Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	September 30, 2022	December 31, 2021
Assets		
Non-current assets:		
Investment properties (note 6)	$ 1,439,969	$ 1,403,579
Derivative instruments (note 12)	2,677	—
Other assets (note 5)	4,379	5,556
Total non-current assets	1,447,025	1,409,135
Current assets:		
Tenant and other receivables (note 7)	7,052	3,688
Prepaid expenses and deposits	4,278	2,878
Derivative instruments (note 12)	1,523	—
Cash and cash equivalents	7,736	5,476
Total current assets	20,589	12,042
Total assets	$ 1,467,614	$ 1,421,177
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 8)	$ 657,107	$ 681,175
Derivative instruments (note 12)	—	324
Class B LP Units (note 9)	14,173	22,400
Total non-current liabilities	671,280	703,899
Current liabilities:		
Mortgages payable (note 8)	196,975	139,227
Credit facility (note 10)	4,100	—
Tenant rental deposits and prepayments	7,733	8,110
Accounts payable and accrued liabilities (note 11)	31,409	29,033
Derivative instruments (note 12)	—	839
Total current liabilities	240,217	177,209
Total liabilities	911,497	881,108
Unitholders' equity (note 13)	556,117	540,069
Total liabilities and unitholders' equity	$ 1,467,614	$ 1,421,177

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on November 2, 2022.

"Sandy Poklar" Trustee

"Alon Ossip" Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Revenue (note 15)	$ 36,677	$ 34,222	$ 108,124	$ 103,062
Expenses:				
Property operating	9,526	9,012	27,048	25,924
Realty taxes	5,175	4,655	15,221	14,962
	21,976	20,555	65,855	62,176
Other income (expenses):				
General and administration expenses	(1,294)	(1,409)	(4,180)	(5,243)
Finance costs (note 16)	(7,725)	(7,121)	(22,225)	(21,426)
Transaction costs on sale of investment properties	—	—	—	(623)
Distributions on Class B LP Units (note 9)	(400)	(462)	(1,298)	(1,435)
Fair value adjustment of Class B LP Units (note 9)	1,629	514	5,045	(3,087)
Fair value adjustment of investment properties (note 6)	(6,842)	3,372	(10,122)	(1,142)
Unrealized gain on change in fair value of derivative instruments (note 12)	702	398	5,362	2,868
Net income and comprehensive income	$ 8,046	$ 15,847	$ 38,437	$ 32,088

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Nine months ended September 30, 2022 and 2021
(Unaudited)

	Unit capital	Income and distributions	Total
	(note 13(b))		
Unitholders' equity, January 1, 2021	$ 528,175	$ (2,963)	$ 525,212
Changes during the period:			
Units issued, net of costs	6,394	—	6,394
Net income and comprehensive income for the period	—	32,088	32,088
Distributions	—	(38,960)	(38,960)
Issue of units under DRIP (note 13(e))	4,986	—	4,986
Unitholders' equity, September 30, 2021	539,555	(9,835)	529,720
Changes during the period:			
Units issued, net of costs	2,832	—	2,832
Net income and comprehensive income for the period	—	18,916	18,916
Distributions	—	(13,129)	(13,129)
Issue of units under DRIP (note 13(e))	1,730	—	1,730
Unitholders' equity, December 31, 2021	544,117	(4,048)	540,069
Changes during the period:			
Units issued, net of costs	12,624	—	12,624
Net income and comprehensive income for the period	—	38,437	38,437
Distributions	—	(40,002)	(40,002)
Issue of units under DRIP (note 13(e))	4,989	—	4,989
Unitholders' equity, September 30, 2022	$ 561,730	$ (5,613)	$ 556,117

