Consolidated Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2020 and 2019

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Independent Auditor's Report

To the Unitholders of True North Commercial Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of True North Commercial Real Estate Investment Trust and its subsidiaries (the "REIT"), which comprise the consolidated statement of financial position as at December 31, 2020 and 2019, and the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the REIT in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair Value of Investment Properties
Refer to Note 5 of the Consolidated Financial Statements

As at December 31, 2020, the fair value of the REIT's investment properties was $1,372 million which accounted for 97.7% of the REIT's total assets.

The valuation of investment properties is a key audit matter due to the subjective nature of the key inputs used in the valuation techniques and the sensitivity of fair value to changes in significant assumptions. The key inputs used in determining fair value include capitalization rates, discount rates and future cash flows, which are influenced by the nature of each investment property and prevailing market conditions.

How the Audit Matter was Addressed in the Audit

Our audit procedures included the following:

- assessed the competence, capabilities and objectivity of the external appraisers engaged by the REIT and the REIT's management involving the valuation process;

- obtained an understanding of the techniques used by the external appraisers and management in determining the valuation of investment properties on a sample basis;
- with the assistance of our real estate valuation experts, evaluated the fair value methodology used by the external appraisers and management;
- performed an assessment of the internal consistency of significant underlying assumptions such as capitalization rates and net operating incomes and compared the significant underlying assumptions to the market;
- assessed management's review and approval process for valuations and budgets; and
- evaluated the adequacy of the disclosures included in the consolidated financial statements relating to the fair value of investment properties

Because of the subjectivity involved in determining fair value for individual investment properties and the existence of alternative assumptions and valuation methods, we determined a range of fair values that were considered reasonable to evaluate the fair values determined by external appraisers and management.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in Management's Discussion and Analysis for the year ended December 31, 2020.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the REIT's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the REIT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jameson Bouffard.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 3, 2021

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

December 31, 2020 and 2019

		2020		2019
Assets				
Non-current assets:				
Investment properties (note 5)	$	1,372,184	$	1,362,517
Instalment notes receivable		245		317
Deposits and other assets (note 4)		3,850		593
Total non-current assets		1,376,279		1,363,427
Current assets:				
Derivative instruments (note 11)		—		14
Tenant and other receivables (note 6)		2,429		3,161
Prepaid expenses and deposits		1,523		3,202
Instalment notes receivable		71		83
Cash and cash equivalents		24,580		5,669
Total current assets		28,603		12,129
Total assets	$	1,404,882	$	1,375,556
Liabilities and Unitholders' Equity				
Non-current liabilities:				
Mortgages payable (note 7)	$	776,045	$	681,349
Derivative instruments (note 11)		3,701		122
Class B LP Units (note 8)		24,333		28,111
Total non-current liabilities		804,079		709,582
Current liabilities:				
Mortgages payable (note 7)		36,444		111,234
Tenant rental deposits and prepayments		7,595		5,275
Accounts payable and accrued liabilities (note 10)		30,254		22,135
Derivative instruments (note 11)		1,298		—
Total current liabilities		75,591		138,644
Total liabilities		879,670		848,226
Unitholders' equity (note 12)		525,212		527,330
Total liabilities and unitholders' equity	$	1,404,882	$	1,375,556

See accompanying notes to consolidated financial statements.

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

"William J. Biggar" Trustee

"Roland A. Cardy" Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2020 and 2019

	2020	2019
Revenue (note 14)	$ 139,431	$ 106,457
Expenses:		
Property operating	35,062	27,394
Realty taxes	20,627	16,998
	83,742	62,065
Other income (expenses):		
General and administration expenses	(5,765)	(5,534)
Finance costs (note 15)	(28,876)	(21,032)
Transaction costs on sale of investment properties	(233)	(581)
Distributions on Class B LP Units (note 8)	(2,291)	(2,515)
Fair value adjustment of Class B LP Units (note 8)	3,778	(6,933)
Fair value adjustment of investment properties (note 5)	(5,712)	(615)
Unrealized loss on change in fair value of derivative instruments (note 11)	(4,891)	(677)
Net income and comprehensive income	$ 39,752	$ 24,178

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2020 and 2019

	Unit capital	Income and distributions	Total
	(note 12(c))		
Unitholders' equity, January 1, 2019	$ 341,041	$ 22,049	$ 363,090
Changes during the year:			
Units issued, net of costs	172,306	—	172,306
Net income and comprehensive income for the year	—	24,178	24,178
Distributions	—	(38,094)	(38,094)
Issue of units under DRIP (note 12(f))	5,850	—	5,850
Unitholders' equity, December 31, 2019	519,197	8,133	527,330
Changes during the year:			
Units issued, net of costs	(36)	—	(36)
Net income and comprehensive income for the year	—	39,752	39,752
Distributions	—	(50,848)	(50,848)
Issue of units under DRIP (note 12(f))	9,014	—	9,014
Unitholders' equity, December 31, 2020	$ 528,175	$ (2,963)	$ 525,212

