2021 - 0.5%) which was offset by the disposition activity in late 2020 and Q2-2021. Realty tax expense also decreased as a result of the property dispositions and lower tax assessments at certain properties. Property operating expenses increased due to higher repairs and maintenance costs for parking lot, HVAC and electrical repairs at certain properties. Property operating expenses for the comparative period were lower as a result of the COVID-19 pandemic declared in March 2020, which resulted in stay at home orders and mandatory closures that impacted the timing of regular repairs and maintenance in Q2 and Q3-2020.

SAME PROPERTY ANALYSIS

Same Property NOI includes investment properties owned for the entire current and comparative reporting periods.

	Three months ended September 30		Nine months ended September 30	
	2021	**2020**	**2021**	**2020**
Number of properties	45	45	45	45
Revenue	$ 34,222	$ 33,471	$ 102,396	$ 101,878
Expenses:				
Property operating	(9,012)	(8,044)	(25,758)	(24,441)
Realty taxes	(4,655)	(4,790)	(14,861)	(15,225)
	$ 20,555	$ 20,637	$ 61,777	$ 62,212
Add:				
Amortization of leasing costs and tenant inducements	1,557	1,070	4,274	2,940
Straight-line rent	130	308	275	864
Same Property NOI	$ 22,242	$ 22,015	$ 66,326	$ 66,016

Same Property Occupancy

	As at September 30	
	2021	**2020**
Alberta	97.1 %	95.6 %
British Columbia	100.0 %	100.0 %
New Brunswick	90.7 %	93.5 %
Nova Scotia	96.7 %	93.4 %
Ontario	95.6 %	99.3 %
Total	95.6 %	97.7 %

Same Property NOI

	Three months ended September 30			
	2021	**2020**	**Variance**	**Variance %**
Alberta	$ 3,608	$ 3,448	$ 160	4.6 %
British Columbia	1,266	1,259	7	0.6 %
New Brunswick	1,218	1,339	(121)	(9.0)%
Nova Scotia	1,726	1,587	139	8.8 %
Ontario	14,424	14,382	42	0.3 %
	$ 22,242	$ 22,015	$ 227	1.0 %

Q3-2021 Same Property NOI increased 1% and 0.5% YTD-2021.

Same Property NOI in Alberta increased 4.6% mainly due to a termination payment received from a tenant in our downtown Calgary property. The REIT's Edmonton property continues to experience an increase in NOI due to higher occupancy compared to the same period last year.

New Brunswick Same Property NOI experienced a decline due to a decrease in occupancy. Nova Scotia continues to be positively impacted by contractual rent step ups and from a new 22,000 square foot short term lease.

While occupancy has decreased in the REIT's Ontario portfolio, Same Property NOI has increased 0.3% when compared to the same period in 2020. The increase is mainly due to higher rental rates associated with a 78,000 square foot lease expiry in Q2 and Q3 of 2020, the majority of which was re-leased with revenue commencing in the first half of 2021. Contractual rent step ups and higher project management fees also contributed to increased Same Property NOI. This increase was offset by higher vacancy in the GTA portfolio mainly due to a tenant reducing their space on lease renewal.

GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses include legal and audit fees, trustee fees, investor relations expenses, trustees' and officers' insurance premiums, costs associated with the Incentive Unit Plan (as defined below) and Unit Option Plan (as defined below) and other general and administrative expenses. Also included in general and administration expenses are asset management fees payable to Starlight. See "Related Party Transactions and Arrangements – Arrangements with Starlight".

Excluding the changes in the fair value of Unit-based compensation, general and administration expenses increased 4% in Q3-2021 and 5% YTD-2021 when compared to 2020 due to the granting of Restricted Units (as defined below) in the latter half of 2020 and Q1-2021.

FINANCE COSTS

The REIT's finance costs for the three and nine months ended September 30, 2021 and 2020 are summarized below. Finance costs exclude cash distributions and fair value adjustments on Class B LP Units.

	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 premiums	(13)	(5)	(39)	(17)
Amortization of financing costs	337	280	971	855
	$ 7,121	$ 7,233	$ 21,426	$ 21,676

Lower interest on mortgages payable was due to the property dispositions completed in late 2020 and Q2 2021 where the associated borrowings were repaid.

Other interest expense and standby fees relate to costs incurred on the REIT's credit facility (the "Credit Facility") which was partially drawn throughout Q3-2021 resulting in higher interest expense compared to the same period in 2020. In addition, standby fees were higher due to the increase in the amounts available under the Credit Facility.

DISTRIBUTIONS ON CLASS B LP UNITS

The REIT currently pays monthly distributions of $0.0495 per Class B LP Unit or $0.594 per Class B LP Unit on an annualized basis. Distributions declared were $462 in Q3-2021 ($573 - Q3-2020) and $1,435 in YTD-2021 ($1,718 - YTD-2020). The decrease in distributions was due to the conversion of 697,380 and 135,953 Class B LP Units to Units on February 25, 2021 and September 9, 2021, respectively.

FAIR VALUE ADJUSTMENT OF CLASS B LP UNITS

The fair value change in Class B LP Units represents the change in the trading price of the Units (given the Class B LP Units have economic and voting rights equivalent, in all material aspects, to Units). Any resulting change in the fair value of the Class B LP Units is reported in the period such change occurs. The fair value gain of $514 in Q3-2021 was due to a decrease in the trading price of the Units from $7.41 at June 30, 2021 to $7.24 at September 30, 2021. The fair value loss of $3,087 YTD-2021 was due to an increase in the trading price of the Units from $6.31 at December 31, 2020 to $7.24 at September 30, 2021.

FAIR VALUE ADJUSTMENT OF INVESTMENT PROPERTIES

The REIT has selected the fair value method to account for real estate classified as investment property and records properties at their purchase price (less any purchase price adjustments) in the quarter of acquisition. Any changes in the fair value of investment properties are recognized as fair value adjustments in the statement of income and comprehensive income in the quarter in which they occur.

The REIT determines the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and direct capitalization method, both of which are generally accepted appraisal methodologies. Fair value is based on, among other things, assumptions of future cash flows in respect of current and future leases, capitalization rates, terminal capitalization rates, discount rates, market rents, tenant inducements and leasing cost assumptions and expected lease renewals. Fair values are supported by a combination of internal financial information, market data and external independent valuations. Properties are independently appraised at the time of acquisition. In addition, the majority of the portfolio will be independently appraised at least once over a three-year period.