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows
(In thousands of Canadian dollars)
Three and nine months ended September 30, 2022 and 2021
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Operating activities:				
Net income and comprehensive income for the period	$ 8,046	15,847	$ 38,437	32,088
Adjustments for financing activities included in income:				
Finance costs (note 16)	7,725	7,121	22,225	21,426
Unrealized gain on change in fair value of derivative instruments (note 12)	(702)	(398)	(5,362)	(2,868)
Distributions on Class B LP Units (note 9)	400	462	1,298	1,435
Fair value adjustment of Class B LP Units (note 9)	(1,629)	(514)	(5,045)	3,087
Adjustments for items not involving cash:				
Fair value adjustment of investment properties (note 6)	6,842	(3,372)	10,122	1,142
Unit-based compensation expense	93	112	541	333
Fair value adjustment of unit-based compensation	(105)	(40)	(587)	693
Straight-line rental revenue	581	129	1,537	275
Amortization of leasing costs and tenant inducements	1,584	1,559	4,772	4,291
Transaction costs on sale of investment properties	—	—	—	623
Change in non-cash operating working capital (note 17)	(702)	(2,773)	(1,709)	(4,532)
Cash provided by operating activities	22,133	18,133	66,229	57,993
Investing activities:				
Acquisitions (note 4)	(41,147)	—	(41,147)	—
Proceeds from sale of investment properties, net (note 6)	—	—		11,589
Additions to investment properties (note 6)	(4,208)	(617)	(12,469)	(18,136)
Cash used in investing activities	(45,355)	(617)	(53,616)	(6,547)
Financing activities:				
Proceeds from Credit Facility	11,900	7,700	29,400	15,300
Repayment of Credit Facility	(17,400)	(9,800)	(25,300)	(15,300)
Proceeds from mortgage refinancing, net of costs	80,989	46,310	112,271	46,302
Repayment of mortgage refinancing	(35,892)	(35,994)	(61,585)	(35,994)
Repayment of mortgages on sale of investment properties	—	—	—	(7,481)
Principal payments on mortgages	(5,964)	(5,720)	(18,098)	(17,397)
Payments received on instalment notes receivable	16	17	48	54
Proceeds from vendor take-back mortgage (note 5)	1,120	—	1,120	—
Cash distributions on Class B LP Units	(370)	(412)	(1,158)	(1,310)
Finance costs paid	(7,221)	(6,798)	(21,076)	(20,521)
Proceeds from issuance of units, net of costs	7,502	—	9,063	432
Cash distributions to unitholders	(11,807)	(11,338)	(35,038)	(34,057)
Cash provided by (used in) financing activities	22,873	(16,035)	(10,353)	(69,972)
Increase (decrease) in cash and cash equivalents	(349)	1,481	2,260	(18,526)
Cash and cash equivalents, beginning of period	8,085	4,573	5,476	24,580
Cash and cash equivalents, end of period	$ 7,736	6,054	$ 7,736	6,054
Supplemental cash flow information:				
Vendor take-back mortgages on sale of investment properties (note 5)	$ —	—	$ —	1,550
Units issued under DRIP – unitholders	1,591	1,689	4,824	4,821
Units issued under DRIP – Class B LP Units	55	55	165	165
Units issued in exchange for Class B LP Units	3,182	1,008	3,182	5,534

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 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 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 November 2, 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 have not had a material impact on the condensed consolidated interim financial statements of the REIT.

3. Economic conditions and impact of COVID-19:

During 2022, inflation concerns have contributed to a significant increase in interest rates with the Bank of Canada raising its target overnight rate from 0.25% to 3.75% as at November 2, 2022. Rising interest rates may put downward pressure on the fair value of investment properties. The fair value of the REIT's investment properties as at September 30, 2022 is based upon available market data. The REIT continues to monitor the post pandemic economic environment and the after affects of COVID-19, which ultimately is a factor that impacts the value of the underlying real estate. The future cash flows of an investment property are based upon rental income from current leases and assumptions about occupancy rates, market rents from future leases and the cash outflows arising from current and future leases. The REIT continues to revise its estimates concerning rental growth and lease renewal assumptions to reflect expected market conditions, and currently, future cash flows are predicted to remain relatively stable as government and credit rated tenants comprise the majority of the REIT's tenant base. However given the continued uncertainty surrounding the COVID-19 pandemic combined with rising interest rates and the potential negative impact these 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. Significant changes in rental income, occupancy rates, tenant inducements and market rents could negatively impact future valuations of the REIT's investment properties.