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

Years ended December 31, 2020 and 2019

	2020	2019
Operating activities:		
Net income and comprehensive income for the year	$ 39,752	$ 24,178
Adjustments for financing activities included in income:		
Finance costs (note 15)	28,876	21,032
Unrealized loss on change in fair value of derivative instruments (note 11)	4,891	677
Distributions on Class B LP Units (note 8)	2,291	2,515
Fair value adjustment of Class B LP Units (note 8)	(3,778)	6,933
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 5)	5,712	615
Unit-based compensation expense	(52)	1,302
Change in other non-cash operating items	1,398	2,265
Change in non-cash operating working capital (note 16)	12,294	(923)
Cash provided by operating activities	91,384	58,594
Investing activities:		
Net proceeds from sale of investment properties	607	8,115
Acquisitions (note 4)	—	(411,744)
Additions to investment properties (note 5)	(19,999)	(14,441)
Cash used in investing activities	(19,392)	(418,070)
Financing activities:		
Proceeds from credit facilities	—	(3,800)
Proceeds from mortgage refinancing, net of costs	150,813	297,140
Repayments of mortgage refinancing	(110,324)	(16,708)
Principal payments on mortgages	(21,978)	(16,080)
Payments received on instalment notes receivable	84	193
Finance costs paid	(29,131)	(21,802)
Change in restricted cash	—	1,380
Proceeds from issuance of Units, net of costs	(306)	153,728
Cash distributions to unitholders	(42,239)	(31,398)
Cash (used in) provided by financing activities	(53,081)	362,653
Increase in cash and cash equivalents	18,911	3,177
Cash and cash equivalents, beginning of year	5,669	2,492
Cash and cash equivalents, end of year	$ 24,580	$ 5,669
Supplemental cash flow information:		
Vendor take-back mortgages on dispositions (note 4)	$ 2,845	$ —
Units issued under DRIP – unitholders	8,531	5,332
Units issued under DRIP – Class B LP Units	483	518
Issuance of Units on acquisition of investment property (note 12)	—	15,000
Units issued in exchange for Class B LP Units (note 8)	—	2,984

See accompanying notes to consolidated financial statements.

Organization:

True North Commercial Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to the second amended and restated declaration of trust made as of May 22, 2014 ("DOT"), and governed by the laws of the Province of Ontario. The REIT incorporated True North Commercial General Partner Corp. ("TNCGP") on November 16, 2012 and with TNCGP, formed True North Commercial Limited Partnership ("TNCLP") on November 16, 2012.

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

1. Basis of presentation

(a) Statement of compliance:

These consolidated financial statements of the REIT have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

(b) Basis of presentation:

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

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

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties, class B limited partnership units of TNCLP ("Class B LP Units"), trust units ("Units") options, incentive units and derivative instruments, which are stated at their fair values.

(c) Critical judgments and estimates:

The preparation of consolidated 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, revenue and expenses. Actual results may differ from these estimates.

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

1. Basis of presentation (continued):

(i) Critical judgments in applying accounting policies:

The following are critical judgments management has made in the process of applying its accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements:

(a) Accounting for acquisitions:

The REIT assesses whether an acquisition is an asset acquisition or a business combination.

The REIT accounts for an acquisition as a business combination if the assets acquired and liabilities assumed constitute a business and the REIT obtains control of the business. When the cost of a business combination exceeds the fair value of the identifiable assets acquired or liabilities assumed, such excess is recognized as goodwill. Transaction related costs are expensed as incurred.

If an acquisition does not meet the definition of a business combination, the REIT accounts for the acquisition as an asset acquisition. The investment property acquired is initially measured at the purchase price, including directly attributable costs. Subsequent to initial measurement, investment properties are carried at fair value.

(b) Income taxes:

Under current tax legislation, a real estate investment trust is not liable to pay Canadian income taxes provided its taxable income is fully distributed to unitholders during the year. The REIT is a real estate investment trust if it meets prescribed conditions under the *Income Tax Act* (Canada) (the "Tax Act") relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REIT's assets and revenue, and it has determined it qualifies as a real estate investment trust.

The REIT expects to continue to qualify as a real estate investment trust under the Tax Act; however, should it no longer qualify it would not be able to flow-through its taxable income to unitholders and the REIT would, therefore, be subject to tax.

(ii) Key sources of estimation uncertainty:

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

1. Basis of presentation (continued):

(a) Valuation of investment properties:

The estimates used when determining the fair value of an investment property are discount rates, terminal capitalization rates, capitalization rates and future cash flows. The discount, terminal capitalization and capitalization rates applied are reflective of the characteristics, location and market of the investment property. The future cash flows of an investment property are based upon rental income from current leases and assumptions about occupancy rates and market rents from future leases, less future cash outflows relating to such current and future leases. Management determines fair value utilizing internal financial information, external market data and capitalization rates provided by independent industry experts and third party appraisals.

2. Significant accounting policies:

(a) Investment properties:

Investment properties are held to earn rental income, for capital appreciation or both, but not for sale in the ordinary course of business. All of the REIT's properties are investment properties.

On acquisition, investment properties are initially recorded at cost, including transaction costs. Subsequent to initial recognition, the REIT uses the fair value model to account for investment properties under International Accounting Standard ("IAS") 40, Investment Property. Under the fair value model, investment properties are recorded at fair value at the consolidated statement of financial position date. Related fair value gains and losses are recorded in profit or loss during the period in which they arise.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and deposits.

(c) Revenue recognition:

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for leases with its tenants as operating leases. Revenue recognition commences when the tenant has a right to use the leased asset. Generally, this occurs on the lease inception date or, where the REIT is required to make additions to the property in the form of tenant improvements or landlord works which enhance the value of the property, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease. Any tenant improvements or landlord works are recognized on a straight-line basis over the term of the lease as a reduction to rental revenue.