The REIT continues to monitor the value of its properties affected by COVID-19. The REIT revises its estimates concerning rental growth and lease renewal assumptions to reflect expected market conditions, and currently, future cash flows are expected 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 forecast with certainty how COVID-19 will continue to impact the valuation of the REIT's investment properties. Due to the COVID-19 pandemic and its ongoing impact on the economy, and specifically its unknown future impact on the real estate market, there is heightened uncertainty surrounding the valuation of investment properties. Consequently, there is a need to apply a higher degree of judgment as it pertains to the forward-looking assumptions that underlie the REIT's valuation methodologies. The REIT however remains committed to owning high-quality assets with long term value propositions.

For the three and nine months ended September 30, 2021, the REIT had a fair value gain of $3,372 and a fair value loss of $1,142, respectively. The Q3-2021 fair value gain was largely due to the increase in value of certain externally appraised properties as well as properties that benefited from contractual rent step-ups, offset by moderated leasing assumptions on certain properties. The YTD-2021 fair value loss was largely attributable to higher vacancy allowances and moderated leasing assumptions on certain properties, which was partially offset by the increase in value of certain properties which reflect external appraisals, positive leasing activity and contractual rent step-ups.

The key valuation assumptions for the REIT's investment properties as at September 30, 2021 and 2020 are as follows:

	2021	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%

UNREALIZED GAIN (LOSS) ON CHANGE IN FAIR VALUE OF DERIVATIVE INSTRUMENTS

The REIT enters interest rate swap agreements to effectively fix the interest rate on certain mortgages. These derivative instruments are measured at fair value on each reporting date and changes in the fair value are recognized as an unrealized gain or loss in the statements of income and comprehensive income.

The notional principal amounts of the outstanding interest rate swap contracts at September 30, 2021 were $77,067 (December 31, 2020 - $78,619). Unrealized gain on change in the fair value of the derivative instruments totaled $398 in Q3-2021 ($243 in Q3-2020) and $2,868 YTD-2021 (unrealized loss of $5,386 YTD-2020). The unrealized loss in 2020 was due to the emergency interest rate cuts that took place in March 2020 in response to the COVID-19 pandemic and the decrease in projected future interest rates. In Q1-2021, projected future interest rates began to rise and continue to do so due to economic optimism as a result of Canada's ongoing COVID-19 vaccination campaign and the gradual lifting of COVID-19 restrictions.

Given the interest rate swap removes the floating rate exposure on the REIT's debt and replaces it with a fixed rate, the unrealized gain is not a gain in itself, but represents the opportunity cost of not maintaining floating rate debt.

FFO AND AFFO

The REIT calculates FFO in accordance with the guidelines set out by Realpac. Reconciliation of net income and comprehensive income determined in accordance with IFRS, to FFO and AFFO is as follows:

	Three months ended September 30		Nine months ended September 30	
	2021	**2020**	**2021**	**2020**
Net income and comprehensive income	$ 15,847	$ 9,381	$ 32,088	$ 31,453
Add (deduct):				
Fair value adjustment of Unit-based compensation	(40)	19	693	(232)
Fair value adjustment of investment properties	(3,372)	1,806	1,142	4,597
Fair value adjustment of Class B LP Units	(514)	579	3,087	(6,092)
Transaction costs on sale of investment properties	—	160	623	160
Distributions on Class B LP Units	462	573	1,435	1,718
Unrealized (gain) loss on change in fair value of derivative instruments	(398)	(243)	(2,868)	5,386
Amortization of leasing costs and tenant inducements	1,559	1,089	4,291	3,004
FFO	$ 13,544	$ 13,364	$ 40,491	$ 39,994
Add (deduct):				
Non-cash compensation expense	112	87	333	165
Amortization of financing costs	337	280	971	855
Amortization of mortgage discounts	(13)	(5)	(39)	(17)
Instalment note receipts	27	29	80	88
Straight-line rent	129	313	275	883
Capital reserve [1]	(1,196)	(1,216)	(3,569)	(3,622)
AFFO	$ 12,940	$ 12,852	$ 38,542	$ 38,346
FFO per Unit:				
Basic	$ 0.15	$ 0.15	$ 0.45	$ 0.45
Diluted	$ 0.15	$ 0.15	$ 0.44	$ 0.45
AFFO per Unit:				
Basic	$ 0.14	$ 0.14	$ 0.43	$ 0.43
Diluted	$ 0.14	$ 0.14	$ 0.42	$ 0.43
AFFO payout ratio:				
Basic	104 %	104 %	105 %	104 %
Diluted	105 %	104 %	106 %	104 %
Distributions declared	$ 13,506	$ 13,319	$ 40,394	$ 39,757
Weighted average Units outstanding (000s):				
Basic	90,909	89,609	90,636	89,173
Add:				
Unit options and Incentive Units	601	70	797	38
Diluted	91,510	89,679	91,433	89,211

Notes:

[1] Based on an estimate of $1.00 (2020 - $1.00) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

The REIT's FFO and AFFO increased $180, or 1.3% and $88, or 0.7%, respectively in Q3-2021 over the comparable period and increased $497, or 1.2% and $196 or 0.5%, respectively in YTD-2021. FFO and AFFO for the quarter and YTD-2021 benefited from higher Same Property NOI and lower finance costs, partially offset by lower NOI from dispositions and higher general and administration expenses.

Q3-2021 FFO and AFFO basic and diluted per Unit remained stable at $0.15 and $0.14, respectively. YTD-2021 FFO basic per Unit remained at $0.45 and FFO diluted per Unit decreased $0.01 to $0.44. YTD-2021 AFFO basic per Unit remained at $0.43 and AFFO diluted per Unit decreased $0.01 to $0.42.

DISTRIBUTIONS

The REIT currently pays monthly distributions of $0.0495 per Unit or $0.594 per Unit on an annualized basis.

The trustees of the REIT ("Trustees") determine the level of cash distributions based on the level of cash flow from operations before working capital changes, less actual and planned capital expenditures. In any given period, distributions may differ from cash provided by operating activities, primarily due to fluctuations in working capital. It is expected that normal fluctuations in working capital will be funded from the REIT's cash resources as described in "Liquidity and Capital Investment". In addition, the distributions declared include a component funded by the REIT's distribution reinvestment plan ("DRIP"). Pursuant to the DRIP, Unitholders may 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.

The following table shows the amount of distributions declared, non cash distributions under the DRIP and cash distributions paid by the REIT on both Units and Class B LP Units.