As a result of the pandemic, certain tenants of the REIT have struggled and required financial assistance in the form of short-term rental deferrals or participation in Federal government programs. These programs were intended to assist businesses experiencing a significant decrease in revenue as a result of the COVID-19 pandemic. The Canada Emergency Rent Subsidy ended in Q4-2021 and the Hardest-Hit Business Recovery Program ended in Q3-2022.

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 as well as shifting economic conditions.

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

4. Acquisitions and dispositions:

The REIT acquired 400 Cumberland Street, Ottawa, Ontario on August 22, 2022. The acquisition was accounted for as an asset acquisition. The fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed based on their fair values at the date of acquisition. There were no acquisitions completed during the nine months ended September 30, 2021.

Nine months ended September 30, 2022:

		400 Cumberland Street
Acquisition date		August 22, 2022
Net assets acquired:		
Investment properties (including acquisition costs of $1,333)	$	38,845
Other receivables		2,970
Prepaid expenses and deposits		323
Tenant rental deposits		(7)
Accounts payable and accrued liabilities		(984)
	$	41,147
Consideration:		
Cash on hand	$	10,929
Mortgage financing, net of financing costs of $157		30,218
	$	41,147

The REIT did not dispose of any investment properties during the nine months ended September 30, 2022. On April 12, 2021 and June 1, 2021 the REIT completed the sale of 529 Exmouth Street, Sarnia, Ontario and 5900 Explorer Drive, Mississauga, Ontario for a sale price of $1,850 and $11,900, respectively. The proceeds from these dispositions net of costs were $1,682 and $11,445. The sale of 529 Exmouth Street, Sarnia, Ontario included an interest-only vendor take-back mortgage of $1,550 which is included in deposits and other assets (note 5).

5. Other assets:

		September 30, 2022		December 31, 2021
Mortgage loans receivable	$	3,275	$	4,395
Instalment notes receivable		141		182
Deposits		963		979
	$	4,379	$	5,556

Mortgage loans receivable consists of vendor take-back mortgages on investment property 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. During the three months ended September 30, 2022, the vendor take-back mortgage of $1,120 was repaid in advance of its maturity date.

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

6. Investment properties:

The following table summarizes the changes in investment properties for the nine months ended September 30, 2022 and 2021:

	Investment properties
Balance, December 31, 2020	$ 1,372,184
Additions	17,067
Disposals	(13,750)
Amortization of leasing costs, tenant inducements and straight-line rents	(2,966)
Fair value adjustment	(1,142)
Balance, September 30, 2021	1,371,393
Acquisitions	22,347
Additions	3,900
Amortization of leasing costs, tenant inducements and straight-line rents	(1,422)
Fair value adjustment	7,361
Balance, December 31, 2021	1,403,579
Acquisitions	38,845
Additions	12,469
Amortization of leasing costs, tenant inducements and straight-line rents	(4,802)
Fair value adjustment	(10,122)
Balance, September 30, 2022	$ 1,439,969

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

	September 30, 2022	September 30, 2021
Terminal and direct capitalization rates – range	4.25% to 9.50%	4.75% to 10.25%
Terminal and direct capitalization rate – weighted average	6.21%	6.26%
Discount rates – range	5.75% to 9.75%	5.75% to 10.25%
Discount rate – weighted average	6.96%	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 nine months ended September 30, 2022 there were six

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

6. Investment properties (continued):

(for the year ended December 31, 2021 – 17) properties externally appraised representing a total fair value of $254,370 (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:

	September 30, 2022	September 30, 2021
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (42,684)	$ (42,922)
25-basis points decrease	47,994	46,826
Weighted average discount rate:		
25-basis points increase	(39,652)	(39,971)
25-basis points decrease	43,907	42,889

7. Tenant and other receivables:

	September 30, 2022	December 31, 2021
Tenant receivables	$ 2,727	$ 2,214
Instalment notes receivable	56	63
Other receivables	4,269	1,411
	$ 7,052	$ 3,688

For the three and nine months ended September 30, 2022, the REIT recognized $36 and $177 in property operating expenses related to bad debt provisions (September 30, 2021 - $41 and $147).