2. Significant accounting policies (continued):

A straight-line rent receivable, which is included in the carrying amount of investment properties, is recorded for the difference between the rental revenue recorded and the contractual amount received.

Revenue from investment properties includes all rental income earned from the property, including rental income and all other miscellaneous income paid by the tenants under the terms of the operating leases.

Rental revenue also includes recoveries of operating expenses, including property taxes. Operating expense recoveries are recognized in the period in which recoverable costs are chargeable to tenants. Where a tenant is legally responsible for operating expenses and pays them directly in accordance with the terms of the lease, the REIT does not recognize the expenses or any related recovery revenue.

(d) Class B LP Units:

Class B LP Units are exchangeable into Units at the option of the holder per the exchange agreement dated December 14, 2012 (the “Exchange Agreement”). The Units are puttable and, therefore, the Class B LP Units meet the definition of a financial liability under IAS 32, Financial Instruments - Presentation (“IAS 32”). Further, the Class B LP Units are designated as fair value through profit or loss financial liabilities and are measured at fair value at each reporting period with any changes in fair value recorded in profit or loss. The fair value of the Class B LP Units is based on the quoted market price of the Units.

(e) Unit capital:

The Units are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with IAS 32. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity. The Units meet the conditions of IAS 32 and are, therefore, classified and accounted for as equity.

(f) Unit-based compensation plans:

Incentive Unit Plan

On June 10, 2019, the REIT established an incentive trust unit plan (the “Incentive Unit Plan”). The Incentive Unit Plan issues two types of units: (i) deferred Units (“Deferred Units”); and (ii) restricted Units (“Restricted Units”), collectively (“Incentive Units”). The Incentive Units are issued at the volume weighted average price of Units for the five trading days immediately preceding the last trading day of the grant date. The Incentive Unit plan provides for the crediting of additional Incentive Units in respect of distributions paid on Units for the period when an Incentive Unit is outstanding.

2. Significant accounting policies (continued):

The Units underlying the Incentive Units are puttable and, therefore the Incentive Units are considered cash settled share based payment transactions under IFRS 2 and are classified as a liability within accounts payable and accrued liabilities. Unit-based compensation expense is recognized in general and administrative expenses over the vesting period. Incentive Units are fair valued at each reporting period and the change in fair value is recorded in profit or loss as part of general and administrative expenses. The fair value of the Incentive Units is estimated based on the quoted market price of the Units at the balance sheet date.

(i) Deferred Units

Deferred Units are granted to the non-executive trustees of the REIT (“Trustees”) as part of a Trustee’s annual fees and vest immediately. The Trustees are required to receive a portion of their annual retainer in the form of Deferred Units and may also elect to receive up to 100% of their remaining fees in Deferred Units.

(ii) Restricted Units

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

Unit Option Plan

Prior to June 10, 2019 the REIT had a Unit Option Plan, which provided holders with the right to receive Units. The REIT measures the outstanding options at fair value as at the grant date, using the Black-Scholes option pricing model. The Unit Options are fair valued at each reporting period, are classified as a liability within accounts payable and accrued liabilities and the change in fair value is recognized in profit or loss. Unit-based compensation expense is recognized in general and administrative expenses over the vesting period.

(g) Income taxes:

The REIT qualifies as a mutual fund trust and real estate investment trust pursuant to the Tax Act. Under current tax legislation, a real estate investment trust is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided its taxable income is fully distributed to unitholders. The REIT intends to continue to qualify as a real estate investment trust and to make distributions not less than the amount necessary to ensure the REIT will not be liable to pay income taxes. Accordingly, no current or deferred income taxes have been recorded in these consolidated financial statements.

2. Significant accounting policies (continued):

(h) Financial instruments:

Financial assets and liabilities 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 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
Derivative instruments	FVTP&L
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	FVTP&L
Class B LP Units	FVTP&L
Credit facility	Amortized cost
Tenant rental deposits and prepayments	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

Transaction costs 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 ("EIR") over the anticipated life of the related instrument.

Transaction costs or 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

2. Significant accounting policies (continued):

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.

(i) Accounting standards implemented:

The REIT adopted the Amendment to IFRS 3, Definition of a Business ("IFRS 3") on January 1, 2020. The amendment to IFRS 3 clarifies to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. Also, it clarifies a business can exist without including all of the inputs and processes needed to create outputs.

This amendment had no impact on the consolidated financial statements of the REIT.

3. Impact of COVID-19:

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

Rent concessions

The duration and impact of COVID-19 is currently unknown and the Canadian federal and provincial governments have enacted subsidies and other stimulus in an attempt to stabilize economic conditions. Since the pandemic was declared, certain tenants of the REIT have required financial assistance in the form of short-term rental deferrals or participation in the Canadian Emergency Commercial Rent Assistance ("CECRA") program. The REIT recognized a $187 expense in property operating expenses representing its 25% rental contribution granted to tenants as part of the CECRA program for the year ended December 31, 2020. On October 9, 2020, the Federal Government announced a new Canada Emergency Rent Subsidy program ("CERS") to assist businesses experiencing a significant drop in revenue as a result of the COVID-19 pandemic. The REIT recognized a $20 expense in property operating expenses representing a 35% rental provision granted to tenants as part of the CERS program for the year ended December 31, 2020.

For the year ended December 31, 2020, the REIT agreed to defer rental payments of approximately $438 for certain tenants. Pursuant to the deferral agreements $410 of these rental payments had been received as of December 31, 2020.