	Three months ended September 30	Nine months ended September 30	Years ended December 31	
	2021	2021	2020	2019
Distributions declared	$ 13,506	$ 40,394	$ 53,139	$ 40,609
Less: DRIP	(1,744)	(4,986)	(9,014)	(5,850)
Cash distributions paid	$ 11,762	$ 35,408	$ 44,125	$ 34,759

The following table provides a reconciliation of the REIT's cash flow and adjusted cash flow provided by operating activities to its declared and cash distributions:

	Three months ended September 30	Nine months ended September 30	Years ended December 31	
	2021	2021	2020	2019
Net income and comprehensive income	$ 15,847	$ 32,088	$ 39,752	$ 24,178
Cash flow provided by operating activities	18,147	57,866	91,384	58,594
Less: Interest paid	(6,802)	(20,588)	(27,418)	(19,805)
Adjusted cash flow provided by operating activities	11,345	37,278	63,966	38,789
Declared basis:				
Excess (shortfall) of net income and comprehensive income over distributions	2,341	(8,306)	(13,387)	(16,431)
Excess (shortfall) of adjusted cash flow provided by operating activities over distributions	(2,161)	(3,116)	10,827	(1,820)
Cash basis:				
Excess (shortfall) of net income and comprehensive income over distributions	4,085	(3,320)	(4,373)	(10,581)
Excess of adjusted cash flow provided by operating activities over distributions	(417)	1,870	19,841	4,030

Net income and comprehensive income was higher than declared and cash distributions during the quarter and lower than declared and cash distributions YTD-2021 primarily due to the fair value adjustments on Class B LP Units and investment properties which are non-cash adjustments and included in income and comprehensive income.

Adjusted cash flow provided by operating activities was lower than declared distributions by $2,161 for the quarter and $3,116 for YTD-2021. In Q3-2021, adjusted cash flow provided by operating activities was lower than cash distributions by $417 and higher than cash distributions by $1,870 for YTD-2021. The shortfall for Q3-2021 was mainly due to the timing of the payments of tenant inducements, leasing costs and changes in working capital. The REIT has not been required to fund distributions from alternate sources such as debt, mortgages and other financing instruments.

RECONCILIATION OF ADJUSTED CASH FLOW PROVIDED BY OPERATING ACTIVITIES TO AFFO

Adjusted cash flow provided by operating activities represents cash provided by operating activities less interest paid. The reconciliation of adjusted cash flow provided by operating activities to AFFO measures the amount of cash generated by operations and available for distribution to Unitholders. See "Distributions".

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Adjusted cash flow provided by operating activities	$ 11,345	$ 16,283	$ 37,278	$ 50,245
Non-cash compensation expense	20	(6)	147	75
Change in finance costs payable	5	(29)	94	(422)
Instalment note receipts	27	29	80	88
Capital reserve	(1,196)	(1,216)	(3,569)	(3,622)
Change in non-cash operating working capital	2,739	(2,209)	4,512	(8,018)
AFFO	$ 12,940	$ 12,852	$ 38,542	$ 38,346

AFFO of $12,940 was less than distributions declared by $566 and exceeded distributions paid by $1,178 in Q3-2021. YTD-2021 AFFO of $38,542 was less than distributions declared by $1,852 and exceeded distributions paid by $3,134. The REIT expects to continue to be able to fund distributions paid from AFFO on a go forward basis.

CAPITAL RESERVE

The REIT's capital reserve represents a reserve for capital expenditures, tenant inducement and leasing costs. The REIT considers many factors when determining an appropriate capital reserve. Items such as property age, asset class, tenant mix, prior capital investment, lease term, recoverability from tenants and current market conditions are all considered. The REIT also engages independent expert consulting firms to perform a comprehensive property condition assessment prior to the acquisition of a property. The report contains a five or ten year projection of estimated sustaining capital expenditures. The detailed analysis considers the quality of construction, age of building, use of the property, recent capital expenditures and anticipated future maintenance requirements. The estimates generated by the independent consultants help form the basis for estimating the REIT's on-going reserve. The REIT reviews its capital reserve estimate on an annual basis and makes appropriate adjustments.

The REIT includes a normalized capital reserve adjustment based on historical experience when arriving at AFFO as recoverable and non-recoverable capital expenditures, tenant inducements and leasing costs are fundamental to the operating activities of a real estate company and are not considered discretionary investments. These expenditures are required to preserve rental income and should be taken into consideration when determining the amount of sustainable cash available to fund future distributions. The capital reserve adjustment is an estimate and there is no guarantee that future expenditures will reflect historical trends.

LIQUIDITY AND CAPITAL INVESTMENT

LIQUIDITY

Cash flow from operating activities represents the primary source of liquidity to fund distributions, debt service, capital improvements, tenant inducements and leasing costs. The REIT's cash flow from operating activities is dependent upon the occupancy level of its investment properties, the rental rates on its leases, the collectability of rent from its tenants, and other factors. Material changes in these factors may adversely affect the REIT's cash flow from operating activities and hence its liquidity. A more detailed discussion of these risks can be found under the "Risks and Uncertainties" section in the annual information form of the REIT dated March 3, 2021 (the "AIF"). Also see "Risks and Uncertainties".

As at September 30, 2021, the REIT had access to approximately $66,054 of cash and undrawn Credit Facility. The REIT also has in place an ATM program pursuant to which it can issue up to $50 million of Units. During Q3-2021 the REIT refinanced a total of $47,000 with a weighted average fixed interest rate of 2.56% (0.27% basis points lower than existing interest rates) for five year terms providing the REIT with additional liquidity of approximately $10,400. All 2021 debt maturities have been addressed. The REIT is exploring early refinancing opportunities to take advantage of the low interest rate environment for its 2022 debt maturities.

The REIT's available funds are as follows:

	September 30, 2021	December 31, 2020
Cash	$ 6,054	$ 24,580
Undrawn Credit Facility	60,000	60,000
Available funds	$ 66,054	$ 84,580

The REIT expects to be able to meet all of its obligations, including distributions to Unitholders, and capital expenditure requirements as they become due and to provide for the future growth of the business. Management's strategy to managing liquidity risk is to ensure, to the extent possible, it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities. To mitigate the risk associated with the refinancing of maturing debt, the REIT staggers the maturity dates of its mortgage portfolio over a number of years. The REIT has a number of financing sources available to fulfill its commitments including: cash flow from operating activities; mortgage debt secured by investment properties; Credit Facility; and issuances of debt and equity.

CAPITAL INVESTMENT

The REIT's properties require ongoing capital and leasing expenditures. Leasing expenditures include tenant inducements, leasing commissions and leasehold improvements incurred in connection with the leasing of vacant space and the renewal or replacement of current tenants. The REIT plans to continue to invest capital in its properties throughout the remainder of 2021 and beyond, subject to any delays from potential future stay at home orders due to COVID-19. Future expenditures are expected to be funded through cash flow generated by operations, the Credit Facility and cash on hand. For the nine months ended September 30, 2021 and 2020, the REIT invested $17,067 and $16,082 respectively, in capital and leasing expenditures.

