Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three months ended March 31, 2022 and 2021
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

		March 31, 2022		December 31, 2021
Assets				
Non-current assets:				
Investment properties (note 5)	$	1,404,028	$	1,403,579
Derivative instruments (note 11)		1,855		—
Other assets (note 4)		5,542		5,556
Total non-current assets		1,411,425		1,409,135
Current assets:				
Tenant and other receivables (note 6)		5,266		3,688
Prepaid expenses and deposits		4,050		2,878
Cash and cash equivalents		6,697		5,476
Total current assets		16,013		12,042
Total assets	$	1,427,438	$	1,421,177
Liabilities and Unitholders' Equity				
Non-current liabilities:				
Mortgages payable (note 7)	$	686,379	$	681,175
Derivative instruments (note 11)		—		324
Class B LP Units (note 8)		21,645		22,400
Total non-current liabilities		708,024		703,899
Current liabilities:				
Mortgages payable (note 7)		133,969		139,227
Credit facility (note 9)		3,000		—
Tenant rental deposits and prepayments		7,235		8,110
Accounts payable and accrued liabilities (note 10)		30,078		29,033
Derivative instruments (note 11)		67		839
Total current liabilities		174,349		177,209
Total liabilities		882,373		881,108
Unitholders' equity (note 12)		545,065		540,069
Total liabilities and unitholders' equity	$	1,427,438	$	1,421,177

Subsequent events (note 21)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on May 5, 2022.

"William J. Biggar" Trustee

"Roland A. Cardy" Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2022 and 2021
(Unaudited)

		2022		2021
Revenue (note 14)	$	36,327	$	34,944
Expenses:				
Property operating		9,071		8,525
Realty taxes		5,062		5,329
		22,194		21,090
Other income (expenses):				
General and administration expenses		(1,625)		(1,904)
Finance costs (note 15)		(7,247)		(7,174)
Distributions on Class B LP Units (note 8)		(449)		(504)
Fair value adjustment of Class B LP Units (note 8)		755		(1,895)
Fair value adjustment of investment properties (note 5)		(1,670)		(2,348)
Unrealized gain on change in fair value of derivative instruments (note 11)		2,951		2,455
Net income and comprehensive income	$	14,909	$	9,720

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2022 and 2021
(Unaudited)

	Unit capital	Income and distributions	Total
	(note 12(b))		
Unitholders' equity, January 1, 2021	$ 528,175	$ (2,963)	$ 525,212
Changes during the period:			
Units issued, net of costs	4,531	—	4,531
Net income and comprehensive income for the period	—	9,720	9,720
Distributions	—	(12,917)	(12,917)
Issue of units under DRIP (note 12(e))	1,626	—	1,626
Unitholders' equity, March 31, 2021	534,332	(6,160)	528,172
Changes during the period:			
Units issued, net of costs	4,695	—	4,695
Net income and comprehensive income for the period	—	41,284	41,284
Distributions	—	(39,172)	(39,172)
Issue of units under DRIP (note 12(e))	5,090	—	5,090
Unitholders' equity, December 31, 2021	544,117	(4,048)	540,069
Changes during the period:			
Units issued, net of costs	1,776	—	1,776
Net income and comprehensive income for the period	—	14,909	14,909
Distributions	—	(13,231)	(13,231)
Issue of units under DRIP (note 12(e))	1,542	—	1,542
Unitholders' equity, March 31, 2022	$ 547,435	$ (2,370)	$ 545,065

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2022 and 2021
(Unaudited)