3. Impact of COVID-19 (continued):

The REIT's assessment of expected credit losses is subjective and is based upon forward looking assessments of collectability. As a result, any expected credit loss is uncertain and the assumptions upon which it is based may change due to the ongoing uncertainty caused by COVID-19.

Fair value of investment properties

Throughout Canada, investment activity during the pandemic has been limited. The fair value of the REIT's investment properties at December 31, 2020 is based upon best available market data, including capitalization rates; however given the continued uncertainty around the duration of the pandemic and the potential negative impact it may have on certain sectors of the real estate industry and its tenants, it is not possible to predict how the fair value of the REIT's investment properties may be impacted.

The REIT continues to monitor the economic impact COVID-19 is having on its operations and future cash flows, which ultimately impacts the value of the underlying real estate. The future cash flows of an investment property are based upon rental income from current leases and assumptions about occupancy rates, market rents from future leases and the cash outflows arising from current and future leases. The REIT continues to revise its estimates concerning rental growth and lease renewal assumptions to reflect expected market conditions, and currently, future cash flows are predicted to remain relatively stable as government and credit rated tenants comprise the majority of the REIT's tenant base. It is not possible however, to determine with certainty how COVID-19 will continue to impact the REIT's investment properties. Significant changes in rental income, occupancy rates, tenant inducements and market rents could negatively impact future valuations of the REIT's investment properties.

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

4. Acquisitions and dispositions:

On September 30, 2020 and November 5, 2020 the REIT completed the sale of 534 Queens Avenue, London, Ontario and 197-199 Dundas Street, London, Ontario for a sale price of $2,250 and $1,400, respectively. The proceeds from these dispositions net of costs were $2,090 and $1,327 and included interest-only vendor take-back mortgages of $1,725 and $1,120 which are included in the deposits and other assets balance as at December 31, 2020. Both of these vendor take-back mortgages bear interest at 3.45% per annum and mature on November 1, 2023 and December 1, 2023, respectively. On July 25, 2019 the REIT completed the sale of 417 Exeter Road, London, Ontario for a sale price of $8,700. The proceeds from the disposition, net of costs was $8,115. The assets and liabilities associated with all property dispositions have been derecognized.

There were no acquisitions completed during the year ended December 31, 2020. All acquisitions were accounted for as asset acquisitions during the year ended December 31, 2019. The fair value of consideration was allocated to the identifiable assets acquired and liabilities assumed based on their fair values at the date of acquisition.

Year end December 31, 2019:

	360 Laurier Avenue West, Ottawa	3699 63rd Avenue , Calgary	101 McNabb Street, Markham	6925 Century Avenue, Mississauga	675 Cochrane Drive, Markham	Net assets acquired
Acquisition date	February 7, 2019	November 4, 2019	November 15, 2019	December 12, 2019	December 18, 2019	
Net assets acquired:						
Investment properties (including acquisition costs of $10,494)	$ 25,342	$ 101,801	$ 92,633	$ 89,928	$ 121,090	$ 430,794
Other receivables	—	7	—	18	38	63
Prepaid expenses and deposits	7	188	88	63	192	538
Tenant rental deposits	(27)	—	—	(81)	(528)	(636)
Accounts payable and accrued liabilities	(848)	(413)	(846)	(524)	(1,384)	(4,015)
	$ 24,474	$ 101,583	$ 91,875	$ 89,404	$ 119,408	$ 426,744
Consideration:						
Cash on hand	$ 7,547	$ 36,557	$ 14,175	$ 32,812	$ 43,266	$ 134,357
Issuance of Units	—	—	15,000	—	—	15,000
Mortgage financing, net of financing costs of $1,383	16,927	65,026	62,700	56,592	76,142	277,387
	$ 24,474	$ 101,583	$ 91,875	$ 89,404	$ 119,408	$ 426,744

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

5. Investment properties:

The following table summarizes the changes in investment properties for the years ended December 31, 2020 and 2019:

		Investment properties
Balance, December 31, 2018	$	928,137
Acquisitions		430,794
Additions		14,441
Dispositions		(8,700)
Amortization of leasing costs, tenant inducements and straight-line rents		(1,540)
Fair value adjustment		(615)
Balance, December 31, 2019		1,362,517
Additions		19,999
Dispositions		(3,650)
Amortization of leasing costs, tenant inducements and straight-line rents		(970)
Fair value adjustment		(5,712)
Balance, December 31, 2020	$	1,372,184

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

	2020	2019
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%	6.36%
Discount rates - range	5.75% to 10.25%	5.75% to 10.25%
Discount rate - weighted average	7.07%	7.13%

Properties are independently appraised at the time of acquisition. In addition, the REIT has engaged independent nationally-recognized valuation firms to appraise its investment properties such that the majority of the portfolio will be independently appraised at least once over a three-year period. When an independent appraisal is obtained, the internal valuation team assesses all major inputs used by the independent valuators in preparing their reports and holds discussions with them on the reasonableness of their assumptions. Where warranted, adjustments will be made to the internal valuations to reflect the assumptions contained in the external valuations. The REIT will record the internal value in its consolidated financial statements. During the year ended December 31, 2020 there were 14 (December 31, 2019 - 17) properties externally appraised representing a total fair value of $284,513 (December 31, 2019 - $330,739).