ASSET PROFILE

INVESTMENT PROPERTIES

The following table summarizes changes in the REIT's 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

ADDITIONS

Additions to investment properties for the nine months ended September 30, 2021 were $17,067, consisting of the following:

- Capital expenditures of $2,087 mainly for elevator, washroom and parking garage upgrades and boiler replacements; and
- Tenant inducements and leasing costs of $14,980 which include costs incurred to renew existing and secure new tenants.

PREPAID EXPENSES AND DEPOSITS

At September 30, 2021, the REIT had $5,422 in prepaid expenses and deposits, compared to $1,523 at December 31, 2020. The increase was due to an increase in prepaid realty taxes, insurance and deposits relating to the acquisition of 1112 Fort Street in Victoria, British Columbia which closed on October 13, 2021.

DEBT

MORTGAGES PAYABLE

The following table sets out, as at September 30, 2021, scheduled principal repayments and amounts maturing over each of the next five fiscal years:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Percentage of total mortgages payable	Weighted average interest rate of maturing debt	Scheduled interest payments
2021 - remainder of year	$ 5,916	$ —	$ 5,916	0.7 %	— %	$ 6,688
2022	23,275	120,388	143,663	17.9 %	3.44 %	25,453
2023	17,675	141,596	159,271	19.8 %	3.65 %	18,432
2024	16,105	79,399	95,504	11.9 %	3.39 %	15,290
2025	8,896	189,469	198,365	24.7 %	3.15 %	7,885
Thereafter	17,235	182,396	199,631	25.0 %	3.27 %	13,088
	$ 89,102	$ 713,248	$ 802,350	100.0 %	3.35 %	$ 86,836
Unamortized mark to market mortgage adjustments			218			
Unamortized financing costs			(3,705)			
			$ 798,863			

Mortgages payable have 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).

CREDIT FACILITY

The REIT has a $60,000 floating rate revolving Credit Facility with a Canadian chartered bank which is comprised 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. As at September 30, 2021 the REIT had $0 drawn under the Credit Facility (December 31, 2020 - $0).

INDEBTEDNESS TO GBV

As at September 30, 2021, the REIT's overall leverage, as represented by the ratio of Indebtedness to GBV was 57.5% compared to 57.8% at December 31, 2020. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT's Indebtedness to GBV ratio as at September 30, 2021 and December 31, 2020.

	September 30, 2021	December 31, 2020
Total assets	$ 1,389,855	$ 1,404,882
Deferred financing costs	6,569	6,300
GBV	$ 1,396,424	$ 1,411,182
Mortgages payable	798,863	812,489
Unamortized financing costs and mark to market mortgage adjustments	3,487	3,860
Indebtedness	$ 802,350	$ 816,349
Indebtedness to GBV	**57.5 %**	**57.8 %**

The REIT's objectives are to maintain a combination of short, medium and long-term debt appropriate for the overall debt level of the REIT, to extend the current weighted average term to maturity and achieve staggered debt maturities while taking into account the availability of financing, market conditions and the financial characteristics of each property. Per the DOT, at no time shall the

REIT incur debt aggregating more than 20% of GBV at floating interest rates or having maturities less than one year (excluding debt with an original maturity of one year or more falling due in the next 12 months or variable rate debt for which the REIT has entered into interest rate swap agreements to fix the interest rate for a one year period or more).

Financing costs on mortgages and the Credit Facility are netted against the related debt and amortized on an effective interest basis over the expected life of the debt.

As at September 30, 2021, 0% (December 31, 2020 - 0%) of the REIT's debt was at floating rates.

ADJUSTED EBITDA AND INTEREST COVERAGE RATIO

The interest coverage ratio is useful in determining the REIT's ability to service the interest requirements of its outstanding debt. The ratio is calculated by dividing Adjusted EBITDA by the REIT's interest obligations for the period. Adjusted EBITDA removes the non-cash impact of fair value changes and non-recurring items such as transaction costs on sale of investment properties from net income and comprehensive income.

The following is the reconciliation of net income and comprehensive income to Adjusted EBITDA:

	Twelve months ended September 30 2021	2020
Net income and comprehensive income	$ 40,387	$ 32,878
Add (deduct):		
Interest expense	27,402	26,268
Fair value adjustment of Unit-based compensation	881	278
Transaction costs on sale of investment properties	696	160
Fair value adjustment of investment properties	2,257	10,678
Fair value adjustment of Class B LP Units	5,401	(4,537)
Distributions on Class B LP Units	2,008	2,331
Unrealized loss on change in fair value of derivative instruments	(3,363)	5,638
Amortization of leasing costs, tenant inducements, mortgage premium (discounts) and financing costs	6,661	4,784
Adjusted EBITDA	$ 82,330	$ 78,478

	Twelve months ended September 30 2021	2020
Adjusted EBITDA	$ 82,330	$ 78,478
Interest expense	27,402	26,268
Interest coverage ratio	3.00 x	2.99 x

Interest coverage ratio for the period slightly increased as a result of higher adjusted EBITDA from the acquisition activity completed in the second half of 2019 with the corresponding interest expense from additional borrowing associated with the acquisitions and refinancing completed in 2020.

CLASS B LP UNITS

The Class B LP Units meet the definition of a financial liability under IAS 32, Financial Instruments – Presentation ("IAS 32") and are classified as fair value through profit or loss financial liabilities under IAS 32. The Class B LP Units are measured at fair value at each reporting period with any changes in fair value recorded in the statements of income and comprehensive income.

The Class B LP Units, together with the related special voting units, have economic and voting rights equivalent, in all material aspects, to Units. They are exchangeable at the option of the holder on a one-for-one basis for Units. Each Class B LP Unit entitles the holder to receive distributions from True North Commercial Limited Partnership equivalent to the distributions such holder would have received if they were holding Units.

As at September 30, 2021, there were 3,022,849 Class B LP Units issued and outstanding valued at $21,886 compared to $24,333 as at December 31, 2020. The change in value is due to the conversion of 697,380 and 135,953 Class B LP Units to Units on February 25, 2021 and September 9, 2021, respectively combined with an increase in the Unit price from $6.31 at December 31, 2020 to $7.24 at September 30, 2021.

There have been no further changes in the Class B LP Units outstanding as of November 3, 2021.

UNITHOLDERS' EQUITY

OUTSTANDING UNITS

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units in the capital of the REIT.

