TSX: TNT.UN

Q2 2023

MANAGEMENT'S DISCUSSION & ANALYSIS

AUGUST 3, 2023

675 Cochrane Drive
GTA, ON

AT A GLANCE

Diversified portfolio of high quality properties spanning five provinces with a high concentration of government and credit rated tenants

$1.4 B Total Assets	**$225 M** Market Capitalization	**4.5 YR**[1] Weighted Average Lease Term
46 Properties	**93%**[1] Occupancy	**79%** Revenues Generated from Goverment & Credit rated Tenants

As at June 30, 2023
(1) Excluding investment properties held for sale.

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

Stable
Contractual
Cash flow

1595 16th Avenue
GTA, ON

101 McNabb Street
GTA, ON

High Quality
Tenant Base

Focus on
Urban Areas

1112 Fort Street
Victoria, BC

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the consolidated financial results of True North Commercial Real Estate Investment Trust (the "REIT") is intended to provide readers with an assessment of the performance of the REIT for the three and six months ended June 30, 2023 and 2022 and should be read in conjunction with the REIT's annual audited consolidated financial statements for the years ended December 31, 2022 and 2021, and accompanying notes thereto. These documents can be found on the System for Electronic Document Analysis and Retrieval + ("SEDAR+") website at www.sedarplus.ca and on the REIT's website at https://truenorthreit.com/ under the tab "Financial Reports" in the "Investor" section.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

This MD&A, and the documents incorporated by reference herein, contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the REIT's business and results of operations, the ability of the REIT to manage inflation and rising interest rates, and the ongoing effects on the REIT's business and operations following the coronavirus pandemic ("COVID-19") and the shift to hybrid working. Forward-looking statements involve known and unknown risks and uncertainties, which may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, assumptions may not be correct and objectives, strategic goals and priorities may not be achieved. A variety of factors, many of which are beyond the REIT's control, affect the operations, performance and results of the REIT and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: risks and uncertainties related to the trust units of the REIT ("Units"); risks related to the REIT and its business; fluctuating interest rates and general economic conditions, including increased levels of inflation; credit, market, operational and liquidity risks generally; occupancy levels and defaults, including the failure to fulfill contractual obligations by tenants; lease renewals and rental increases; the ability to re-lease and find new tenants for vacant space; the timing and ability of the REIT to acquire or sell certain properties; the ongoing effects of COVID-19 and work-from-home flexibility initiatives on the business, operations and financial condition of the REIT and its tenants, as well as on consumer behavior and the economy in general, including the ability to enforce leases, perform capital expenditure work, increase rents, raise capital through the issuance of Units or other securities of the REIT and obtain mortgage financing on the REIT's properties (the "properties"). The foregoing is not an exhaustive list of factors that may affect the REIT's forward-looking statements. Other risks and uncertainties not presently known to the REIT could also cause actual results or events to differ materially from those expressed in its forward-looking statements. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance actual results will be consistent with such forward-looking statements.

Information contained in forward-looking statements is based upon certain material assumptions applied in drawing a conclusion or making a forecast or projection, including management's perception of historical trends, current conditions and expected future developments, as well as other considerations believed to be appropriate in the circumstances. There can be no assurance regarding: (a) the ongoing effects of COVID-19 and work-from-home initiatives on the REIT's business, operations and performance, including the performance of its Units; (b) the REIT's ability to mitigate any impacts related to fluctuating interest rates, inflation and the after effects of COVID-19 including the shift to hybrid working; (c) the factors, risks and uncertainties expressed above in regards to the post COVID-19 environment on the commercial real estate industry and property occupancy levels; (d) credit, market, operational, and liquidity risks generally; (e) the availability of investment opportunities for growth in Canada and the timing and ability of the REIT to acquire or sell certain properties; (f) Starlight Group Property Holdings Inc., or any of its affiliates ("Starlight"), continuing as asset manager of the REIT in accordance with its current asset management agreement; and (g) other risks inherent to the REIT's business and/or factors beyond its control which could have a material adverse effect on the REIT.

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

NON-IFRS FINANCIAL MEASURES

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

FFO is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for capital needs. FFO is calculated as net income adjusted for realized and unrealized fair value gains (losses), transaction costs on sale of investment properties, distributions on class B limited partnership units of True North Commercial Limited Partnership ("Class B LP Units"), and amortization of leasing costs and tenant inducements. The REIT calculates FFO in accordance with the guidelines set out by the Real Property Association of Canada ("Realpac"). Management considers this non-IFRS measure to be an important measure of the REIT's operating performance. Refer to "FFO and AFFO" for a reconciliation between net income and comprehensive income to FFO.

AFFO is an important performance measure to determine the sustainability of future distributions paid to holders of Units ("Unitholders"). In calculating AFFO, the REIT makes certain cash and non-cash adjustments to FFO such as but not limited to: amortization of fair value mark-to-market adjustments on assumed mortgages, amortization of deferred financing costs, straight-line rent, instalment note receipts, rent supplement, non-cash Unit-based compensation expense and a deduction of a reserve for capital expenditures, tenant inducements, and leasing costs. The method applied by the REIT to calculate AFFO differs from the definition of AFFO as defined by Realpac. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance. Refer to "FFO and AFFO" for a reconciliation from FFO to AFFO.

For the purposes of calculating FFO and AFFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis. Diluted amounts assume the conversion of any vested, unexercised and in the money Unit options and Incentive Units (as defined herein) of the REIT.

FFO and AFFO payout ratios are supplementary measures used by management to assess the sustainability of the REIT's distribution payments. These ratios are calculated using distributions declared divided by FFO and AFFO, respectively.

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

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

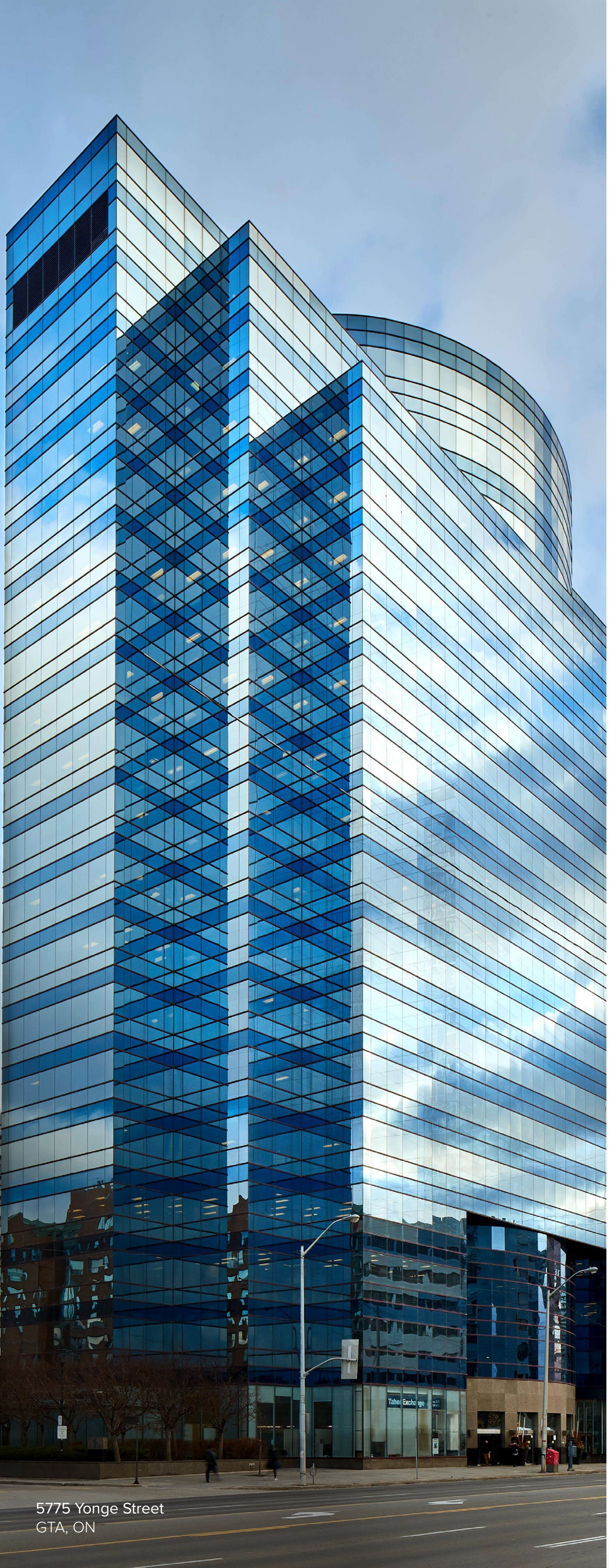
Indebtedness is defined in the REIT's third amended and restated declaration of trust dated as of May 11, 2021 ("DOT") and is a measure of the amount of leverage utilized by the REIT. GBV is defined in the DOT and is a measure of the value of the REIT's total assets. The Indebtedness to GBV ratio is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