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

5. Investment properties (continued):

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

		2020		2019
Weighted average terminal and direct capitalization rate:				
25-basis points increase	$	(42,849)	$	(30,230)
25-basis points decrease		46,691		34,131
Weighted average discount rate:				
25-basis points increase		(40,025)		(28,446)
25-basis points decrease		42,893		31,534

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

6. Tenant and other receivables:

		2020		2019
Tenant receivables	$	2,004	$	2,294
Other receivables		425		867
	$	2,429	$	3,161

The REIT has recognized a $207 expense in property operating expenses representing its rental contribution granted to tenants as part of the CECRA and CERS programs for the year ended December 31, 2020. Refer to note 3, Impact of COVID-19, for a discussion of the impact of COVID-19 on the REIT's business and operations.

7. Mortgages payable:

As at December 31, 2020, the REIT had $816,349 (December 31, 2019 – $795,856) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.37% (December 31, 2019 – 3.38%) and a weighted average term to maturity of 4.06 years (December 31, 2019 – 3.87 years). All interest rates are fixed for the term of the respective mortgages except for two (December 31, 2019 – seven) of the REIT’s mortgages that have utilized interest rate swaps to fix their floating interest rates (note 11). The mortgages are secured by first and second charges on the respective properties.

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

7. Mortgages payable (continued):

As at December 31, 2020, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2021	$ 23,438	$ 14,210	$ 37,648	$ 26,937
2022	22,123	147,867	169,990	24,466
2023	16,307	141,596	157,903	17,333
2024	14,703	79,399	94,102	14,226
2025	7,426	190,497	197,923	6,830
Thereafter	16,103	142,680	158,783	12,317
Face value	$ 100,100	$ 716,249	$ 816,349	$ 102,109
Unamortized mark to market mortgage adjustments			257	
Unamortized financing costs			(4,117)	
Total mortgages payable			$ 812,489	

As of December 31, 2019, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2020	$ 20,315	$ 91,925	$ 112,240	$ 24,257
2021	20,018	23,247	43,265	22,837
2022	18,050	155,434	173,484	20,180
2023	11,929	141,596	153,525	13,053
2024	10,189	79,394	89,583	10,077
Thereafter	9,112	214,647	223,759	8,534
Face value	$ 89,613	$ 706,243	$ 795,856	$ 98,938
Unamortized mark to market mortgage adjustments			252	
Unamortized financing costs			(3,525)	
Total mortgages payable			$ 792,583	

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

7. Mortgages payable (continued):

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

	2020	2019
Current:		
Mortgages payable	$ 37,649	$ 112,240
Unamortized mark to market mortgage adjustments	51	22
Unamortized financing cost	(1,256)	(1,028)
	36,444	111,234
Non-current:		
Mortgages payable	778,700	683,616
Unamortized mark to market mortgage adjustments	206	230
Unamortized financing cost	(2,861)	(2,497)
	776,045	681,349
	$ 812,489	$ 792,583

8. Class B LP Units:

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

The following table summarizes the changes in Class B LP Units for the years ended December 31, 2020 and 2019:

	Class B LP Units	Amount
Outstanding, January 1, 2019	4,268,837	$ 24,162
Class B LP Units exchanged to Units	(412,655)	(2,984)
Fair value adjustment	—	6,933
Outstanding, December 31, 2019	3,856,182	28,111
Fair value adjustment	—	(3,778)
Outstanding, December 31, 2020	3,856,182	$ 24,333

During the years ended December 31, 2020 and 2019, distributions on Class B LP Units were $2,291 and $2,515, respectively, and have been recorded as an expense in the consolidated statements of income and comprehensive income.

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

9. Credit facility:

On December 11, 2020, the REIT entered into a new $60,000 floating rate revolving credit facility ("Credit Facility") with a Canadian chartered bank which is made up of two tranches: (i) up to $30,000 secured, bearing interest on cash advances at 95 basis points per annum above the prime rate or 195 basis points per annum over the floating banker's acceptance rate, secured by second charges on certain investment properties; and (ii) $30,000 unsecured, bearing interest on cash advances at 190 basis points per annum above the prime rate or 290 basis points per annum over the floating banker's acceptance rate.

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

The REIT's previous credit facilities matured during 2020 and were undrawn as at December 31, 2019.

10. Accounts payable and accrued liabilities:

		2020		2019
Accounts payable and accrued liabilities	$	23,120	$	15,276
Finance costs payable		2,079		1,751
Distributions payable		4,274		4,196
Unit-based compensation liability (note 12(d))		781		912
	$	30,254	$	22,135

11. Derivative instruments:

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

The notional principal amount of the outstanding interest rate swap contracts at December 31, 2020 was $78,619 (December 31, 2019 – $129,488). Total unrealized loss on change in the fair value of the derivative instruments for the year ended December 31, 2020 was $4,891 (2019 - $677).

12. Unitholders' equity:

(a) Units:

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

Units are redeemable at any time, in whole or in part, on demand by the unitholders. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall be surrendered and the unitholders shall be entitled to receive a price per Unit equal to the lesser of:

(i) 90% of the "market price" of the Units on the Exchange (as defined in the DOT) or market on which the Units are listed or quoted for trading during the ten consecutive trading days ending immediately prior to the date on which the Units were surrendered for redemption; and

(ii) 100% of the "closing market price" on the Exchange (as defined in the DOT) or market on which the Units are listed or quoted for trading on the redemption date.