The following table summarizes changes in the Unit capital of the REIT for the nine months ended September 30, 2021:

	Units	Amount
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	833,333	5,534
Balance, September 30, 2021	88,014,664	$ 539,555

The number of Units outstanding as of November 3, 2021 is as follows:

Balance, September 30, 2021	88,014,664
Issue of Units – DRIP	78,889
Balance, November 3, 2021	88,093,553

INCENTIVE UNIT PLAN

The REIT has established an incentive trust unit plan (the "Incentive Unit Plan") pursuant to which the REIT may issue two types of units: (i) deferred Units ("Deferred Units"); and (ii) restricted Units ("Restricted Units", and collectively with the Deferred Units, the "Incentive Units").

Incentive Units granted under the Incentive Unit Plan are classified as liabilities and Unit-based compensation expense is recognized in general and administration expenses over the vesting period of the Incentive Units. Incentive Units are revalued at each reporting period and fair value adjustments recorded in general and administration expenses.

Deferred Units

Deferred Units are granted to the non-executive Trustees as part of a Trustee's annual fees 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:

	Deferred Units		Amount
Balance, 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

The number of Deferred Units outstanding as at November 3, 2021 is as follows:

Balance, September 30, 2021	70,984
Deferred Units granted	477
Balance, November 3, 2021	71,461

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 the grant date.

The following table summarizes the changes in Restricted Units:

	Restricted Units		Amount
Balance at January 1, 2020	—	$	—
Granted and reinvested	43,172		27
Fair value adjustments	—		—
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

The number of Restricted Units outstanding as at November 3, 2021 is as follows:

Balance, September 30, 2021	88,574
Restricted Units reinvested	595
Balance, November 3, 2021	89,169

UNIT OPTION PLAN

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 (the "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.

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

Exercise price [1]	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	

[1] In actual dollars.

SHORT FORM BASE SHELF PROSPECTUS

On January 23, 2020, the REIT filed a short-form base shelf prospectus ("Prospectus"). The Prospectus was filed with the securities regulatory authorities in each of the provinces and territories of Canada and 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 27, 2021, the REIT filed an amendment to the Prospectus to conform with recent amendments to National Instrument 44-102 – *Shelf Distributions* ("NI 44-102") requiring that the cover page of the Prospectus state that it may qualify an "at-the-market distribution" (as such term is defined in NI 44-102).

AT-THE-MARKET EQUITY PROGRAM

On May 5, 2021 the REIT filed a prospectus supplement to establish an ATM Program that allows the REIT to issue and sell up to $50 million of Units to the public, from time to time, at the REIT's discretion. Units sold under the ATM Program will be sold through the Toronto Stock Exchange or on other marketplaces to the extent permitted at the prevailing market prices at the time of sale. The REIT intends to use the net proceeds from the ATM Program, if any, to fund potential future acquisitions and for general trust purposes.

No Units were issued pursuant to the Prospectus or ATM Program for the nine months ended September 30, 2021.

COMMITMENTS AND CONTINGENCIES

From time to time in the normal course of business, the REIT is involved in litigation and claims in relation to its investment properties. In the opinion of management, none of these, individually or in aggregate, could result in a liability that would have a significant adverse effect on the financial position of the REIT. The REIT has agreed to indemnify, in certain circumstances, the Trustees and officers of the REIT.

As at September 30, 2021, the REIT had entered into commitments for building renovations, capital upgrades and Landlord's work 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.

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Starlight is considered a related party to the REIT as Starlight is controlled by Daniel Drimmer, the Chairman of the Board of the REIT, who is also a significant Unitholder.

ARRANGEMENTS WITH STARLIGHT

Pursuant to the asset management agreement dated December 14, 2012 (“Asset Management Agreement”), Starlight through a wholly-owned subsidiary, provides advisory, asset management and administrative services to the REIT. The REIT is administered and operated by the REIT’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) and an experienced team of real estate professionals at Starlight.

The Asset Management Agreement has an initial term of ten years and is renewable for successive five-year terms, unless and until the Asset Management Agreement is terminated in accordance with its termination provisions.

Starlight is entitled to the following fees pursuant to the Asset Management Agreement:

(a) Base annual management fee calculated and payable on a monthly basis, equal to 0.35% of the sum of:

- the historical purchase price of properties owned by the REIT; and
- the cost of capital expenditures incurred by the REIT or any of its affiliates in respect of the properties owned by the REIT.

(b) Acquisition fee equal to:

- 1.0% of the purchase price of a property, on the first $100,000 of properties acquired in each fiscal year;
- 0.75% of the purchase price of a property on the next $100,000 of properties acquired in each fiscal year; and
- 0.50% of the purchase price of properties acquired in excess of $200,000 in each fiscal year.

(c) An annual incentive fee is payable by the REIT equal to 15% of the REIT’s 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 investment properties are located.

(d) Capital expenditures 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.

In addition, the REIT is required to reimburse Starlight for all reasonable out-of-pocket expenses in connection with the performance of the services described in the Asset Management Agreement or such other services which the REIT and Starlight agree in writing are to be provided from time to time.

		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
Total	$	1,185	$	1,263	$	3,547	$	3,574

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

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the securities and activities of the REIT. Risks and uncertainties are disclosed below, in the REIT's annual MD&A dated March 3, 2021 for the year ended December 31, 2020 and in the AIF. The annual MD&A and AIF are available on SEDAR at www.sedar.com. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

The following risk and uncertainty has been updated by management from the REIT's annual MD&A:

COVID-19 AND OTHER PUBLIC HEALTH CRISIS

While the REIT continues to monitor related developments, there still remains a great deal of uncertainty regarding COVID-19 and it continues to be difficult to reliably predict the full scope, duration and extent of the impact of COVID-19 on the REIT's business and operations, and to accurately assess the length, impact and severity the pandemic will have on the REIT's operations, financial condition or results, and Unit price in both the short and long-term.

Industries, including commercial real estate, continue to be affected in varying degrees by COVID-19. The Canadian government has implemented additional emergency measures to slow the introduction and spread of COVID-19 in Canada including various restrictions such as stay at home orders, mandatory closures of certain types of businesses, reduced limits on social gatherings, social distancing measures and travel restrictions. As of November 3, 2021, many of these restrictions have been lifted as a result of higher vaccination rates and lower active case counts across the country. While public health restrictions have not yet had a significant impact on the REIT's operations, the REIT cannot predict the extent to which they may affect the REIT, particularly if new or additional containment measures are mandated by governments in the future.