Adjusted EBITDA is defined by the REIT as net earnings before, where applicable, interest, taxes, depreciation, amortization and fair value gain (loss) on financial instruments and investment properties and excludes non-recurring items such as transaction costs on the sale of investment properties. Adjusted EBITDA, calculated on a twelve-month trailing basis represents an operating cash flow measure the REIT uses in calculating the interest coverage ratio. Refer to "Debt - Adjusted EBITDA and Interest Coverage Ratio" for reconciliation.

The interest coverage ratio is used to monitor the REIT's ability to service interest requirements on its outstanding debt. The ratio is calculated on a twelve-month trailing basis by dividing Adjusted EBITDA by the REIT's interest obligations for the period. Management considers this non-IFRS measure useful in assessing the REIT's ability to service its debt obligations. Refer to "Debt - Adjusted EBITDA and Interest Coverage Ratio" for calculation.

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

Available Funds is defined as the sum of cash and available funds from the REIT's undrawn Credit Facility (as defined in the "Debt" section). Management believes Available Funds is an important measure in determining the resources available to meet ongoing obligations. Refer to "Liquidity and Capital Investment - Liquidity" for reconciliation.


5775 Yonge Street
GTA, ON

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BASIS OF PRESENTATION

The REIT's condensed consolidated interim financial statements for the three and six months ended June 30, 2023 and 2022 have been prepared in accordance with IFRS for interim financial reporting. The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of dollars, except for Unit and per Unit information.

Certain time periods used in this MD&A are used interchangeably such as three and six months ended June 30, 2023 ("Q2-2023") and ("YTD-2023"), respectively, three months and six months ended June 30, 2022 ("Q2-2022") and ("YTD-2022"), respectively, three months ended March 31, 2023 ("Q1-2023"), three months ended September 30, 2022 ("Q3-2022"), and three months ended December 31, 2022 ("Q4-2022").

OVERVIEW AND STRATEGY

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to the DOT, and governed by the laws of the Province of Ontario. The registered head office of the REIT is 1400 – 3280 Bloor Street West, Centre Tower, Toronto, Ontario, Canada, M8X 2X3. The Units are listed on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN. As at June 30, 2023, the REIT owned and operated a portfolio of 46 office properties across Canada consisting of approximately 5.0 million square feet of gross leasable area ("GLA").

The objectives of the REIT are to:

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

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

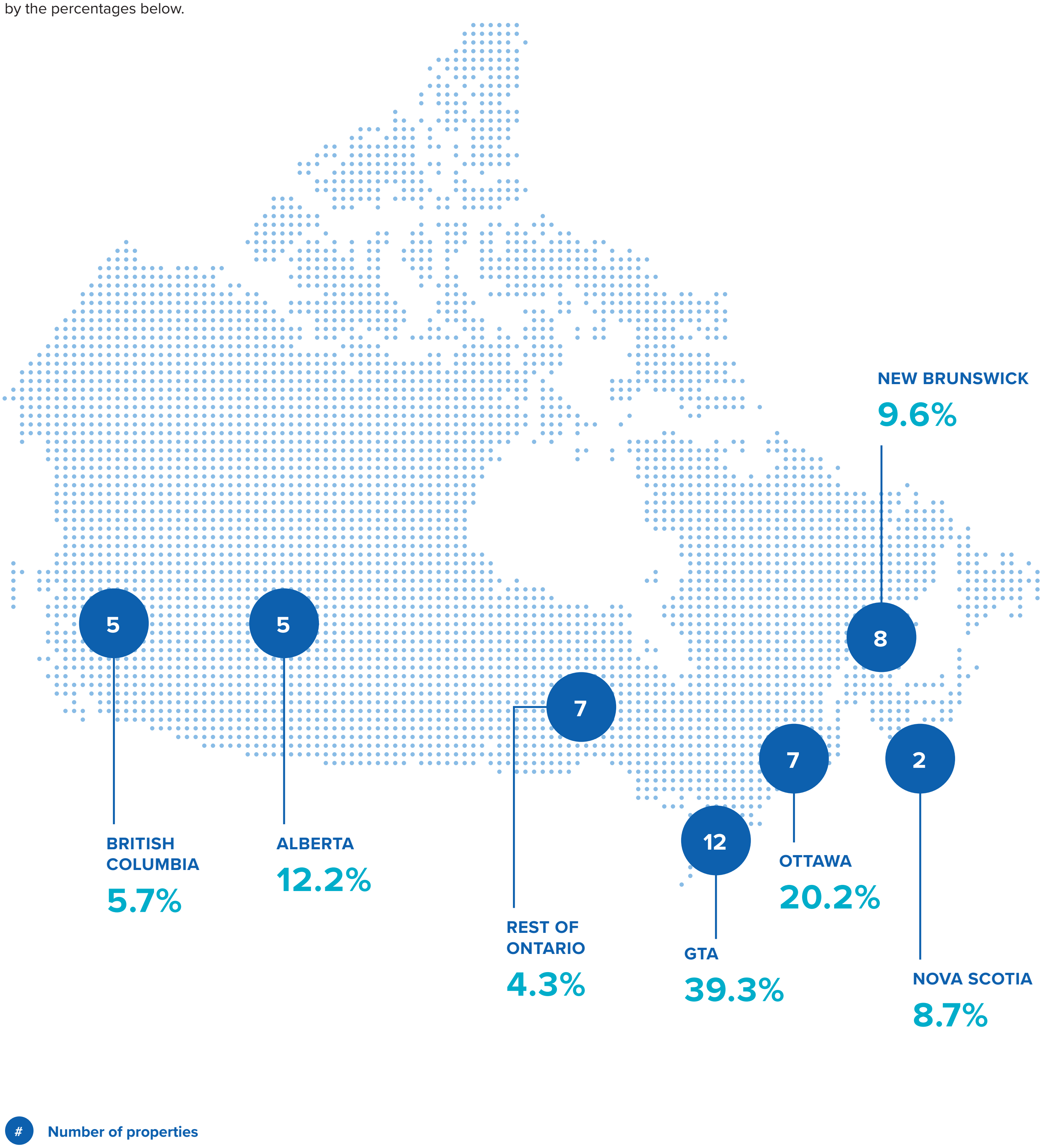

9200 Glenlyon Parkway
Burnaby, BC

PORTFOLIO OVERVIEW

As at June 30, 2023, the REIT's portfolio was comprised of 46 office properties totaling approximately 5.0 million square feet of GLA. See Appendix A for a detailed listing of the REIT's properties.

Current Portfolio & Geographic Diversification

GLA by province as at June 30, 2023 is denoted by the percentages below.



TENANT PROFILE

Top 20 tenants account for 67% of revenue. Approximately 79% of the REIT's portfolio revenue is generated by government and credit rated tenants.