8. Mortgages payable:

As at September 30, 2022, the REIT had $857,892 (December 31, 2021 – $824,379) of mortgage principal balances outstanding. The mortgages carry a weighted average fixed interest rate of 3.46% (December 31, 2021 – 3.31%) and a weighted average term to maturity of 3.31 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 12). The mortgages are secured by first and second charges on the respective properties.

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

8. Mortgages payable (continued):

As at September 30, 2022, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2022 - remainder of year	$ 6,146	$ 36,379	$ 42,525	$ 7,261
2023	22,107	142,598	164,705	24,990
2024	20,440	83,448	103,888	21,111
2025	13,114	197,178	210,292	13,157
2026	11,418	145,486	156,904	11,020
Thereafter	14,884	164,694	179,578	12,207
Face value	$ 88,109	$ 769,783	$ 857,892	$ 89,746
Unamortized mark to market mortgage adjustments			170	
Unamortized financing costs			(3,980)	
Total mortgages payable			$ 854,082	

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

	September 30, 2022	December 31, 2021
Current:		
Mortgages payable	$ 198,268	$ 140,514
Unamortized mark to market mortgage adjustments	34	45
Unamortized financing cost	(1,327)	(1,332)
	196,975	139,227
Non-current:		
Mortgages payable	659,624	683,865
Unamortized mark to market mortgage adjustments	136	161
Unamortized financing cost	(2,653)	(2,851)
	657,107	681,175
	$ 854,082	$ 820,402

9. Class B LP Units:

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

The following table summarizes the changes in Class B LP Units for the nine months ended September 30, 2022 and 2021:

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

9. Class B LP Units (continued):

	Class B LP Units		Amount
Outstanding, December 31, 2020	3,856,182	$	24,333
Class B LP Units exchanged to Units	(833,333)		(5,534)
Fair value adjustment	—		3,087
Outstanding, September 30, 2021	3,022,849		21,886
Fair value adjustment	—		514
Outstanding, December 31, 2021	3,022,849		22,400
Class B LP Units exchanged to Units	(496,435)		(3,182)
Fair value adjustment	—		(5,045)
Outstanding, September 30, 2022	2,526,414	$	14,173

During the three and nine months ended September 30, 2022 and 2021, distributions on Class B LP Units were $400 (September 30, 2021 - $462) and $1,298 (September 30, 2021 - 1,435), respectively, and have been recorded as an expense in the condensed consolidated interim statements of income and comprehensive income.

10. Credit facility:

The REIT has a $68,000 floating rate revolving credit facility ("Credit Facility") with a Canadian chartered bank which is comprised of two tranches: (i) up to $38,000 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.

On August 19, 2022, the REIT renewed the Credit Facility for a further two years maturing December 1, 2024 which included an increase to $68,000 from $60,000, with the additional $8,000 expiring on June 30, 2023 to align with the sale of 32071 South Fraser Way, Abbotsford, British Columbia.

As at September 30, 2022, the REIT had $4,100 drawn on the Credit Facility ($nil - December 31, 2021).

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

11. Accounts payable and accrued liabilities:

	September 30, 2022	December 31, 2021
Accounts payable and accrued liabilities	$ 24,312	$ 21,206
Finance costs payable	1,940	1,878
Class B LP distributions payable	125	150
Distributions payable	4,532	4,392
Unit-based compensation liability (note 13(c))	500	1,407
	$ 31,409	$ 29,033

12. 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 September 30, 2022 was $74,930 (December 31, 2021 – $76,540). Total unrealized gain on change in the fair value of the derivative instruments for the three and nine months ended September 30, 2022 was $702 (September 30 2021 - $398) and $5,362 (September 30 2021 - $2,868), respectively.

13. Unitholders' equity:

(a) Units:

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

(b) Units outstanding:

The following table summarizes the changes in Units for the nine months ended September 30, 2022 and 2021:

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

13. Unitholders' equity (continued):

	Units	Amount
Balance, December 31, 2020	86,346,019	$ 528,175
Issue of Units:		
DRIP	717,500	4,986
Options exercised	117,812	860
Exchange of Class B LP Units (note 9)	833,333	5,534
Balance, September 30, 2021	88,014,664	539,555
Issue of Units:		
DRIP	237,880	1,730
Options exercised	4,821	35
ATM Program	460,900	3,377
Issuance costs	—	(580)
Balance, December 31, 2021	88,718,265	544,117
Issue of Units:		
DRIP	763,959	4,989
Options exercised	61,986	398
Exchange of Class B LP Units (note 9)	496,435	3,182
ATM Program	1,450,800	9,460
Incentive Units redeemed	55,314	368
Issuance costs	—	(784)
Balance, September 30, 2022	91,546,759	$ 561,730