The REIT is required and continues to comply with the directives provided by the Federal and Provincial governments and public health authorities to help mitigate the spread of COVID-19. These changes and any additional changes in operations in response to COVID-19 could materially impact, among other things, the operations and financial results of the REIT. Specifically, such changes may impact tenants' ability to pay rent in full or at all. In response, the REIT has assessed rent collectability when determining future cash flows and has determined the current risk of default to be low given the quality of the REIT's tenant base, which largely consists of government and credit rated tenants. Certain tenants have been identified to be in need of financial assistance either in the form of short-term rent deferrals or through the CERS program. As a result, the REIT has recognized a $23 and $74 expense in property operating costs representing a rental provision granted to tenants as part of the CERS program for the three and nine months ended September 30, 2021. There can be no assurance that expenses incurred by the REIT under the CERS program will not continue or increase in future periods or that additional programs will be instituted causing increased or additional expenses to be incurred by the REIT.

The REIT deferred a total of $446 of rental payments for certain tenants since the start of the pandemic. As of September 30, 2021, all deferrals have been received in accordance with those deferral agreements. There can be no assurance that future rent deferrals, if granted, will be repaid in whole or in part.

The current public health crisis has also resulted in general economic slowdown and extreme volatility in financial markets. In addition to impacting the Unit price, this may create difficulty in raising capital in debt and equity markets, which could in turn adversely impact the REIT's strategy. In response to the global economic slowdown, governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. Notwithstanding any of the foregoing, the extent to which COVID-19 and any other pandemic or public health crisis impacts the REIT’s business, affairs, operations, financial condition (including the REIT’s ability to raise capital), liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information which may emerge concerning the severity of and the actions required to contain the COVID-19 pandemic or remedy its impact, among others. At this time, the duration and impact of COVID-19 is unknown, as is the efficacy of the government and central bank interventions. The ability and level of success of jurisdictions around the world in restarting and maintaining economies is uncertain. It is not possible at this time to reliably predict the overall long term impact on the REIT’s financial performance. The wide ranging disruptions caused by COVID-19 may materially adversely affect the REIT’s performance. The economic uncertainty surrounding the COVID-19 pandemic may, in the short and/or long term, materially adversely impact the REIT’s tenants and/or the debt and equity markets as well as the Unit price, both of which could materially adversely affect the REIT’s operations and financial performance.

In response to the work-from-home measures implemented due to COVID-19, Starlight has enhanced its processes, procedures and controls in an effort to mitigate any potential cybersecurity risks that may stem from working remotely. Certain initiatives taken by the REIT include the addition of software programs that search, monitor and analyze machine data to identify unusual activity, protect against malware, detect malicious traffic and report on widely known vulnerabilities and threat data in connection with connected assets. Starlight has also increased its firewall protections and implemented desktop administration software that aids in the tracking of inventory and allows the REIT to remotely control applications. There can be no assurance that such measures will deter, mitigate or prevent any cyber-attacks.

The REIT has taken actions to mitigate the effects of COVID-19 on its operations, liquidity, financial condition and results, keeping in mind the interests of its employees, tenants and other stakeholders. As COVID-19 continues to impact the well-being of individuals and the global economy, the REIT has implemented appropriate cautionary measures to ensure it is conducting business in a safe and effective manner (including, without limitation, limiting visits to the REIT's corporate offices and ensuring proper protocols around sanitation and social distancing), and continues to diligently work with its service providers to remain operational through the pandemic. Examples of these measures are: increased security to ensure appropriate elevator capacity limits are enforced and increased janitorial services for workplaces/tenancies. The REIT has an evolving response plan and a crisis management team that is in regular communication with our tenants. There can be no assurance that the response plan will mitigate any or all of the potential impact of COVID-19.

The REIT is actively focused on allowing its tenants to safely return to the office in accordance with public health guidelines. There is no assurance that the REIT’s tenants will be in a position to complete their office re-opening plans in light of the continuing uncertainty surrounding the COVID-19 pandemic. Certain initiatives taken by the REIT include increased cleaning and sanitization of common touchpoints in populated or high-traffic areas, increased security measures, additional hand sanitization stations throughout its properties, installation of automatic wave sensors and clean air initiatives such as HVAC filtration upgrades. As occupancy rates and traffic patterns shift, the REIT has added directional signage for flow of traffic within its buildings in accordance with prescribed social distancing guidelines. The above initiatives resulted in additional property operating costs of $246 for the nine months ended September 30, 2021, however the majority of these costs are recoverable from the tenants. The REIT continues to monitor this evolving situation and will take actions and implement any further measures as may be required by Federal, Provincial or local authorities, or that management considers to be in the best interests of its employees, tenants, suppliers or other stakeholders, as necessary. There can be no assurance that any actions taken will prevent the impact of COVID-19 on the REIT or its employees or tenants.

Further, public health crises, including the ongoing health crisis related to the COVID-19 pandemic, or relating to any other virus, flu, epidemic, pandemic or any other similar disease or illness (each, a “Health Crisis”) could adversely impact the REIT, including through: a general or acute decline in economic activity in regions in which the REIT’s investment properties are located; increased unemployment, supply shortages, mobility restrictions and other quarantine measures; increased government regulation inability to access governmental programs or processes on a timely basis, efficacy of governmental relief efforts; and the quarantine or contamination of one or more of the REIT’s investment properties. Contagion in a property or market in which the REIT operates could negatively impact its occupancy, reputation or attractiveness of that market. Furthermore, increased government regulation relating to a Health Crisis could result in legislation or regulations that may restrict the REIT's ability to enforce material provisions under its leases, including in respect of the collection of rent or other payment obligations, among other potential adverse impacts. All of these occurrences may have a material adverse effect on the business, cash flows, financial condition and results of operations of the REIT, including, but not limited to: the ability to implement rent increases; rent collection and receivables; vacancy levels; mortgage renewals and refinancings; deferral of certain capital expenditures; valuation of investment properties; the REIT's ability to meet any applicable debt covenant restrictions; and the REIT's ability to raise capital and to maintain its distributions to Unitholders.

In addition, the overall severity and duration of COVID-19-related adverse impacts on the REIT’s business, financial condition, cash flows and/or results of operations for 2021 and beyond, cannot be fully estimated at this time, but may be material. Such impacts may include: (i) an inability for tenants to meet their payment obligations; (ii) reduction in staff and operational levels; (iii) increased costs resulting from the REIT’s efforts to mitigate the impact of COVID-19; (iv) deterioration of worldwide credit and financial markets that could limit the REIT’s ability to obtain external financing to fund operations and capital expenditures, result in losses on the REIT’s investments due to failures of financial institutions and other parties, and result in a higher rate of losses on the REIT’s accounts receivable due to credit defaults; and (v) impairments and/or write-downs of assets. In addition, the impact of COVID-19 on the economy may have an adverse effect on the trading price for the Units, including reduced trading prices and/or increased volatility resulting in swings in trading price unrelated to the REIT’s underlying business. The size of the impact will depend on future developments.