The total amount payable by the REIT, in respect of any Units surrendered for redemption during any calendar month, shall not exceed $50 unless waived at the discretion of the board of trustees of the REIT ("Trustees") and be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the Redemption Price (as defined in the DOT) payable in respect of Units surrendered for redemption exceeds $50 in any given month, such excess will be redeemed for cash, and by a distribution in specie of assets held by the REIT on a *pro rata* basis.

(b) Special Voting Units:

The DOT and the Exchange Agreement provide for the issuance of the Special Voting Units which have no economic entitlement in the REIT or in the distribution or assets of the REIT, but are used to provide voting rights proportionate to the votes of the Units to holders of the Class B LP Units. Each Special Voting Unit is not transferable separately from the Class B LP Unit to which it is attached and is automatically redeemed and cancelled upon exchange of the Class B LP Unit into a Unit.

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

12. Unitholders' equity (continued):

(c) Units outstanding:

The following table summarizes the changes in Units for the years ended December 31, 2020 and 2019:

	Units	Amount
Balance, December 31, 2018	57,216,643	$ 341,041
Issue of Units – public offering	23,839,500	161,065
Issue of Units - acquisition of investment property	2,148,904	15,000
Issue of Units – non-executive Trustee Unit issuance plan	3,427	23
Issue of Units - exchange of Class B LP Units (note 8)	412,655	2,984
Issue of Units – DRIP	901,425	5,850
Issue of Units – options exercised	239,875	1,721
Issuance costs	—	(8,487)
Balance, December 31, 2019	84,762,429	519,197
Issue of Units – DRIP	1,548,478	9,014
Issue of Units – options exercised	35,112	271
Issuance costs	—	(307)
Balance, December 31, 2020	86,346,019	$ 528,175

On September 12, 2019, the REIT issued 12,201,500 Units for cash of $80,530 pursuant to a public offering.

On November 15, 2019, the REIT issued 2,148,904 Units for $15,000 as partial consideration for the acquisition of an investment property.

On November 18, 2019, the REIT issued 11,638,000 Units for cash of $80,535 pursuant to a public offering.

(d) Unit-based compensation plans:

(i) Incentive Unit Plan:

The Incentive Unit Plan issues two types of units: (i) Deferred Units; and (ii) Restricted Units.

Deferred Units

Deferred Units are granted to the non-executive Trustees as part of a Trustee's annual board retainer and meeting fees and vest immediately. The Trustees are required to receive a portion of their annual retainer in the form of Deferred Units and may also elect to receive up to 100% of the remaining fees in Deferred Units.

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

12. Unitholders' equity (continued):

The following table summarizes the changes in Deferred Units:

	Deferred Units		Amount
Balance, January 1, 2019	—	$	—
Granted and reinvested	16,977		117
Fair value adjustments	—		4
Balance, December 31, 2019	16,977		121
Granted and reinvested	33,997		192
Fair value adjustments	—		8
Balance, December 31, 2020	50,974	$	321

Restricted Units

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

The following table summarizes the changes in Restricted Units:

	Restricted Units		Amount
Balance, December 31, 2019	—		—
Granted and reinvested	44,252		64
Fair value adjustments	—		7
Balance, December 31, 2020	44,252	$	71

(ii) Unit Options:

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

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

12. Unitholders' equity (continued):

The following table summarizes the changes in Unit Options outstanding:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2018	2,160,500	$ 6.32	3.15	970,474
Unit options exercised	(745,327)	6.19	—	—
Outstanding, December 31, 2019	1,415,173	6.38	2.83	785,313
Unit options exercised	(254,998)	6.29	—	—
Unit options cancelled	(25,002)	6.42	—	—
Outstanding, December 31, 2020	1,135,173	6.41	1.92	922,992

Options outstanding as of December 31, 2020 consist of the following:

Exercise price	Unit Options Outstanding	Unit Options exercisable	Expiry Date
$6.04	85,000	85,000	August 5, 2021
$6.28	120,834	120,834	November 14, 2021
$6.17	176,669	176,669	August 11, 2022
$6.44	199,501	199,501	November 16, 2022
$6.43	260,835	156,661	March 9, 2023
$6.66	292,334	184,327	September 20, 2023
	1,135,173	922,992	

The assumptions used to measure the fair value of the Unit Options under the Black-Scholes option pricing model are as follows:

	2020	2019
Average expected Unit option holding period	0.9 years	1.74 years
Average expected volatility rate	28.94 %	15.11 %
Average dividend yield	9.41 %	8.15 %
Average risk-free interest rate	0.13 %	1.70 %

Expected volatilities are based on the historical volatility of the Units. The risk free interest rate is the yield on a Government of Canada bond with a term consistent with the expected Unit option holding period.

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

12. Unitholders' equity (continued):

The REIT's unit-based compensation expense recognized in general and administrative expense for the years ended December 31, 2020 and 2019 was:

		2020		2019
Unit Options	$	(35)	$	1,431
Restricted Units		71		—
Deferred Units		200		121
Unit-based compensation expense	$	236	$	1,552
Fair value remeasurement expense included in the above:				
Unit Options	$	(59)	$	1,361
Restricted Units		7		—
Deferred Units		8		4
	$	(44)	$	1,365

As at December 31, 2020 the carrying value of the unit-based compensation liability was $781 (December 31, 2019 - $912) (note 10).