	2022	2021
Operating activities:		
Net income and comprehensive income for the period	$ 14,909	$ 9,720
Adjustments for financing activities included in income:		
Finance costs (note 15)	7,247	7,174
Unrealized gain on change in fair value of derivative instruments (note 11)	(2,951)	(2,455)
Distributions on Class B LP Units (note 8)	449	504
Fair value adjustment of Class B LP Units (note 8)	(755)	1,895
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 5)	1,670	2,348
Unit-based compensation expense	265	96
Fair value adjustment of unit-based compensation	(124)	285
Straight line rental revenue	379	29
Amortization of leasing costs and tenant inducements	1,578	1,214
Change in non-cash operating working capital (note 16)	(2,983)	(2,516)
Cash provided by operating activities	19,684	18,295
Investing activities:		
Additions to investment properties (note 5)	(3,620)	(12,510)
Cash used in investing activities	(3,620)	(12,510)
Financing activities:		
Proceeds from credit facility	8,200	—
Repayment of credit facility	(5,200)	—
Proceeds from mortgage refinancing, net of costs	31,340	—
Repayment of mortgage refinancing	(25,693)	—
Principal payments on mortgages	(6,069)	(5,828)
Payments received on instalment notes receivable	17	19
Cash distributions on Class B LP Units	(394)	(484)
Finance costs paid	(6,913)	(6,852)
Proceeds from issuance of units, net of costs	1,591	—
Cash distributions to unitholders	(11,721)	(11,299)
Cash used in financing activities	(14,843)	(24,444)
Increase (decrease) in cash and cash equivalents	1,221	(18,659)
Cash and cash equivalents, beginning of period	5,476	24,580
Cash and cash equivalents, end of period	$ 6,697	$ 5,921
Supplemental cash flow information:		
Units issued under DRIP – unitholders	$ 1,487	$ 1,571
Units issued under DRIP – Class B LP Units	55	55

See accompanying notes to condensed consolidated interim financial statements.

Organization:

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

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

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the REIT have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Selected explanatory notes are included to explain significant events and transactions to understand the changes in financial position and performance of the REIT since the last audited annual consolidated financial statements as at and for the year ended December 31, 2021. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed.

The condensed consolidated interim financial statements were approved on behalf of the Board of Trustees (“Trustees”) on May 5, 2022.

(b) Basis of presentation:

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

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

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

(c) Critical judgments and estimates:

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying accounting policies were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2021.

2. Significant accounting policies:

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the REIT's annual consolidated financial statements for the year ended December 31, 2021, except for the adoption of new standards effective January 1, 2022. The REIT has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2022, but do not have an impact on the condensed consolidated interim financial statements of the REIT.

3. Impact of COVID-19:

Although new subvariants of the COVID-19 virus continue to emerge, almost all COVID-19 restrictions were lifted across the country by the end of the first quarter of 2022. With over 80% of Canada's population having received two doses of the COVID-19 vaccine and over 47% of the population having received their third dose as of March 31, 2022, employers have initiated or re-started return-to-office plans. Most employers have established health and safety protocols to help reduce the spread of COVID-19 such as mandating masks (in common areas), vaccination requirements (based on employer), COVID screening before entering the office and other tools in order to keep the workplace environment safe for employees.

As a result of the pandemic, the Canadian federal and provincial governments have enacted subsidies and other stimulus in an attempt to stabilize economic conditions. Since the COVID-19 pandemic was declared, certain tenants of the REIT have required financial assistance in the form of short-term rental deferrals or participation in Federal government programs. The Canadian Emergency Rent Subsidy program ended during Q4-2021 and new programs have been introduced including the Hardest-Hit Business Recovery Program. These programs assist businesses experiencing a significant drop in revenue as a result of the COVID-19 pandemic.

For the three months ended March 31, 2022, the REIT recognized a $43 expense in property operating expenses related to bad debt provisions (March 31, 2021 – $25).

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.

The fair value of the REIT's investment properties at March 31, 2022 is based upon best available market data, including capitalization rates; however given the continued uncertainty around the duration of the COVID-19 pandemic and the potential negative impact it may have on certain sectors of the real estate industry and its tenants, it is not possible to predict how the fair value of the REIT's investment properties may be impacted in the longer term.

The REIT continues to monitor the economic impact COVID-19 is having on its operations and future cash flows, which ultimately impacts the value of the underlying real estate. The future cash flows of an investment property are based upon rental income from current leases and assumptions about occupancy rates, market rents from future leases and the cash outflows arising from current and future

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

3. Impact of COVID-19 (continued):

leases. The REIT continues to revise its estimates concerning rental growth and lease renewal assumptions to reflect expected market conditions, and currently, future cash flows are predicted to remain relatively stable as government and credit rated tenants comprise the majority of the REIT's tenant base. However, it is not possible to determine with certainty how COVID-19 will continue to impact the REIT's investment properties. Significant changes in rental income, occupancy rates, tenant inducements and market rents could negatively impact future valuations of the REIT's investment properties.