Even after the COVID-19 pandemic has subsided, the REIT may continue to experience adverse impacts to its business as a result of the pandemic’s global economic impact, including any related recession, as well as lingering impacts on the REIT’s suppliers, third-party service providers and/or tenants.

USE OF ESTIMATES

The preparation of the REIT’s condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. In preparing the 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. The following estimates and significant judgments have been identified by management due to the recent events surrounding COVID-19.

INVESTMENT PROPERTIES

Investment activity in Canada has picked up in the first half of 2021 commensurately with an improving COVID-19 outlook, benefiting from a pent-up supply of listings and capital backlogs from the prior year. However, estimates remain subject to significant uncertainty as a result of the pandemic and may materially and adversely vary from actual outcomes. In particular, there is increased estimation uncertainty in determining the fair value of the REIT’s investment properties and the recoverability of amounts receivable. Estimates and assumptions used in the condensed consolidated interim financial statements are based on information available to the REIT as at the end of the reporting period. The fair value of the REIT's investment properties as at September 30, 2021 is based upon the 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 forecast 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.

FINANCIAL INSTRUMENTS

Financial assets are classified and measured using one of the following methods: (i) fair value through profit and loss ("FVTPL"); (ii) fair value through other comprehensive income ("FVTOCI") and (iii) amortized cost. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified at FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as FVTOCI are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income. The REIT derecognizes a financial asset when the contractual rights to the cash flows from the asset expire. Financial liabilities may be designated at FVTPL upon initial recognition.

Financial assets and liabilities are accounted for based on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the designation of such instruments.

	Classification
Financial assets:	
Instalment notes receivable	Amortized cost
Deposits and other assets	Amortized cost
Tenant and other receivables	Amortized cost
Cash and cash equivalents	Amortized cost
Financial liabilities:	
Mortgages payable	Amortized cost
Derivative instruments	Fair value
Class B LP Units	Fair value
Credit Facility	Amortized cost
Tenant rental deposits and prepayments	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument. Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred. Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

The REIT recognizes an allowance for expected credit losses ("ECL") for financial assets measured at amortized cost at each balance sheet date. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. Impairment losses, if incurred, would be recorded as expenses in the consolidated statements of income (loss) and comprehensive income (loss) with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

The fair values of the REIT's instalment notes receivable, deposits, tenant and other receivables and cash and cash equivalents, as well as the REIT's credit facility, tenant rental deposits and prepayments, accounts payable and accrued liabilities approximate their recorded values due to their short-term nature.

The fair value of mortgages payable disclosed in the notes to the REIT's condensed consolidated interim financial statements is estimated based on the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage.

Class B LP Units are carried at fair value and the fair value of the Class B LP Units has been determined with reference to the trading price of the Units. The fair value adjustment for the three and nine months ended September 30, 2021 resulted in an unrealized gain/(loss) of $514 (Q3-2020 - $(579)) and $(3,087) (YTD-2020 - $6,092), respectively.

Derivative instruments, such as interest rate swaps, are valued using a valuation technique. 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. 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. 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 (Q3-2020 - $243) and $2,868 (YTD-2020 - $(5,386)), respectively.

These fair value estimates may not necessarily be indicative of the amounts that might be paid or received in the future.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

There were no changes to the accounting policies applied by the REIT during Q3-2021.

The REIT's critical judgments and estimates in applying accounting policies can be found in Section 1(c) on page 5 of the REIT's audited consolidated financial statements as at and for the year ended December 31, 2020.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT maintains information systems, procedures and controls to ensure all information disclosed externally is as complete, reliable and timely as possible. Such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the condensed consolidated interim financial statements for external purposes in accordance with IFRS.

All control systems have inherent limitations, including well-designed and operated systems. No control system can provide complete assurance that the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. These inherent limitations include, without limitation, the possibility management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors. As a growing enterprise, management anticipates the REIT will be continually evolving and enhancing its systems of controls and procedures.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

The CEO and CFO evaluated the effectiveness of the REIT's disclosure controls and procedures (as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") and concluded that the design and operation of the REIT's disclosure controls and procedures were effective for the three and nine months ended September 30, 2021.

The CEO and CFO evaluated the design and effectiveness of the REIT's internal controls over financial reporting (as defined in NI 52-109) and concluded that the design and effectiveness of internal controls over financial reporting continue to be appropriate and were effective for the three and nine months ended September 30, 2021.

OUTLOOK

Although public health restrictions are easing across the nation, the lingering impact of COVID-19 has resulted in many companies delaying their return to office plans. On a positive note, through management's discussions with tenants, return to work plans are underway across the REIT's portfolio for many employers. Management expects office market fundamentals to recover as return to office mandates are executed, highlighting employers' desire for physical workspace to improve operational efficiencies, nurture and create a supportive and active learning environment for new employees, and cultivate and elevate team culture. Until such time the REIT remains well equipped with a stable portfolio of high-quality tenants to navigate through an uncertain office market environment, demonstrated through high rent collections, stable operating results and consistent tenant engagement.

The Bank of Canada (the "Bank") maintained its policy rates at the effective lower bound of 0.25% and kept the target pace of the quantitative easing program to $2B per week. The Bank reaffirmed its prior commitment to hold rates until the economic climate stabilizes and noted that added stimulus through Quantitative Easing will not be required as the recovery progresses. While rates may rise as economic activity improves, borrowing costs are expected to remain at historically low levels and positively contribute to the REIT's deployment of capital and refinancing activities.

The unemployment rate has reached its lowest level since the onset of the pandemic at 6.9% in September 2021, down from 9.2% the same time last year. Real gross domestic product declined 0.3% in the second quarter of 2021 as gains in business investment, government expenditure, and housing construction were more than offset by declines in residential real estate and export activity impacted by supply chain disruptions. The reopening of the economy is expected to contribute to an improved labour force and higher economic growth, however uncertainty remains with the potential for rising infections in the future.

The overall Canadian vacancy rate continues to rise against the backdrop of the fourth COVID-19 wave, however leasing activity is steadily improving as vacancy increases have abated across many key markets and overall sublet space has declined in part due to tenants taking back space in anticipation of returning to the office. The national office vacancy was 15.7% at Q3 2021, significantly higher than the REIT's portfolio at 4% and slightly up by 40 bps from the prior quarter as sublet space declined 240 bps from the prior quarter and net absorption improved in the REIT's key markets such as Toronto, Ottawa, and Halifax.