(e) Distributions:

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

The REIT currently pays a monthly distribution of $0.0495 per Unit or $0.594 per Unit on an annualized basis. For the years ended December 31, 2020 and 2019, the REIT declared distributions of $50,848 and $38,094, respectively.

(f) Dividend reinvestment plan ("DRIP")

Pursuant to the DRIP, as amended on September 15, 2020 and effective October 30, 2020, unitholders can elect to reinvest cash distributions into additional Units at a 1% discount to the weighted average closing price of the Units on the TSX for the five trading days immediately preceding the applicable date of distribution.

For the years ended December 31, 2020 and 2019, the REIT issued 1,548,478 and 901,425 Units under the DRIP, including Units issued pursuant to the DRIP on the Class B LP Units for a stated value of $9,014 and $5,850, respectively.

12. Unitholders' equity (continued):

(g) Short form base shelf prospectus:

On January 23, 2020, the REIT filed a short-form base shelf prospectus ("Prospectus") which is valid for a 25 month period, during which time the REIT may issue the following securities: (i) Units; (ii) preferred Units; (iii) unsecured debt securities; (iv) subscription receipts exchangeable for Units and/or other securities of the REIT; (v) warrants exercisable to acquire Units and/or other securities of the REIT; and (vi) securities comprised of more than one of Units, debt securities, subscription receipts and/or warrants offered together as a Unit, or any combination thereof in amounts, at prices and on terms based on market conditions at the time of sale and set forth in an accompanying prospectus supplement, for an aggregate offering amount of up to $500,000.

No Units were issued pursuant to the prospectus for the year ended December 31, 2020.

13. Transactions with related parties:

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

(a) Pursuant to an asset management agreement (the "Asset Management Agreement"), the affiliate of Starlight is to perform asset management services for a base annual management fee calculated and payable on a monthly basis in arrears on the first day of each month equal to 0.35% of the sum of: (i) the historical purchase price of the properties; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties.

(b) Pursuant to the Asset Management Agreement, the affiliate of Starlight is entitled to receive an acquisition fee in respect of properties announced to be acquired, directly or indirectly, by the REIT as a result of such properties having been presented to the REIT by Starlight and calculated as follows:

(i) 1.0% of the purchase price of a property, on the first $100,000 of properties acquired in each fiscal year;

(ii) 0.75% of the purchase price of a property, on the next $100,000 of properties acquired in each fiscal year; and

(iii) 0.50% of the purchase price on properties in excess of $200,000 of properties acquired in each fiscal year.

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

13. Transactions with related parties (continued):

(c) An annual incentive fee is payable by the REIT equal to 15% of the REIT's funds from operations ("FFO") per Unit in excess of FFO per Unit for fiscal 2013 plus 50% of the annual increase in the weighted average consumer price index (or other similar metric, as determined by the Trustees) of the jurisdictions in which the properties are located.

(d) Pursuant to the Asset Management Agreement, the affiliate of Starlight is entitled to a capital expenditure fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of $1,000, excluding work done on behalf of tenants or any maintenance capital expenditures.

(e) The REIT reimburses Starlight for all reasonable out-of-pocket expenses in connection with the performance of the services described in the Asset Management Agreement, including capital expenditures, or such other services which the REIT and Starlight agree in writing are to be provided from time to time.

The following table presents the expenses incurred for the years ended December 31, 2020 and 2019:

	2020	2019
Asset management fees	$ 4,545	$ 3,280
Acquisition fees	—	2,852
Other expenses	218	155

At December 31, 2020, $416 (December 31, 2019 - $370) is included in accounts payable and accrued liabilities.

No incentive fees were earned or capital expenditure fees charged for the years ended December 31, 2020 and 2019.

(f) Key management compensation:

Key management compensation consists of salaries, bonuses, other short-term benefits and Trustee compensation. Key management compensation for the year ended December 31, 2020 was $937 (December 31, 2019 - $1,027). It includes compensation paid by Starlight (pursuant to the Asset Management Agreement) to key REIT management personnel for the years ended December 31, 2020 and 2019 of $672 and $820, respectively. Also included is $228 (December 31, 2019 - $117) of Deferred Units and Restricted Units granted to Trustees and Officers of the REIT.

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

13. Transactions with related parties (continued):

(g) Public offerings:

An entity under the same common ownership as Starlight purchased 657,295 Units for $4,500 as part of the September 2019 public offering.

14. Revenue:

The components of the REIT's revenues for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Base rent	$ 79,132	$ 58,070
Property operating and realty tax recoveries	56,563	44,521
Parking and other	3,736	3,866
	$ 139,431	$ 106,457

Future minimum rental commitments on non-cancellable tenants operating leases are as follows:

Within one year	$ 82,812
Later than one year and not longer than five years	233,783
Thereafter	119,870
	$ 436,465

For the year ended December 31, 2020 the Federal Government of Canada provides 22% (2019 - 20%) of the REIT's rental revenue.

15. Finance costs:

The following table presents the financing costs incurred for the years ended December 31, 2020 and 2019:

	2020	2019
Interest on mortgages payable	$ 27,620	$ 19,353
Other interest expense and standby fees	126	636
Amortization of mortgage discounts (premiums)	(31)	(29)
Amortization of financing costs	1,161	1,072
	$ 28,876	$ 21,032

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

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Deposits	$ (412)	$ 195
Tenant and other receivables	732	(443)
Prepaid expenses and deposits	1,679	74
Tenant rental deposits and prepayments	2,320	113
Accounts payable and accrued liabilities	7,975	(862)
	$ 12,294	$ (923)

17. Commitments and contingencies:

As at December 31, 2020, the REIT has entered into commitments for building renovations totaling $3,190 (December 31, 2019 - $1,347). As at December 31, 2020, $1,649 (December 31, 2019 - $501) of this amount was included in accounts payable and accrued liabilities (note 10).