During the nine months ended September 30, 2022 the REIT issued 1,450,800 Units for cash of $9,460 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)

13. Unitholders' equity (continued):

The following table summarizes the changes in Deferred Units for the nine months ended September 30, 2022 and 2021:

	Deferred Units		Amount
Balance at January 1, 2021	50,974	$	321
Granted and reinvested	20,010		147
Fair value adjustment	—		45
Balance, September 30, 2021	70,984		513
Granted and reinvested	6,829		51
Fair value adjustment	—		12
Balance, December 31, 2021	77,813		576
Granted and reinvested	23,171		148
Redeemed	(61,676)		(390)
Fair value adjustment	—		(114)
Balance, September 30, 2022	39,308	$	220

On June 30, 2022, 61,676 Deferred Units were redeemed for 28,278 Units at a price of $6.3235 per Unit.

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.

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

13. Unitholders' equity (continued):

The following table summarizes the changes in Restricted Units for the nine months ended September 30, 2022 and 2021:

	Restricted Units	Amount
Balance at January 1, 2021	44,252	71
Granted and reinvested	44,322	185
Fair value adjustment	—	50
Balance, September 30, 2021	88,574	306
Granted and reinvested	1,803	65
Fair value adjustment	—	22
Balance, December 31, 2021	90,377	393
Granted and reinvested	102,324	392
Redeemed and expired	(101,775)	(436)
Fair value adjustment	—	(100)
Balance, September 30, 2022	90,926	$ 249

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.

On June 30, 2022, 5,331 Restricted Units were redeemed for 2,417 Units at a price of $6.3235 per Unit.

(ii) Unit Options:

The Unit option plan has been suspended and no further options may be granted. As at September 30, 2022, all Unit options have vested and are eligible to be exercised prior to their applicable expiry dates.

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

13. Unitholders' equity (continued):

The following table summarizes the changes in Unit options outstanding for the nine months ended September 30, 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	(583,836)	6.34	—	—
Outstanding, September 30, 2021	551,337	6.47	1.47	551,337
Unit options exercised	(50,001)	6.42	—	—
Outstanding, December 31, 2021	501,336	6.48	1.23	501,336
Unit options exercised	(108,334)	6.28	—	—
Outstanding, September 30, 2022	393,002	6.53	0.58	393,002

Unit options outstanding as of September 30, 2022 consist of the following:

Exercise price	Outstanding	Exercisable	Expiry Date
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
	393,002	393,002	

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

13. Unitholders' equity (continued):

(iii) Unit-based compensation expense:

The REIT's Unit-based compensation expense recognized in general and administrative expense for the three and nine months ended September 30, 2022 and 2021 was:

	Three months ended September 30		Nine months ended September 30,	
	2022	2021	2022	2021
Unit options	$ (89)	$ (33)	$ (373)	$ 603
Restricted Units	55	70	293	235
Deferred Units	22	37	34	192
Unit-based compensation expense	$ (12)	$ 74	$ (46)	$ 1,030
Fair value remeasurement expense included in the above:				
Unit options	$ (89)	$ (35)	$ (373)	$ 598
Restricted Units	5	7	(100)	50
Deferred Units	(21)	(12)	(114)	45
	$ (105)	$ (40)	$ (587)	$ 693

As at September 30, 2022 the carrying value of the unit-based compensation liability was $500 (December 31, 2021 – $1,407) (note 11).

(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 nine months ended September 30, 2022 and 2021, the REIT declared distributions of $40,002 and $38,960 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 nine months ended September 30, 2022 and 2021, the REIT issued 763,959 and 717,500 Units under the DRIP for a value of $4,989 and $4,986, respectively.

13. 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 April 21, 2022 the REIT filed a prospectus supplement to establish the ATM Program that allows the REIT to issue up to $50 million of Units to the public, at the REIT's discretion and expires coterminous with the base shelf prospectus.