4. Other assets:

	March 31, 2022	December 31, 2021
Mortgage loans receivable	$ 4,395	$ 4,395
Instalment notes receivable	168	182
Deposits	979	979
	$ 5,542	$ 5,556

Mortgage loans receivable consists of vendor take-back mortgages on dispositions. These mortgages bear interest at rates ranging from 3.45% to 5.50% per annum and mature on dates ranging from November 1, 2023 to April 30, 2024 .

5. Investment properties:

The following table summarizes the changes in investment properties for the three months ended March 31, 2022 and 2021:

	Investment properties
Balance, December 31, 2020	$ 1,372,184
Additions	12,510
Amortization of leasing costs, tenant inducements and straight-line rents	(530)
Fair value adjustment	(2,348)
Balance, March 31, 2021	1,381,816
Acquisitions	22,347
Additions	8,457
Dispositions	(13,750)
Amortization of leasing costs, tenant inducements and straight-line rents	(3,858)
Fair value adjustment	8,567
Balance, December 31, 2021	1,403,579
Additions	3,620
Amortization of leasing costs, tenant inducements and straight-line rents	(1,501)
Fair value adjustment	(1,670)
Balance, March 31, 2022	$ 1,404,028

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

5. Investment properties (continued):

The REIT did not acquire or dispose of any investment properties during the three months ended March 31, 2022 and 2021.

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

	March 31, 2022	March 31, 2021
Terminal and direct capitalization rates - range	4.25% to 9.50%	4.75% to 10.25%
Terminal and direct capitalization rate - weighted average	6.23%	6.26%
Discount rates - range	5.75% to 9.75%	5.75% to 10.25%
Discount rate - weighted average	7.04%	7.06%

Investment properties are independently appraised at the time of acquisition. In addition, the REIT engages independent valuation firms to appraise its investment properties such that the majority of the portfolio is independently appraised at least once over a three year period. When an independent appraisal is obtained, the reasonableness of the assumptions are assessed and adjustments made to the internal valuations as required. During the three months ended March 31, 2022 there was one (for the year ended December 31, 2021 – 17) property externally appraised representing a total fair value of $92,320 (for the year ended December 31, 2021 – $542,402).

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

	March 31, 2022	March 31, 2021
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (44,387)	$ (42,613)
25-basis points decrease	46,050	47,215
Weighted average discount rate:		
25-basis points increase	(41,479)	(39,774)
25-basis points decrease	42,161	43,394

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.

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

6. Tenant and other receivables:

		March 31, 2022		December 31, 2021
Tenant receivables	$	3,889	$	2,214
Instalment notes receivable		60		63
Other receivables		1,317		1,411
	$	5,266	$	3,688

For the three months ended March 31, 2022, the REIT recognized a $43 expense in property operating expenses related to bad debt provisions (March 31, 2021 – $25).

7. Mortgages payable:

As at March 31, 2022, the REIT had $824,187 (December 31, 2021 – $824,379) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.32% (December 31, 2021 – 3.31%) and a weighted average term to maturity of 3.64 years (December 31, 2021 – 3.70 years). All interest rates are fixed for the term of the respective mortgages except for two (December 31, 2021 – two) of the REIT's mortgages that have utilized interest rate swaps to fix their floating interest rates (note 11). The mortgages are secured by first and second charges on the respective properties.

As at March 31, 2022, mortgages are repayable as follows:

		Scheduled principal payments		Debt maturing during the period		Total mortgages payable		Scheduled interest payments
2022 - remainder of year	$	17,764	$	78,368	$	96,132	$	19,651
2023		20,625		109,973		130,598		21,590
2024		19,248		79,399		98,647		18,461
2025		11,952		197,178		209,130		10,785
2026		10,197		145,486		155,683		8,706
Thereafter		13,928		120,069		133,997		10,512
Face value	$	93,714	$	730,473	$	824,187	$	89,705
Unamortized mark to market mortgage adjustments						193		
Unamortized financing costs						(4,032)		
Total mortgages payable					$	820,348		

(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:

		March 31, 2022		December 31, 2021
Current:				
Mortgages payable	$	135,195	$	140,514
Unamortized mark to market mortgage adjustments		41		45
Unamortized financing cost		(1,267)		(1,332)
		133,969		139,227
Non-current:				
Mortgages payable		688,992		683,865
Unamortized mark to market mortgage adjustments		152		161
Unamortized financing cost		(2,765)		(2,851)
		686,379		681,175
	$	820,348	$	820,402

8. Class B LP Units:

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

The following table summarizes the changes in Class B LP Units for the three months ended March 31, 2022 and 2021:

	Class B LP Units		Amount
Outstanding, January 1, 2021	3,856,182	$	24,333
Class B LP Units exchanged to Units	(697,380)		(4,526)
Fair value adjustment	—		1,895
Outstanding, March 31, 2021	3,158,802		21,702
Class B LP Units exchanged to Units	(135,953)		(1,008)
Fair value adjustment	—		1,706
Outstanding, December 31, 2021	3,022,849		22,400
Fair value adjustment	—		(755)
Outstanding, March 31, 2022	3,022,849	$	21,645

During the three months ended March 31, 2022 and 2021, distributions on Class B LP Units were $449 and $504, respectively, and have been recorded as an expense in the condensed consolidated interim statements of income and comprehensive income.

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

9. Credit facility:

The REIT has a $60,000 floating rate revolving credit facility ("Credit Facility") with a Canadian chartered bank which is made up of two tranches: (i) up to $30,000 secured 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 March 31, 2022, the REIT had drawn $3,000 on the Credit Facility (December 31, 2021 – $ nil).

10. Accounts payable and accrued liabilities:

		March 31, 2022		December 31, 2021
Accounts payable and accrued liabilities	$	22,535	$	21,206
Finance costs payable		1,849		1,878
Class B LP distributions payable		150		150
Distributions payable		4,415		4,392
Unit-based compensation liability (note 12(c))		1,129		1,407
	$	30,078	$	29,033

11. Derivative instruments:

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

The combined notional principal amount of the outstanding interest swap contracts at March 31, 2022 was $76,009 (December 31, 2021 – $76,540). Total unrealized gain on change in the fair value of the derivative instruments for the three months ended March 31, 2022 and 2021 was $2,951 and $2,455, respectively.

12. Unitholders' equity:

(a) Units:

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

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

12. Unitholders' equity (continued):

(b) Units outstanding:

The following table summarizes the changes in Units for the three months ended March 31, 2022 and 2021:

	Units	Amount
Balance, December 31, 2020	86,346,019	$ 528,175
Issue of Units:		
DRIP	255,425	1,626
Options exercised	774	5
Exchange of Class B LP Units (note 8)	697,380	4,526
Balance, March 31, 2021	87,299,598	534,332
Issue of Units:		
DRIP	699,955	5,090
Options exercised	121,859	890
Exchange of Class B LP Units (note 8)	135,953	1,008
ATM Program	460,900	3,377
Issuance costs	—	(580)
Balance, December 31, 2021	88,718,265	544,117
Issue of Units:		
DRIP	217,340	1,542
Options exercised	1,543	11
ATM Program	220,900	1,623
Incentive Units redeemed	24,619	174
Issuance costs	—	(32)
Balance, March 31, 2022	89,182,667	$ 547,435

For the three months ended March 31, 2022 the REIT issued 220,900 Units for cash of $1,623, pursuant to the base shelf prospectus dated January 23, 2020 through the at-the-market equity program ("ATM Program").

(c) Unit-based compensation plan:

(i) Incentive Unit Plan:

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

Deferred Units

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

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

12. Unitholders' equity (continued):

The following table summarizes the changes in Deferred Units for the three months ended March 31, 2022 and 2021:

	Deferred Units		Amount
Balance at January 1, 2021	50,974	$	321
Granted and reinvested	6,836		50
Fair value adjustment	—		26
Balance, March 31, 2021	57,810		397
Granted and reinvested	20,003		148
Fair value adjustment	—		31
Balance, December 31, 2021	77,813		576
Granted and reinvested	7,119		52
Fair value adjustment	—		(20)
Balance, March 31, 2022	84,932	$	608

Restricted Units

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

The following table summarizes the changes in Restricted Units for the three months ended March 31, 2022 and 2021:

	Restricted Units		Amount
Balance at January 1, 2021	44,252	$	71
Granted and reinvested	40,823		46
Fair value adjustment	—		14
Balance, March 31, 2021	85,075		131
Granted and reinvested	5,302		204
Fair value adjustment	—		58
Balance, December 31, 2021	90,377		393
Granted and reinvested	97,915		213
Redeemed and expired	(71,192)		(402)
Fair value adjustment	—		(49)
Balance, March 31, 2022	117,100	$	155

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

12. Unitholders' equity (continued):

On March 21, 2022, the REIT issued 96,029 Restricted Units to eligible participants and 57,044 Restricted Units were redeemed for 24,619 Units at a price of $7.0459 per Unit.

(ii) Unit Options:

The Unit option plan ("Unit Option Plan") has been suspended and no further options may be granted. As at March 31, 2022, all Unit options have vested and are eligible to be exercised prior to their applicable expiry dates.

The following table summarizes the changes in Unit options outstanding for the three months ended March 31, 2022 and 2021:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2020	1,135,173	$ 6.41	1.92	922,992
Unit options cancelled or exercised	(23,000)	6.42	—	—
Outstanding, March 31, 2021	1,112,173	6.41	1.68	1,005,833
Unit options exercised	(610,837)	6.35	—	—
Outstanding, December 31, 2021	501,336	6.48	1.23	501,336
Unit options exercised	(25,000)	6.66	—	—
Outstanding, March 31, 2022	476,336	6.47	0.96	476,336

Unit options outstanding as of March 31, 2022 consist of the following:

Exercise price	Outstanding	Exercisable	Expiry Date
6.17	83,334	83,334	August 11, 2022
6.44	102,334	102,334	November 16, 2022
6.43	126,667	126,667	March 9, 2023
6.66	164,001	164,001	September 20, 2023
	476,336	476,336	

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

12. Unitholders' equity (continued):

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

(iii) Unit-based compensation expense:

The REIT's Unit-based compensation expense recognized in general and administrative expense for the three months ended March 31, 2022 and 2021 was:

		2022		2021
Unit options	$	(55)	$	248
Restricted Units		164		60
Deferred Units		32		76
Unit-based compensation expense	$	141	$	384
Fair value remeasurement expense included in the above:				
Unit options	$	(55)	$	245
Restricted Units		(49)		14
Deferred Units		(20)		26
	$	(124)	$	285

As at March 31, 2022 the carrying value of the unit-based compensation liability was $1,129 (December 31, 2021 – $1,407) (note 10).

(d) Distributions:

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

The REIT currently pays a monthly distribution of $0.0495 per Unit or $0.594 per Unit on an annualized basis. For the three months ended March 31, 2022 and 2021, the REIT declared distributions of $13,231 and $12,917, respectively.

(e) Dividend 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.

For the three months ended March 31, 2022 and 2021, the REIT issued 217,340 and 255,425 Units under the DRIP for a value of $1,542 and $1,626, respectively.

12. Unitholders' equity (continued):

(f) Short form base shelf prospectus:

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

On May 5, 2021 the REIT filed a prospectus supplement to establish ATM Program that allowed the REIT to issue and sell up to $50 million of Units to the public, from time to time, at the REIT's discretion and expired on February 16, 2022.

For the three months ended March 31, 2022, the REIT issued 220,900 (for the year ended December 31, 2021 – 460,900) Units for cash of $1,623 (for the year ended December 31, 2021 – $3,377) through the ATM Program.

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 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

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

13. Transactions with related parties (continued):

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

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

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

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

The following table presents the expenses incurred for the three months ended March 31, 2022 and 2021:

	March 31, 2022	March 31, 2021
Asset management fees	$ 1,136	$ 1,123
Other expenses	30	62

At March 31, 2022, $413 (December 31, 2021 – $420) is included in accounts payable and accrued liabilities.

No incentive fees were earned or capital expenditure fees charged for the three months ended March 31, 2022 and 2021.