39%
government tenants

+

40%
credit rated tenants

=

79%
total government and credit rated tenants

The REIT's top 20 tenants as at June 30, 2023:

TENANT	% OF GROSS REVENUE	GLA	REMAINING LEASE TERM[1]
Federal Government of Canada	16.3%	730,800	5.8 years
Province of Alberta	9.8%	395,100	4.1 years
Province of Ontario	6.3%	237,200	3.5 years
General Motors of Canada Company	3.7%	154,800	4.5 years
TD Insurance	3.3%	160,600	3.2 years
Province of British Columbia	3.0%	125,100	4.1 years
Province of New Brunswick	2.8%	156,500	4.1 years
Lumentum Ottawa Inc.	2.3%	148,100	4.6 years
LMI Technologies Inc.	2.2%	90,600	3.6 years
Intact Insurance Co.	2.2%	77,800	1.9 years
Staples Canada ULC	2.0%	122,000	10.3 years
General Dynamics Land Systems	1.8%	148,400	0.5 years
EMS Technologies Canada, Ltd.	1.7%	107,200	1.2 years
Ceridian Canada Ltd.	1.6%	49,800	2.7 years
Smucker Foods of Canada Corporation	1.5%	60,800	6.4 years
Paymentus (Canada) Corporation	1.4%	55,800	7.8 years
Stantec Consulting Ltd.	1.3%	55,200	6.0 years
ADP Canada Co.	1.3%	65,600	3.0 years
Prospera Credit Union	1.1%	52,300	1.3 years
Golder Associates Ltd.	1.0%	35,300	6.7 years
Total	**66.7%**	**3,029,000**	**4.5 years**

(1) Weighted by annualized gross revenue.

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

Public Administration
38%

Services
23%

Finance, Insurance, Real Estate
15%

Manufacturing
14%

Other
10%

LEASING ACTIVITY

As of June 30, 2023, the REIT's occupancy excluding investment properties held for sale remained stable at 93% with a weighted average remaining lease term ("WALT") of 4.5 years (89% and 4.4 years including investment properties held for sale). The REIT's occupancy for assets held for sale decreased largely due to the Federal Government of Canada vacating 101,200 square feet at 360 Laurier Avenue West, Ottawa, Ontario ("Laurier Property") as of February 2023 and TD Insurance vacating 115,000 square feet at 3650 Victoria Park Avenue, Toronto, Ontario ("Victoria Park Property") as of May 2023. The REIT completed the sale of the Laurier Property on July 10, 2023.

The following table summarizes the leasing activity for Q2-2023:

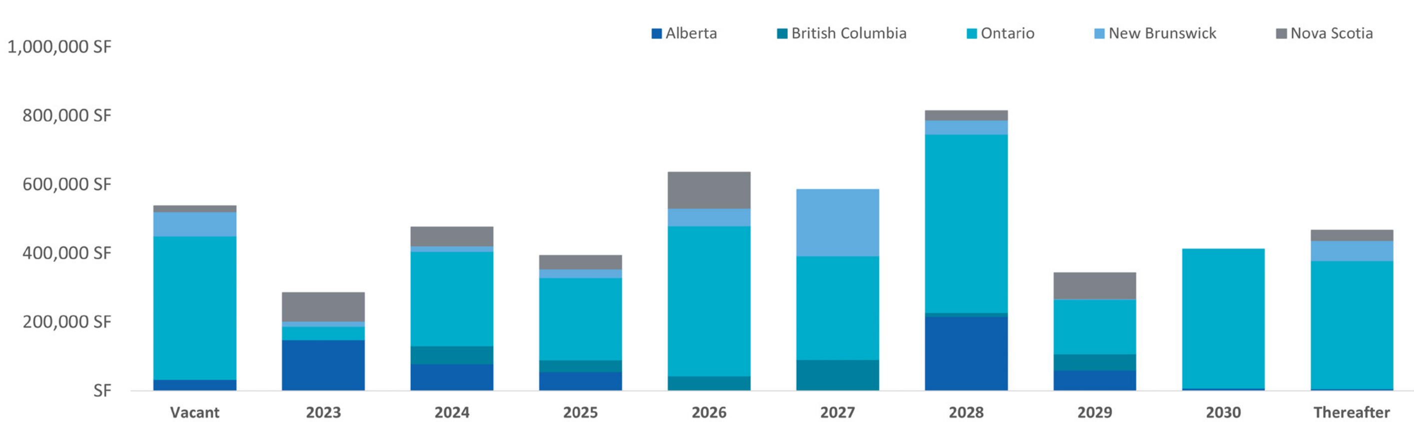
	New Lease Deals		Lease Renewals and Replacements		
	Leasable Area	Weighted Average Lease Term	Leasable Area	Weighted Average Lease Term	% Increase In Rents
Q2 2023	30,000 SF	7.2 YR	271,800 SF	4.4 YR	15.9%
YTD 2023	51,800 SF	7.0 YR	374,100 SF	4.1 YR	12.2%

In Q2-2023, the REIT completed 30,000 square feet of new leases with a WALT of 7.2 years in Ontario, New Brunswick and British Columbia, which included 12,500 square feet of tenant expansions. The increase in WALT demonstrates tenants' confidence and willingness to commit to longer lease terms by having a better understanding of their space requirements.

The REIT had a strong quarter of lease renewals by completing 271,800 square feet with a WALT of 4.4 years and a 15.9% increase in base rents over expiring rental rates. This included five year extensions from both Province of New Brunswick for approximately 141,000 square feet across three properties and the Province of Alberta for approximately 58,600 square feet as the anchor tenant at 13140 St. Albert Trail, Edmonton, Alberta. An additional 47,000 square feet of lease renewals were also completed with credit-rated and government tenants. The significant lease renewals completed to date demonstrate the REIT's continued focus on maintaining strong relationships with its tenants and reinforces our strategic focus on securing and retaining government and credit-worthy tenants.

LEASE ROLLOVER PROFILE

Lease maturities are based on the square footage of the REIT's leases. As at June 30, 2023 the lease rollover profile was as follows:



SECOND QUARTER AND YEAR TO DATE HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

The REIT's occupancy excluding investment properties held for sale at the end of Q2-2023 was 93% with an average remaining lease term of 4.5 years (89% and 4.4 years including investment properties held for sale). 79% of revenue continues to be generated from government and credit rated tenants.

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Portfolio				
Number of properties			46	46
Portfolio GLA			4,951,400 sf	4,801,100 sf
Occupancy [(1)]			93 %	96 %
Remaining weighted average lease term [(1)]			4.5 years	4.3 years
Revenue from government and credit rated tenants			79 %	76 %
Financial				
Revenue	$ 32,690	$ 35,120	$ 66,548	$ 71,447
NOI [(2)]	18,482	21,685	37,120	43,879
Net income and comprehensive income	793	15,482	7,788	30,391
Same Property NOI [(2)]	20,532	23,750	40,569	47,784
FFO [(2)]	$ 10,676	$ 14,423	$ 21,419	$ 29,199
FFO per Unit - basic [(2)]	0.11	0.16	0.23	0.32
FFO per Unit - diluted [(2)]	0.11	0.16	0.23	0.32
AFFO [(2)]	$ 10,466	$ 14,341	$ 21,047	$ 28,958
AFFO per Unit - basic [(2)]	0.11	0.16	0.22	0.31
AFFO per Unit - diluted [(2)]	0.11	0.16	0.22	0.31
AFFO payout ratio - diluted [(2)]	67 %	96 %	89 %	95 %
Distributions declared	$ 7,024	13,720	$ 18,719	$ 27,400

Revenue and NOI decreased 7% and 15%, respectively, in Q2-2023 and YTD-2023 when compared to the same period in 2022. The main contributor was the decrease in termination income and lower revenue from a tenant in the REIT's greater Toronto area ("GTA") portfolio that downsized a portion of their space effective Q4-2022, combined with a 101,200 square foot lease expiry in Q1-2023 at the Laurier Property and 115,000 square foot lease expiry in Q2-2023 at the Victoria Park Property, combined with the disposition activity in Q1-2023 (the "Primary Variance Drivers"). The decrease was partially offset by termination income received from the tenant at 400 Carlingview Drive, Toronto, Ontario ("Carlingview Property") which was disposed of in Q1-2023 and NOI from an acquisition completed in Q3-2022.