18. Segmented disclosure:

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

19. Capital management:

The REIT defines its capital as the aggregate of unitholders' equity, Class B LP Units, mortgages payable and credit facility. The REIT is free to determine the appropriate level of capital in context with its cash flow requirements, overall business risks and potential business opportunities. As a result of this, the REIT will make adjustments to its capital based on its investment strategies and changes to economic conditions.

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

The REIT's strategy is also driven by policies, as set out in the DOT, as well as requirements from certain lenders. The key financial covenants, as defined in the respective agreements, are monitored by the REIT on an ongoing basis to ensure compliance with the agreements.

The REIT was in compliance with all financial covenants as at December 31, 2020 and 2019.

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

19. Capital management (continued):

The following table presents the REIT's capital at December 31, 2020 and 2019:

	2020	2019
Unitholders' equity	$ 525,212	$ 527,330
Class B LP Units	24,333	28,111
Mortgages payable	812,489	792,583
	$ 1,362,034	$ 1,348,024

20. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

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

As at December 31, 2020 and December 31, 2019, the REIT's interest-bearing financial instruments were:

	Carrying value	
	2020	2019
Fixed-rate instruments:		
Mortgages payable	$ 816,349	$ 795,856
Variable-rate instruments:		
Credit facility	$ —	$ —

The REIT is exposed to interest rate risk on its floating-rate debt on certain of its properties which is mitigated by entering into interest rate swaps (note 11).

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

20. Risk management and fair values (continued):

An increase (decrease) of 100 basis points in interest rates at December 31, 2020 for the REIT's variable-rate financial instruments would have no impact on net income and comprehensive income.

(ii) Credit risk:

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

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

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits, and geographically diversifying its portfolio. The REIT monitors outstanding receivables on a monthly basis to ensure a reasonable allowance is provided for all uncollectible amounts. With the exception of the tenants who participated in the CECRA and CERS programs, as discussed in note 3, the REIT reviewed all outstanding receivables and assessed the risk of uncollectibility to be low.

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

	2020	2019
0 to 30 days	$ 429	$ 1,068
31 to 90 days	233	227
Over 90 days	366	76
Total	$ 1,028	$ 1,371

(iii) Liquidity Risk:

The REIT is subject to liquidity risk whereby it may not be able to refinance or pay its debt obligations when they become due.

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

20. Risk management and fair values (continued):

The REIT's debt obligations excluding Class B LP Units are due as follows:

	Total	2021	2022	2023	2024	2025	Thereafter
Mortgages payable (note 7)	$ 816,349	$ 37,648	$ 169,990	$ 157,903	$ 94,102	$ 197,923	$ 158,783
Tenant rental deposits and prepayments	7,595	7,595	—	—	—	—	—
Accounts payable and accrued liabilities (note 10)	30,254	30,254	—	—	—	—	—
	$ 854,198	$ 75,497	$ 169,990	$ 157,903	$ 94,102	$ 197,923	$ 158,783

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. In addition, the REIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its ongoing operational and capital commitments and future growth in its business.

(b) Fair values:

The fair values of the REIT's financial assets and financial liabilities, except as noted below, approximate their carrying values due to their short-term nature.

The REIT uses various methods in estimating the fair values of its financial instruments and investment properties. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

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

20. Risk management and fair values (continued):

The tables below present the fair value hierarchy of the REIT's assets and liabilities as at December 31, 2020 and 2019:

2020	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ —	$ —	$ 1,372,184	$ 1,372,184
Instalment notes receivable	—	492	—	492
	$ —	$ 492	$ 1,372,184	$ 1,372,676
Liabilities:				
Mortgages payable	$ —	$ 841,900	$ —	$ 841,900
Class B LP Units	24,333	—	—	24,333
Derivative instruments	—	4,999	—	4,999
	$ 24,333	$ 846,899	$ —	$ 871,232

2019	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ —	$ —	$ 1,362,517	$ 1,362,517
Instalment notes receivable	—	591	—	591
	$ —	$ 591	$ 1,362,517	$ 1,363,108
Liabilities:				
Mortgages payable	$ —	$ 795,700	$ —	$ 795,700
Class B LP Units	28,111	—	—	28,111
Derivative Instruments, net		108		108
	$ 28,111	$ 795,808	$ —	$ 823,919

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

(i) Investment properties

The REIT determines the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and the direct capitalization method, both of which are generally accepted appraisal methodologies. The key valuation assumptions of the REIT’s investment properties is described in note 5.

20. Risk management and fair values (continued):

(ii) Instalment notes receivable:

The fair value of instalment notes receivable is estimated based on the present value of future receipts, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying instalment note, plus an estimated credit spread at the reporting date for a comparable financial instrument. The estimated fair value of instalment notes receivable at December 31, 2020 was approximately $492 (December 31, 2019 - $591).

(iii) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at December 31, 2020 was approximately $841,900 (December 31, 2019 - $795,700).

(iv) Class B LP Units:

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

(v) Derivative instruments:

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