During the nine months ended September 30, 2022, the REIT issued 1,450,800 Units for cash of $9,460 (for the year ended December 31, 2021 460,900 units for $3,377) through the ATM Program.

14. Transactions with related parties:

Starlight Group Properties Holdings Inc. ("Starlight") is considered a related party of the REIT as Starlight is controlled by the CEO and 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"), an 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;

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

14. Transactions with related parties (continued):

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

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

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

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

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

The following table presents the expenses incurred for the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Asset management fees	$ 1,184	$ 1,138	$ 3,471	$ 3,392
Acquisition fees	405	—	405	—
Other expenses	32	47	95	155

At September 30, 2022, $403 (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 and nine months ended September 30, 2022 and 2021.

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

15. Revenue:

The components of the REIT's revenue for the three and nine months ended September 30, 2022 and 2021 were as follows:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Base rent	$ 19,315	$ 19,379	$ 57,687	$ 58,929
Property operating and realty tax recoveries	14,461	13,792	41,567	41,388
Parking and other	2,901	1,051	8,870	2,745
	$ 36,677	$ 34,222	$ 108,124	$ 103,062

16. Finance costs:

The following table presents the financing costs incurred for the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Interest on mortgages payable	$ 7,189	$ 6,718	$ 20,780	$ 20,275
Other interest expense and standby fees	142	79	348	219
Amortization of mortgage premiums	(11)	(13)	(36)	(39)
Amortization of financing costs	405	337	1,133	971
	$ 7,725	$ 7,121	$ 22,225	$ 21,426

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

17. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Deposits	$ (3)	$ —	$ 16	$ 26
Tenant and other receivables	1,558	(510)	(401)	1,079
Prepaid expenses and deposits	262	(316)	(1,077)	(2,830)
Tenant rental deposits and prepayments	(433)	(606)	(384)	(112)
Accounts payable and accrued liabilities	(2,086)	(1,341)	137	(2,695)
	$ (702)	$ (2,773)	$ (1,709)	$ (4,532)

18. Commitments and contingencies:

As at September 30, 2022, the REIT has entered into commitments for building renovations totaling $2,400 (December 31, 2021 – $2,147).

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.

19. Segmented disclosure:

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

20. Capital management:

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

The REIT was in compliance with all financial covenants as at September 30, 2022.

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

21. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

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

As at September 30, 2022 and December 31, 2021, the REIT's interest-bearing financial instruments were:

	Carrying value	
	September 30, 2022	December 31, 2021
Fixed-rate instruments:		
Mortgages payable	$ 857,892	$ 824,379
Variable-rate instruments:		
Credit Facility	$ 4,100	$ —

The REIT is exposed to interest rate risk on its floating-rate debt on certain of its properties which is mitigated by entering into interest rate swaps (note 12). The REIT is also exposed to interest rate risk on its Credit Facility which fluctuates based on prime or floating bankers' acceptance rates. An increase (decrease) of 100 basis points in interest rates at September 30, 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.

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

21. Risk management and fair values (continued):

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 7) 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:

	September 30, 2022	December 31, 2021
0 to 30 days	$ 1,074	$ 280
31 to 90 days	513	677
Over 90 days	323	206
Total	$ 1,910	$ 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 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)

21. Risk management and fair values (continued):

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

September 30, 2022	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ —	$ —	$ 1,439,969	$ 1,439,969
Instalment notes receivable	—	313	—	313
Derivative instruments	—	4,200	—	4,200
	$ —	$ 4,513	$ 1,439,969	$ 1,444,482
Liabilities:				
Mortgages payable	$ —	$ 812,100	$ —	$ 812,100
Class B LP Units	14,173	—	—	14,173
	$ 14,173	$ 812,100	$ —	$ 826,273

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

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 6.

(ii) Instalment notes receivable:

The fair value of instalment notes receivable is estimated based on the present value of future receipts, discounted at the yield on a Government of Canada bond with the nearest maturity

21. Risk management and fair values (continued):

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 September 30, 2022 was approximately $313 (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 September 30, 2022 was approximately $812,100 (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.