Excluding termination income and investment properties held for sale, revenue and NOI decreased 2% and 6%, respectively, in Q2-2023 and 3% and 8%, respectively, in YTD-2023.

The REIT's Q2-2023 FFO and AFFO decreased $3,747 (YTD-2023 - $7,780), and $3,875 (YTD-2023 - $7,911), respectively, when compared to the same period in 2022. FFO and AFFO were negatively impacted by the Primary Variance Drivers, combined with higher financing costs as a result of higher interest rates on mortgage refinancings and higher interest expense on the Credit Facility. FFO and AFFO benefited from NOI on the acquisition completed in Q3-2022 and termination income.

Q2-2023 FFO and AFFO basic and diluted per Unit decreased $0.05 to $0.11 over the comparable period. YTD-2023 FFO basic and diluted per Unit decreased $0.09 to $0.23 and AFFO basic and diluted per Unit decreased $0.09 to $0.22 compared to YTD-2022. Excluding termination fees, Q2-2023 FFO and AFFO basic and diluted per Unit were lower by $0.02, and YTD-2023 FFO and AFFO basic and diluted per Unit were lower by $0.05 compared to the same period in 2022.

(1) Excluding assets held for sale.

(2) This is a non-IFRS financial measure, refer to "Non-IFRS Financial Measures".

Disposition Activity

On March 10, 2023, the REIT completed the sale of the Carlingview Property totaling 26,800 square feet, for a sale price of $7,250. The proceeds from the disposition net of costs were $7,006. The property was classified under investment properties held for sale as at December 31, 2022.

Key Debt Metrics

	June 30, 2023	December 31, 2022
Indebtedness to GBV ratio [1]	60.2 %	59.3 %
Interest coverage ratio [1]	2.62 x	3.00 x
Indebtedness [1] - weighted average fixed interest rate	3.64 %	3.54 %
Indebtedness [1] - weighted average term to maturity	2.89 years	3.27 years

At the end of Q2-2023, the REIT had access to Available Funds[1] of approximately $51,927, and a weighted average term to maturity of 2.89 years in its mortgage portfolio with a weighted average fixed interest rate of 3.64%. During the first quarter, the REIT refinanced a total of $31,121 of mortgages, one with a fixed interest rate of 4.83% (five-year term) and one with a variable interest rate at prime plus 1.5% (one-year term), providing the REIT with additional liquidity of approximately $5,700.

Subsequent to quarter end, the REIT refinanced $36,452 of mortgages with a weighted average fixed interest rate of 6.05% for five and seven-year terms.

Distribution Reduction and Suspension of DRIP

On March 14, 2023, the REIT reduced its monthly cash dividend from $0.0495 per Unit to $0.02475 per Unit or $0.297 per Unit on an annualized basis (the “Distribution Reduction”). The new distribution commenced on April 17, 2023 to Unitholders of record on March 31, 2023. The Distribution Reduction is expected to provide the REIT with financial flexibility to continue advancing its short and long-term objectives while exploring strategic, value-creating opportunities, with maximizing Unitholder value being the principal objective. The Distribution Reduction is expected to provide an additional $25,000 in cash annually that will be used primarily to improve our capital profile and deliver Unitholder value.

The decision to reduce the distribution was made by the Trustees (as defined herein) following a careful review of the REIT’s strategic goals, capital structure and operations, as well as a thorough investigation of the potential merits of the Distribution Reduction and strategic alternatives. The Trustees and management believe this decision is sensible and in the best interests of the REIT and its Unitholders, particularly in light of current economic conditions. Specifically, this decision underlines the Trustees' and management’s view that Unitholders are best served by a well-capitalized REIT, which bolsters the REIT’s ability to enhance its portfolio and pursue value-creating opportunities.

The REIT will re-evaluate distributions on a regular basis, taking into account various factors including, but not limited to, market conditions and the REIT’s financial position.

On April 12, 2023, the REIT announced the suspension of the DRIP (as defined herein) until further notice. As a result, all Unitholders received distributions in cash effective with the distribution paid on April 17, 2023 to Unitholders of record on March 31, 2023.

[1] This is a non-IFRS financial measure, refer to “Non-IFRS Financial Measures”.

Normal Course Issuer Bid ("NCIB")

On April 12, 2023, the REIT announced the intention to commence a NCIB, as approved by the Toronto Stock Exchange ("TSX"). Under the NCIB, the REIT will have the ability to purchase for cancellation up to a maximum of 8,239,557 of its Units, representing 10% of the REIT's public float of 82,395,573 Units through the facilities of the TSX or through a Canadian alternative trading system and in accordance with applicable regulatory requirements at a price per Unit equal to the market price at the time of acquisition. The NCIB became effective on April 18, 2023 and will remain in place until the earlier of April 17, 2024 or the date on which the REIT has purchased the maximum number of Units permitted under the NCIB. Any Units acquired through the NCIB will be cancelled.

During the six months ended June 30, 2023, the REIT repurchased 124,900 Units for $300 under the NCIB. Subsequent to June 30, 2023, the REIT repurchased an additional 83,500 Units for $200 under the NCIB.

Officer and Board Appointments

Effective June 30, 2023, Tracy Sherren, the REIT's President and Chief Financial Officer and President, Canadian Commercial, Starlight, retired from her executive positions at the REIT and Starlight. Ms. Sherren will remain as a trustee of the REIT. Martin Liddell, the current Chief Financial Officer at Starlight, was appointed as Chief Financial Officer of the REIT in addition to his positions at Starlight.

Subsequent events

On July 10, 2023, the REIT completed the sale of the Laurier Property totaling 107,100 square feet, for a sale price of $17,500.

The disposition of the Carlingview Property (see Disposition Activity) and Laurier Property are advantageous and strategic given the lead tenant at each property had provided notice that they would be vacating at the end of their current lease term. The dispositions enabled the REIT to extract their underlying value without incurring significant re-leasing costs and the loss of income associated with replacing the vacancy.

On July 31, 2023, the REIT disposed of 32071 South Fraser Way, Abbotsford, BC (the "Abbotsford Property") totaling 52,300 square feet, for a sale price of $24,000. On July 31, 2023, the Credit Facility was amended to remove the temporary increase of $8,000 due to the completion of the sale of the Abbotsford Property. The two tranches of the Credit Facility were also amended to increase the secured portion from $30,000 to $35,000 and decrease the unsecured portion from $30,000 to $25,000.

QUARTERLY INFORMATION

	Q2-23	Q1-23	Q4-22	Q3-22	Q2-22	Q1-22	Q4-21	Q3-21
Revenue	$32,690	$33,858	$35,451	$36,677	$35,120	$36,327	$35,461	$34,222
Property operating costs	(14,208)	(15,220)	(14,822)	(14,701)	(13,435)	(14,133)	(15,010)	(13,667)
NOI [1]	18,482	18,638	20,629	21,976	21,685	22,194	20,451	20,555
General and administration expenses	(1,525)	(1,433)	(1,874)	(1,294)	(1,261)	(1,625)	(1,663)	(1,409)
Finance costs	(8,418)	(8,200)	(8,109)	(7,725)	(7,253)	(7,247)	(7,239)	(7,121)
Transaction costs on sale of investment properties	—	(244)	—	—	—	—	—	—
Distributions on Class B LP Units	(185)	(313)	(375)	(400)	(449)	(449)	(449)	(462)
Fair value adjustment of Class B LP Units	2,734	5,861	(455)	1,629	2,661	755	(514)	514
Fair value adjustment of investment properties	(11,832)	(6,472)	(31,803)	(6,842)	(1,610)	(1,670)	7,361	3,372
Unrealized gain (loss) on change in fair value of derivative instruments	1,537	(842)	82	702	1,709	2,951	969	398
Net income and comprehensive income for the period	$ 793	$ 6,995	$(21,905)	$ 8,046	$15,482	$14,909	$ 18,916	$15,847
FFO per Unit - basic [1]	$ 0.11	$ 0.11	$ 0.13	$ 0.15	$ 0.16	$ 0.16	$ 0.15	$ 0.15
AFFO per Unit - basic [1]	$ 0.11	$ 0.11	$ 0.14	$ 0.15	$ 0.16	$ 0.16	$ 0.14	$ 0.14
AFFO per Unit - diluted [1]	$ 0.11	$ 0.11	$ 0.14	$ 0.15	$ 0.16	$ 0.16	$ 0.14	$ 0.14
AFFO payout ratio - basic [1]	67 %	110 %	110 %	97 %	96 %	94 %	105 %	104 %
AFFO payout ratio - diluted [1]	67 %	111 %	110 %	97 %	96 %	94 %	106 %	105 %
Number of investment properties	46	46	47	47	46	46	46	45
Occupancy rate [2]	93 %	93 %	93 %	95 %	96 %	96 %	96 %	96 %

Q2-2023 revenue and NOI decreased 3% and 1% compared to the previous quarter mainly due to termination fees received in Q1-2023 from the Carlingview Property, higher amortization of leasing costs and lower recovery revenue attributable to lower seasonal costs and utility expenses partially offset by renewal activity in Q2-2023 in New Brunswick at higher rental rates.