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

14. Revenue:

The components of the REIT's revenue for the three months ended March 31, 2022 and 2021 were as follows:

	2022	2021
Base rent	$ 19,344	$ 19,988
Property operating and realty tax recoveries	13,945	14,046
Parking and other	3,038	910
	$ 36,327	$ 34,944

15. Finance costs:

The following table presents the financing costs incurred for the three months ended March 31, 2022 and 2021:

	2022	2021
Interest on mortgages payable	$ 6,802	$ 6,816
Other interest expense and standby fees	82	52
Amortization of mortgage premiums	(13)	(13)
Amortization of financing costs	376	319
	$ 7,247	$ 7,174

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three months ended March 31, 2022 and 2021 were as follows:

	2022	2021
Deposits	$ —	$ 26
Tenant and other receivables	(1,581)	630
Prepaid expenses and deposits	(1,172)	(822)
Tenant rental deposits and prepayments	(875)	(416)
Accounts payable and accrued liabilities	645	(1,934)
	$ (2,983)	$ (2,516)

17. Commitments and contingencies:

As at March 31, 2022, the REIT has entered into commitments for building renovations totaling $1,109 (December 31, 2021 – $2,147).

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

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's capital management objectives and policies are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended December 31, 2021.

The REIT was in compliance with all financial covenants as at March 31, 2022.

20. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

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

As at March 31, 2022 and December 31, 2021, the REIT's interest-bearing financial instruments were:

	Carrying value	
	March 31, 2022	December 31, 2021
Fixed-rate instruments:		
Mortgages payable	$ 824,187	$ 824,379
Variable-rate instruments:		
Credit Facility	$ 3,000	$ —

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

20. Risk management and fair values (continued):

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). The REIT is also exposed to interest rate risk on its Credit Facility which fluctuates based on prime or floating bankers' acceptance rates. An increase (decrease) of 100 basis points in interest rates at March 31, 2022 for the REIT’s variable-rate financial instruments would have no material impact on net income and comprehensive income.

(ii) Credit risk:

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

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

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits, and geographically diversifying its portfolio. The REIT monitors outstanding receivables on a monthly basis to ensure a reasonable allowance is provided for all uncollectible amounts. With the exception of the tenants for which a bad debt provision was recorded (note 6) the REIT reviewed all outstanding receivables and assessed the risk of uncollectability to be low.

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

		March 31, 2022		December 31, 2021
0 to 30 days	$	496	$	280
31 to 90 days		372		677
Over 90 days		335		206
Total	$	1,203	$	1,163

(b) Fair values:

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

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

20. Risk management and fair values (continued):

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.

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

March 31, 2022	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ —	$ —	$ 1,404,028	$ 1,404,028
Instalment notes receivable	—	358	—	358
Derivative instruments, net	—	1,855	—	1,855
	$ —	$ 2,213	$ 1,404,028	$ 1,404,386
Liabilities:				
Mortgages payable	$ —	$ 789,400	$ —	$ 789,400
Class B LP Units	21,645	—	—	21,645
Derivative instruments, net	—	67	—	67
	$ 21,645	$ 789,467	$ —	$ 811,112

December 31, 2021	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ —	$ —	$ 1,403,579	$ 1,403,579
Instalment notes receivable	—	392	—	392
	$ —	$ 392	$ 1,403,579	$ 1,403,971
Liabilities:				
Mortgages payable	$ —	$ 824,200	$ —	$ 824,200
Class B LP Units	22,400	—	—	22,400
Derivative instruments, net	—	1,163	—	1,163
	$ 22,400	$ 825,363	$ —	$ 847,763

20. Risk management and fair values (continued):

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 are described in note 5.

(ii) Instalment notes receivable:

The fair value of instalment notes receivable is estimated based on the present value of future receipts, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying instalment note, plus an estimated credit spread at the reporting date for a comparable financial instrument. The estimated fair value of instalment notes receivable at March 31, 2022 was approximately $358 (December 31, 2021 – $392).

(iii) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at March 31, 2022 was approximately $789,400 (December 31, 2021 – $824,200).

(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.

21. Subsequent Events:

On April 11, 2022, the REIT entered into an agreement of purchase and sale to dispose of 32071 South Fraser, Abbotsford, British Columbia totaling 52,300 square feet for a price of approximately $24,000. Closing is expected to be on or about June 30, 2023.

On April 21, 2022 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.