The GTA office market has started to stabilize as overall vacancy increased by 30 bps from the prior quarter to 13.7% at Q3-2021 and subleasing inventory declined 780 bps from the prior quarter. Owing in part to above-average quality tenant base and well-located properties, the REIT's Toronto suburban office portfolio vacancy remains well below the broader Toronto suburban office vacancy of 18.2% in Q3-2021.

Expanding leasing activity in Ottawa's office market has resulted in a 10 bps decline in overall office vacancy to 9.7% in the quarter and positive net absorption. Similarly, the REIT has completed 149,100 square feet of renewal lease deals in the quarter, resulting in stable same property occupancy of 99%. Halifax's office market experienced its strongest quarter since the onset of the pandemic, with vacancy declining 30 bps to 15.5% and subleasing inventory decreasing 43.5% from the prior quarter. The REIT continues to see headwinds in the downtown Calgary office market which remains challenged with 29.3% vacancy in Q3-2021 but benefits from a stable portfolio of suburban properties in the Alberta market, which has an overall occupancy of 99.6% and a weighted average lease term of over 4.9 years.

With average rent collections of over 99.5% during 2021 and stable occupancy, the REIT's portfolio of predominately government and credit rated tenant base continues to show resilience. Management is focused on the stability and improvement of cash flow in the near and long term through active management of the existing portfolio, as well as the addition of accretive acquisitions of properties.

Additional information relating to the REIT including the REIT's annual information form, can be found on SEDAR at www.sedar.com.

Dated: November 3, 2021
Toronto, Ontario, Canada

APPENDIX A - PROPERTY LISTING AT SEPTEMBER 30, 2021

	Property Name		City	Occupancy	Remaining Lease Term [1]	GLA
	Alberta					
1	855 8th Avenue SW	Calgary	Office	79 %	0.1 years	75,700
2	4500 & 4520 - 16th Avenue NW	Calgary	Office	98 %	3.3 years	77,600
3	1020 68th Avenue NE	Calgary	Office	100 %	2.2 years	148,400
4	3699 63rd Avenue NE	Calgary	Office	100 %	7.2 years	209,400
5	13140 St. Albert Trail	Edmonto	Office	100 %	2.9 years	95,200
	Total Alberta					*606,300*
	British Columbia					
6	810 Blanshard Street	Victoria	Office	100 %	3.3 years	34,400
7	727 Fisgard Street	Victoria	Office	100 %	7.6 years	50,100
8	9200 Glenlyon Parkway	Burnaby	Office	100 %	5.3 years	90,600
9	32071 South Fraser Way	Abbotsfo	Office	100 %	3.0 years	52,300
	Total British Columbia					*227,400*
	New Brunswick					
10	500 Beaverbrook Court	Frederict	Office	90 %	2.0 years	55,600
11	295 Belliveau Avenue	Shediac	Office	100 %	0.3 years	42,100
12	410 King George Highway	Miramich	Office	75 %	1.9 years	73,200
13	551 King Street	Frederict	Office	100 %	0.9 years	85,300
14	495 Prospect Street	Frederict	Office	88 %	2.5 years	85,100
15	845 Prospect Street	Frederict	Office	100 %	3.4 years	39,000
16	414-422 York Street	Frederict	Office	90 %	2.4 years	33,500
17	440-470 York Street	Frederict	Office	89 %	1.3 years	60,100
	Total New Brunswick					*473,900*
	Nova Scotia					
18	36 & 38 Solutions Drive	Halifax	Office	100 %	2.9 years	129,300
19	120, 130, 134 & 140 Eileen Stubbs Avenue	Halifax	Office	95 %	3.8 years	297,300
	Total Nova Scotia					*426,600*

[1] Weighted by annualized gross revenue.

	Property Name		City	Occupancy	Remaining Lease Term [1]	GLA
	Ontario					
20	1595 16th Avenue	Richmon	Office	97 %	8.1 years	123,000
21	251 Arvin Avenue	Hamilton	Office	100 %	2.7 years	6,900
22	61 Bill Leathem Drive	Ottawa	Office	100 %	6.3 years	148,100
23	777 Brock Road	Pickering	Office	100 %	1.4 years	98,900
24	400 Carlingview Drive	Etobicok	Office	100 %	6.4 years	26,800
25	6865 Century Avenue	Mississa	Office	100 %	2.1 years	63,800
26	6925 Century Avenue	Mississa	Office	100 %	5.2 years	252,500
27	675 Cochrane Drive	Markham	Office	92 %	3.7 years	369,300
28	1161 Crawford Drive	Peterbor	Office	100 %	5.5 years	32,500
29	520 Exmouth Street	Sarnia	Office	100 %	5.2 years	34,700
30	3115 Harvester Road	Burlingto	Office	66 %	1.5 years	78,800
31	135 Hunter Street East	Hamilton	Office	100 %	1.8 years	24,400
32	340 Laurier Avenue West	Ottawa	Office	99 %	8.3 years	279,800
33	360 Laurier Avenue West	Ottawa	Office	100 %	2.7 years	107,100
34	400 Maple Grove Road	Ottawa	Office	100 %	2.9 years	107,200
35	101 McNabb Street	Markham	Office	100 %	4.9 years	315,400
36	78-90 Meg Drive	London	Office	100 %	3.7 years	11,300
37	301 & 303 Moodie Drive	Ottawa	Office	97 %	4.2 years	148,600
38	8 Oakes Avenue	Kirkland	Office	100 %	10.5 years	41,000
39	5160 Orbitor Drive	Mississa	Office	100 %	8.5 years	31,400
40	231 Shearson Crescent	Cambrid	Office	100 %	3.2 years	60,700
41	6 Staples Avenue	Richmon	Office	100 %	12.0 years	122,000
42	2300 St. Laurent Boulevard	Ottawa	Office	100 %	3.4 years	37,500
43	3650 Victoria Park Avenue	Toronto	Office	95 %	2.0 years	154,400
44	80 Whitehall Drive	Markham	Office	100 %	8.2 years	60,800
45	5775 Yonge Street	Toronto	Office	79 %	4.4 years	274,200
	Total Ontario					*3,011,100*
	Average/Total Portfolio			96 %	4.6 years	4,745,300

[1] Weighted by annualized gross revenue.

1595 16th Avenue
GTA, ON

True North Commercial REIT

3280 Bloor Street West, Suite 1400, Centre Tower
Toronto, Ontario M8X 2X3
Phone: 416.234.8444
Email: ircommercial@truenorthreit.com