Excluding the changes in the fair value of Unit-based compensation, general and administration expenses were lower due to professional fees associated with annual tax and year end audit work recognized in Q1-2023, which was partially offset by expenses incurred in Q2-2023 for the annual Unitholders' meeting held in June.

Finance costs increased during the quarter due to higher interest on mortgage refinancings completed in Q1-2023, in addition to higher interest expense on the Credit Facility.

Transaction costs on sale of investment properties in Q1-2023 include legal and brokerage fees related to the disposition of the Carlingview Property.

Distributions on Class B LP Units decreased in the quarter due to the Distribution Reduction and the conversion of 93,750 Class B LP Units to Units on June 7, 2023.

FFO and AFFO per unit have remained stable at $0.11 when compared to Q1-2023.

Excluding investment properties held for sale, occupancy remained stable at 93%.

[1] This is a non-IFRS financial measure, refer to “Non-IFRS Financial Measures”.

[2] Excluding assets held for sale.

ANALYSIS OF FINANCIAL PERFORMANCE

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Revenue	$ 32,690	$ 35,120	$ 66,548	$ 71,447
Expenses:				
Property operating costs	(9,194)	(8,451)	(19,101)	(17,522)
Realty taxes	(5,014)	(4,984)	(10,327)	(10,046)
NOI	$ 18,482	$ 21,685	$ 37,120	$ 43,879
Other income (expenses):				
General and administration expenses	(1,525)	(1,261)	(2,958)	(2,886)
Finance costs	(8,418)	(7,253)	(16,618)	(14,500)
Transaction costs on sale of investment properties	—	—	(244)	—
Distributions on Class B LP Units	(185)	(449)	(498)	(898)
Fair value adjustment of Class B LP Units	2,734	2,661	8,595	3,416
Fair value adjustment of investment properties	(11,832)	(1,610)	(18,304)	(3,280)
Unrealized gain on change in fair value of derivative instruments	1,537	1,709	695	4,660
Net income and comprehensive income	$ 793	$ 15,482	$ 7,788	$ 30,391

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

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

The REIT's revenue and NOI decreased 7% and 15%, respectively, in Q2-2023 and YTD-2023 compared to the same period in 2022. The decrease in revenue and NOI was largely a result of the Primary Variance Drivers which was partially offset by termination income received from the tenant at the Carlingview Property, NOI from an acquisition completed in Q3-2022 and 141,000 square feet of government renewals across three properties in New Brunswick at higher rental rates which were retroactive to Q4-2022.

Excluding termination income and investment properties held for sale, revenue and NOI decreased 2% and 6%, respectively, in Q2-2023 and 3% and 8%, respectively, in YTD-2023.

Property operating expenses and realty taxes increased 6% and 7% compared to Q2-2022 and YTD-2022, respectively, due to higher cleaning and utilities as a result of higher foot traffic at the properties, higher boiler and HVAC repairs, combined with additional operating expenses associated with the property acquired in Q3-2022. Realty tax expenses increased as a result of the Q3-2022 acquisition offset by lower tax assessments at certain properties.

SAME PROPERTY ANALYSIS

Same Property NOI is a non-IFRS financial measure and includes investment properties owned for the entire current and comparative reporting period. Refer to "Non-IFRS Financial Measures".

	Three months ended June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Number of properties	45	45	45	45
Revenue	$ 31,627	$ 34,954	63,916	71,106
Expenses:				
Property operating	(8,897)	(8,415)	(18,444)	(17,438)
Realty taxes	(4,835)	(4,961)	(9,955)	(10,001)
	$ 17,895	$ 21,578	35,517	43,667
Add:				
Amortization of leasing costs and tenant inducements	2,269	1,594	4,297	3,159
Straight-line rent	368	578	755	958
Same Property NOI	$ 20,532	$ 23,750	40,569	47,784
Less: Assets Held for Sale	671	1,375	1,611	2,824
Same Property NOI excluding investment properties held for sale	19,861	22,375	38,958	44,960
Reconciliation to condensed consolidated interim financial statements:				
Acquisitions and dispositions	640	1,497	1,985	3,063
Amortization of leasing costs and tenant inducements	(2,270)	(1,610)	(4,307)	(3,188)
Straight-line rent	251	(577)	484	(956)
NOI	$ 18,482	$ 21,685	37,120	43,879

Occupancy

	As at June 30	
	2023	**2022**
Alberta	94.4 %	95.7 %
British Columbia	100.0 %	98.7 %
New Brunswick	85.0 %	83.8 %
Nova Scotia	96.2 %	96.9 %
Ontario	93.3 %	96.5 %
Total	93.2 %	95.2 %

NOI

	Three months ended June 30			
	2023	**2022**	**Variance**	**Variance %**
Alberta	$ 3,537	$ 3,475	$ 62	1.8 %
British Columbia	1,270	1,274	(4)	(0.3)%
New Brunswick	1,359	1,000	359	35.9 %
Nova Scotia	1,811	1,719	92	5.4 %
Ontario	11,884	14,907	(3,023)	(20.3)%
	$ 19,861	$ 22,375	$ (2,514)	(11.2)%

Q2-2023 Same Property NOI decreased 2.6% (YTD-2023 - 4.6%) excluding termination fees and investment properties held for sale. Excluding investment properties held for sale only, Q2-2023 Same Property NOI decreased 11.2% (YTD-2023 - 13.3%) as a result of the significant termination fee income recorded in the prior year periods.

Despite a decrease in occupancy, Alberta Same Property NOI was positively impacted by contractual rent increases and a new lease that commenced in Q1-2023. New Brunswick Same Property NOI increased as a result of a new lease that commenced in June 2023 coupled with 141,000 square feet of government renewals across three properties at higher rental rates which were retroactive to Q4-2022. Same Property NOI in Nova Scotia increased due to new leases that commenced in the second half of 2022 partly offset by certain tenants that downsized on renewal.

Ontario Same Property NOI decreased mainly due to termination fees received in Q2-2022 relating to a tenant in the REIT's GTA portfolio that downsized a portion of their space effective December 2022, of which 60% has been contractually re-leased with rents commencing in the latter half of 2023. The decrease in NOI generated from investment properties held for sale was due to the lead tenant vacating the Laurier Property and Victoria Park Property on expiry.

GENERAL AND ADMINISTRATION EXPENSES

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

Excluding the changes in the fair value of Unit-based compensation, general and administration expenses increased 2% in Q2-2023 and 1% YTD-2023 when compared to the same period in 2022 due to higher asset management fees resulting from the acquisition completed in Q3-2022.

FINANCE COSTS

The REIT's finance costs for the three and six months ended June 30, 2023 and 2022 are summarized below. Finance costs exclude cash distributions and fair value adjustments on Class B LP Units.

	Three months ended June 30		Six month ended June 30	
	2023	2022	2023	2022
Interest on mortgages payable	$ 7,684	$ 6,789	$ 15,201	$ 13,591
Other interest expense and standby fees	380	124	692	206
Amortization of mortgage premiums	(8)	(12)	(17)	(25)
Amortization of financing costs	362	352	742	728
	$ 8,418	$ 7,253	$ 16,618	$ 14,500

Interest on mortgages payable was higher due to refinancings and acquisitions completed over the last twelve months at higher interest rates. This was partially offset by the property disposition completed in Q1-2023 where the associated borrowings were repaid.

Other interest expenses and standby fees relate to costs incurred on the Credit Facility which had higher average drawings YTD-2023 compared to YTD-2022.

DISTRIBUTIONS ON CLASS B LP UNITS

Distributions declared were $185 in Q2-2023 ($449 - Q2-2022) and $498 YTD-2023 ($898 - YTD-2022). The decrease in distributions was due to the conversion of 93,750 Class B LP Units to Units on June 7, 2023, in addition to the Distribution Reduction.

FAIR VALUE ADJUSTMENT OF CLASS B LP UNITS

The fair value change in Class B LP Units represents the change in the trading price of the Units (given the Class B LP Units have economic and voting rights equivalent, in all material aspects, to Units). Any resulting change in the fair value of the Class B LP Units is reported in the period such change occurs. The fair value gain of $2,734 in Q2-2023 was due to a decrease in the trading price of the Units from $3.47 at March 31, 2023 to $2.38 at June 30, 2023. The fair value gain of $8,595 YTD-2022 was due to a decrease in the trading price of the Units from $5.79 at December 31, 2022 to $2.38 at June 30, 2023.

FAIR VALUE ADJUSTMENT OF INVESTMENT PROPERTIES

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

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

In determining the fair value of its investment properties the REIT continuously revises rental growth and lease renewal assumptions, along with capital spending on upcoming vacancies to reflect expected market conditions. Moreover, the future cash flows are expected to remain relatively stable as government and credit rated tenants comprise the majority of the REIT's tenant base. With rapidly changing market conditions it is not possible to forecast with certainty the impact the shift to hybrid working models and rising interest rates will have on the valuation of the REIT’s investment properties. Consequently, there is a need to apply a higher degree of judgment as it pertains to the forward-looking assumptions that underlie the REIT’s valuation methodologies. The REIT, however, remains committed to owning high-quality properties with long-term value propositions.

For the three and six months ended June 30, 2023, the REIT had a fair value loss of $11,832 and $18,304, respectively. The fair value loss was predominantly attributable to moderated leasing assumptions along with increased capitalization rates on certain properties.

The key valuation assumptions for the REIT’s investment properties as at June 30, 2023 and 2022 are as follows:

	2023	**2022**
Terminal and direct capitalization rates – range	4.25% to 9.50%	4.25% to 9.50%
Terminal and direct capitalization rate – weighted average	6.27%	6.18%
Discount rates – range	5.75% to 9.75%	5.75% to 9.75%
Discount rate – weighted average	6.97%	6.98%

The weighted average terminal and direct capitalization rate increased mainly as a result of increases in capitalization rates on certain properties.

UNREALIZED GAIN ON CHANGE IN FAIR VALUE OF DERIVATIVE INSTRUMENTS

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

The notional principal amount of the outstanding interest rate swap contracts at June 30, 2023 was $73,274 (December 31, 2022 - $74,383). Interest rates in the near term are projected to climb before starting a descent in 2024, resulting in an unrealized gain on the change in fair value of the derivative instruments totaling $1,537 in Q2-2023 ($1,709 - Q2-2022) and $695 YTD-2023 ($4,660 - YTD-2022).

Given the interest rate swap removes the floating rate exposure on the REIT's debt and replaces it with a fixed rate, the unrealized gain represents the opportunity (cost) benefit of not maintaining floating rate debt that would be realized in the event the swap was to be terminated.

FFO AND AFFO

The REIT calculates FFO, a non-IFRS financial measure, in accordance with the guidelines set out by Realpac. Refer to page 5 "Non-IFRS Financial Measures". Reconciliation of net income and comprehensive income determined in accordance with IFRS, to FFO and AFFO is as follows:

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Net income and comprehensive income	$ 793	$ 15,482	$ 7,788	$ 30,391
Add (deduct):				
Fair value adjustment of Unit-based compensation	(133)	(358)	(432)	(482)
Fair value adjustment of investment properties	11,832	1,610	18,304	3,280
Fair value adjustment of Class B LP Units	(2,734)	(2,661)	(8,595)	(3,416)
Transaction costs on sale of investment property	—	—	244	—
Distributions on Class B LP Units	185	449	498	898
Unrealized gain on change in fair value of derivative instruments	(1,537)	(1,709)	(695)	(4,660)
Amortization of leasing costs and tenant inducements	2,270	1,610	4,307	3,188
FFO	$ 10,676	$ 14,423	$ 21,419	$ 29,199
Add (deduct):				
Unit-based compensation expense	164	183	332	448
Amortization of financing costs	362	352	742	728
Rent Supplement	742	—	1,485	—
Amortization of mortgage discounts	(8)	(12)	(17)	(25)
Instalment note receipts	14	15	28	32
Straight-line rent	(251)	577	(484)	956
Capital reserve [1]	(1,233)	(1,197)	(2,458)	(2,380)
AFFO	$ 10,466	$ 14,341	$ 21,047	$ 28,958
FFO per Unit:				
Basic	$ 0.11	$ 0.16	$ 0.23	$ 0.32
Diluted	$ 0.11	$ 0.16	$ 0.23	$ 0.32
AFFO per Unit:				
Basic	$ 0.11	$ 0.16	$ 0.22	$ 0.31
Diluted	$ 0.11	$ 0.16	$ 0.22	$ 0.31
AFFO payout ratio:				
Basic	67 %	96 %	89 %	95 %
Diluted	67 %	96 %	89 %	95 %
Distributions declared	$ 7,024	$ 13,720	$ 18,719	$ 27,400
Weighted average Units outstanding (000s):				
Basic	94,632	92,338	94,553	92,196
Add:				
Unit options and Incentive Units	27	126	25	130
Diluted	94,659	92,464	94,578	92,326

Notes:

[1] Based on an estimate of $1.00 (2022 - $1.00) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

Q2-2023 FFO and AFFO decreased $3,747, or 26% (YTD-2023 - $7,780, or 27%) and $3,875, or 27% (YTD-2023 - $7,911 or 27%), respectively over the comparable period. FFO and AFFO were lower as a result of the Primary Variance Drivers combined with higher financing costs attributed to borrowing on the Credit Facility as well as higher interest rates on refinancings completed over the last twelve months. This was partially offset by NOI from the acquisition completed in Q3-2022, which included a rent supplement that was negotiated with the vendor to compensate the REIT for one year of free rent provided to the tenant. The REIT adds this amount in calculating AFFO, as it represents cash received by the REIT that is not recognized in net income over the same period.

Q2-2023 FFO and AFFO basic and diluted per Unit decreased $0.05 to $0.11. YTD-2023 FFO and AFFO basic and diluted per Unit decreased $0.09 to $0.23 and $0.22, respectively. Excluding termination fees, Q2-2023 FFO and AFFO basic and diluted per Unit were lower by $0.02, and YTD-2023 FFO and AFFO basic and diluted per Unit were lower by $0.05 compared to 2022.

The decrease in AFFO basic and diluted payout ratio in Q2-2023 to 67% is a result of the Distribution Reduction.

DISTRIBUTIONS

Following the Distribution Reduction, the REIT pays a monthly distribution to Unitholders of $0.02475 per Unit or $0.297 per Unit on an annualized basis.

The board of trustees of the REIT ("Trustees") determine the level of cash distributions based on the level of cash flow from operations before working capital changes, less actual and planned capital expenditures. In any given period, distributions may differ from cash provided by operating activities, primarily due to fluctuations in working capital. It is expected that normal fluctuations in working capital will be funded from the REIT's cash resources as described in "Liquidity and Capital Investment". In addition, the distributions declared include a component funded by the REIT's distribution reinvestment plan ("DRIP"). Pursuant to the DRIP, Unitholders may elect to reinvest cash distributions into additional Units at a 1% discount to the weighted average closing price of the Units for the five trading days immediately preceding the applicable date of distribution. On April 12, 2023, the REIT suspended the DRIP until further notice. As a result, Unitholders received distributions in cash effective with the distribution paid on April 17, 2023 to Unitholders of record on March 31, 2023.

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

	Three months ended June 30	Six months ended June 30	Years ended December 31	
	2023	2023	2022	2021
Distributions declared	$ 7,024	$ 18,719	$ 55,296	$ 53,973
Less: DRIP and change in distributions payable	4	740	(6,665)	(6,793)
Cash distributions paid	$ 7,028	$ 19,459	$ 48,631	$ 47,180

Distributions declared was lower than cash distributions paid for the three and six months ended June 30, 2023 as a result of the Distribution Reduction. Distributions declared for YTD-2023 includes two months based on a distribution of $0.0495 per Unit and four months at the Distribution Reduction.

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

	Three months ended June 30	Six months ended June 30	Years ended December 31	
	2023	2023	2022	2021
Net income and comprehensive income	$ 793	$ 7,788	$ 16,532	$ 51,004
Cash flow provided by operating activities	18,237	34,231	103,271	77,312
Less: Finance costs paid	(8,077)	(15,779)	(28,808)	(27,380)
Adjusted cash flow provided by operating activities	10,160	18,452	74,463	49,932
Declared basis:				
Excess (shortfall) of net income and comprehensive income over distributions	(6,231)	(10,931)	(38,764)	(2,969)
Excess (shortfall) of adjusted cash flow provided by operating activities over distributions	3,136	(267)	19,167	(4,041)
Cash basis:				
Excess (shortfall) of net income and comprehensive income over distributions	(6,235)	(11,671)	(32,009)	3,824
Excess of adjusted cash flow provided by operating activities over distributions	3,132	(1,007)	25,832	2,752

Net income and comprehensive income were lower than declared and cash distributions during the quarter and YTD-2023. The shortfall was primarily due to the fair value adjustment of investment properties which is a non-cash adjustment and included income and comprehensive income. Adjusted cash flow provided by operating activities was higher than declared and cash distributions by $3,136 and $3,132, respectively for the quarter. Adjusted cash flow provided by operating activities was lower than declared and cash distributions YTD-2023 by $267 and $1,007, respectively. The shortfall was primarily driven by timing changes in working capital.

RECONCILIATION OF ADJUSTED CASH FLOW PROVIDED BY OPERATING ACTIVITIES TO AFFO

Adjusted cash flow provided by operating activities, a non-IFRS financial measure, represents cash provided by operating activities less interest paid. Refer to "Non-IFRS Financial Measures". The reconciliation of adjusted cash flow provided by operating activities to AFFO measures the amount of cash generated by operations and available for distribution to Unitholders. See "Distributions".

	Three months ended June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Adjusted cash flow provided by operating activities	$ 10,160	$ 17,470	$ 18,452	$ 30,241
Change in finance costs payable	13	29	(114)	58
Rent Supplement	742	—	1,485	—
Instalment note receipts	14	15	28	32
Capital reserve	(1,233)	(1,197)	(2,458)	(2,380)
Change in non-cash operating working capital	770	(1,976)	3,654	1,007
AFFO	$ 10,466	$ 14,341	$ 21,047	$ 28,958

AFFO of $10,466 was higher than distributions declared by $3,442 and distributions paid by $3,438 in Q2-2023. YTD-2023 AFFO of $21,047 was higher than distributions declared by $2,328 and distributions paid by $1,588. The REIT expects to be able to fund distributions paid from AFFO on a go-forward basis as a result of the Distribution Reduction.

CAPITAL RESERVE

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

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

LIQUIDITY AND CAPITAL INVESTMENT

LIQUIDITY

Cash flow from operating activities represents the primary source of liquidity to fund distributions, debt service, capital improvements, tenant inducements and leasing costs. The REIT's cash flow from operating activities is dependent upon the occupancy level of its investment properties, the rental rates on its leases, the collectability of rent from its tenants, and other factors. Material changes in these factors may adversely affect the REIT's cash flow from operating activities and hence its liquidity. A more detailed discussion of these risks can be found under the "Risks and Uncertainties" section in the annual information form of the REIT dated March 14, 2023 (the "AIF"). Also see "Risks and Uncertainties".

As at June 30, 2023, the REIT had access to approximately $51,927 of cash and undrawn Credit Facility.

During the first quarter, the REIT refinanced a total of $31,121 of mortgages, one with a fixed interest rate of 4.83% (five-year term) and one with a variable interest rate at prime plus 1.5% (one-year term), providing the REIT with additional liquidity of approximately $5,700. Subsequent to June 30, 2023, the REIT refinanced $36,452 of mortgages with a weighted average fixed interest rate of 6.05% for five and seven-year terms.

The REIT's weighted average term to maturity of its mortgage portfolio is 2.89 years with a weighted average fixed interest rate of 3.64%.

The REIT's Available Funds[(1)] are as follows:

		June 30, 2023		December 31, 2022
Cash	$	6,427	$	9,501
Undrawn Credit Facility		45,500		53,600
Available Funds [(1)]	$	51,927	$	63,101

The Distribution Reduction will provide the REIT with additional cash flow of approximately $25,000 per annum, as discussed in "Second Quarter and Year to Date Highlights and Key Performance Indicators".

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

CAPITAL INVESTMENT

The REIT's properties require ongoing capital and leasing expenditures. Leasing expenditures include tenant inducements, leasing commissions and leasehold improvements incurred in connection with the leasing of vacant space and the renewal or replacement of current tenants. The REIT plans to continue to invest capital in its properties in 2023 and beyond. Future expenditures are expected to be funded through cash flow generated by operations, the Credit Facility and cash on hand. For the six months ended June 30, 2023 and 2022, the REIT invested $6,714 and $8,261 respectively, in capital and leasing expenditures.

(1) This is a non-IFRS financial measure, refer to "Non-IFRS Financial Measures".

ASSET PROFILE

INVESTMENT PROPERTIES

The following table summarizes changes in the REIT's investment properties for the six months ended June 30, 2023 and 2022:

	Investment properties	Investment properties held for sale	Total
Balance, December 31, 2021	$ 1,403,579	—	1,403,579
Additions	8,261	—	8,261
Amortization of leasing costs, tenant inducements and straight-line rents	(3,169)	—	(3,169)
Fair value adjustment	(3,280)	—	(3,280)
Balance, June 30, 2022	1,405,391	—	1,405,391
Acquisitions	38,845	—	38,845
Additions	23,392	—	23,392
Amortization of leasing costs, tenant inducements and straight-line rents	(4,150)	—	(4,150)
Fair value adjustment	(38,645)	—	(38,645)
Investment properties held for sale	(84,250)	84,250	—
Balance, December 31, 2022	1,340,583	84,250	1,424,833
Additions	6,471	243	6,714
Dispositions	—	(7,250)	(7,250)
Amortization of leasing costs, tenant inducements and straight-line rents	(2,624)	(295)	(2,919)
Fair value adjustment	(13,902)	(4,402)	(18,304)
Balance, June 30, 2023	$ 1,330,528	72,546	1,403,074

As at June 30, 2023 the REIT had three investment properties, located in British Columbia and Ontario having a total fair value of $72,546, classified as investment properties held for sale. As at December 31, 2022, there were four investment properties held for sale with a total fair value of $84,250. On March 10, 2023, the REIT disposed of the Carlingview Property which was classified as held for sale as at December 31, 2022.

On July 10, 2023 and July 31, 2023, the REIT disposed of the Laurier Property and Abbotsford Property which were classified as held for sale as at June 30, 2023.

ADDITIONS

Additions to investment properties for the six months ended June 30, 2023 were $6,714, consisting of the following:

- Capital expenditures of $1,013 mainly for tenant amenities, lobby and washroom upgrades; and
- Tenant inducements and leasing costs of $5,701, which include costs incurred to renew and obtain new tenants.

PREPAID EXPENSES AND DEPOSITS

At June 30, 2023, the REIT had $4,299 in prepaid expenses and deposits, compared to $3,279 at December 31, 2022. The increase is mainly due to an increase in prepaid realty taxes and higher prepaid interest on the Credit Facility.

DEBT

MORTGAGES PAYABLE

The following table sets out, as at June 30, 2023, scheduled principal repayments and amounts maturing over each of the next five fiscal years:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Percentage of total mortgages payable	Weighted average interest rate of maturing debt	Scheduled interest payments
2023 – remainder of year	11,249	112,776	124,025	14.8 %	3.94 %	28,707
2024	21,638	96,348	117,986	13.9 %	4.15 %	24,071
2025	14,324	197,178	211,502	25.2 %	3.14 %	15,790
2026	12,691	145,486	158,177	18.8 %	3.20 %	13,589
2027	7,423	78,910	86,333	10.3 %	5.13 %	8,329
Thereafter	8,789	133,725	142,514	17.0 %	3.44 %	6,352
	$ 76,114	$ 764,423	$ 840,537	100.0 %	3.64 %	$ 96,838
Unamortized mark to market mortgage adjustments			144			
Unamortized financing costs			(3,362)			
			$ 837,319			

Mortgages payable had a weighted average fixed interest rate of 3.64% (December 31, 2022 – 3.54%) and a weighted average term to maturity of 2.89 years (December 31, 2022 – 3.27 years).

The mortgages payable associated with investment properties held for sale as at June 30, 2023 was $53,926 (December 31, 2022 - $58,330).

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 first and 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 its 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 having expired on July 31, 2023 to align with the sale of the Abbotsford Property. On July 31, 2023, the Credit Facility was amended to remove the temporary increase of $8,000 due to the completion of the sale of the Abbotsford Property. The two tranches of the Credit Facility were also amended to increase the secured portion from $30,000 to $35,000 and decrease the unsecured portion from $30,000 to $25,000.

As at June 30, 2023, the REIT had drawn $22,500 on the Credit Facility (December 31, 2022 - $14,400).

INDEBTEDNESS TO GBV

As at June 30, 2023, the REIT's overall leverage, as represented by Indebtedness to GBV, a non-IFRS financial measure, was 60.2%. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT's Indebtedness to GBV ratio as at June 30, 2023 and December 31, 2022.

		June 30, 2023		December 31, 2022
Total assets	$	1,426,916	$	1,450,315
Deferred financing costs		6,846		7,070
GBV	$	1,433,762	$	1,457,385
Mortgages payable		837,319		846,689
Credit Facility		22,500		14,400
Unamortized financing costs and mark to market mortgage adjustments		3,218		3,745
Indebtedness	$	863,037	$	864,834
Indebtedness to GBV		**60.2 %**		**59.3 %**

The increase in Indebtedness to GBV from December 31, 2022 is driven mainly by $22,500 drawn on the Credit Facility as at June 30, 2023 ($14,400 - December 31, 2022) and the fair value loss on investment properties. As at June 30, 2023, 4.2% (December 31, 2022 - 1.7%) of the REIT's debt was floating rate not hedged with interest rate swaps.

The REIT's objectives are to maintain a combination of short, medium and long-term financing appropriate for the overall debt level of the REIT, to extend the current weighted average term to maturity and achieve staggered debt maturities while taking into account the availability of financing, market conditions and the financial characteristics of each property. Per the DOT, at no time may the REIT incur debt aggregating more than 20% of GBV at floating interest rates or having maturities less than one year (excluding debt with an original maturity of one year or more falling due in the next 12 months or variable rate debt for which the REIT has entered into interest rate swap agreements to fix the interest rate for a one-year period or more).

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

ADJUSTED EBITDA AND INTEREST COVERAGE RATIO

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

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

		Twelve months ended June 30		
		2023		2022
Net income and comprehensive income	$	(6,071)	$	65,154
Add (deduct):				
Interest expense		30,951		27,444
Fair value adjustment of Unit-based compensation		(530)		(414)
Transaction costs on sale of investment property		244		—
Fair value adjustment of investment properties		56,949		(7,453)
Fair value adjustment of Class B LP Units		(9,769)		(3,416)
Distributions on Class B LP Units		1,273		1,809
Unrealized loss on change in fair value of derivative instruments		(1,479)		(6,027)
Amortization of leasing costs, tenant inducements, mortgage premium and financing costs		9,404		7,815
Adjusted EBITDA	$	80,972	$	84,912

		Twelve months ended June 30		
		2023		2022
Adjusted EBITDA	$	80,972	$	84,912
Interest expense		30,951		27,444
Interest coverage ratio		2.62 x		3.09 x

Interest coverage ratio for the period decreased as a result of lower adjusted EBITDA from the Primary Variance Drivers combined with higher interest from additional borrowings associated with the Q3-2022 acquisition, refinancings completed in the last twelve months and higher borrowing on the Credit Facility.

CLASS B LP UNITS

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

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

As at June 30, 2023, there were 2,432,664 Class B LP Units issued and outstanding valued at $5,791 compared to 2,526,414 Class B LP Units valued at $14,628 as at December 31, 2022. The change in value is due to a decrease in the Unit price from $5.79 at December 31, 2022 to $2.38 at June 30, 2023 and the conversion of 93,750 Class B LP Units to Units on June 7, 2023.

There have been no further changes in the Class B LP Units outstanding as of August 3, 2023.

UNITHOLDERS' EQUITY

OUTSTANDING UNITS

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

The following table summarizes changes in the Unit capital of the REIT for the six months ended June 30, 2023:

	Units		Amount
Balance, December 31, 2022	91,813,073	$	563,277
Issue of Units:			
DRIP	269,370		1,591
Exchange of Class B LP Units	93,750		242
Incentive Units redeemed	39,958		141
Units repurchased and cancelled under NCIB	(124,900)		(300)
Issuance costs	—		(102)
Balance, June 30, 2023	92,091,251	$	564,849

The number of Units outstanding as of August 3, 2023 is as follows:

Balance, June 30, 2023	92,091,251
Issue of Units:	
Units repurchased and cancelled under NCIB	(83,500)
Balance, August 3, 2022	92,007,751

INCENTIVE UNIT PLAN

The REIT has established an incentive trust unit plan dated June 19, 2019 as amended and restated on March 21, 2022 and March 14, 2023 (the "Incentive Unit Plan") pursuant to which the REIT may issue two types of units: (i) deferred Units ("Deferred Units"); and (ii) restricted Units ("Restricted Units", and together with the Deferred Units, the "Incentive Units").

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

Deferred Units

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

The following table summarizes the changes in Deferred Units:

	Deferred Units	Amount
Balance, January 1, 2022	77,813	$ 576
Granted and reinvested	15,352	105
Redeemed	(61,676)	(390)
Fair value adjustment	—	(93)
Balance, June 30, 2022	31,489	198
Granted and reinvested	15,738	89
Fair value adjustment	—	(14)
Balance, December 31, 2022	47,227	273
Granted and reinvested	23,878	70
Redeemed	(3,600)	(22)
Fair value adjustment	—	(160)
Balance, June 30, 2023	67,505	$ 161

The number of Deferred Units outstanding as at August 3, 2023 is as follows:

Balance, June 30, 2023	67,505
Deferred Units reinvested	706
Balance, August 3, 2022	68,211

Restricted Units

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

The following table summarizes the changes in Restricted Units:

	Restricted Units		Amount
Balance at January 1, 2022	90,377		393
Granted and reinvested	100,215		343
Redeemed and expired	(101,775)		(436)
Fair value adjustment	—		(105)
Balance, June 30, 2022	88,817	$	195
Granted and reinvested	4,427		128
Fair value adjustment	—		8
Balance, December 31, 2022	93,244		331
Granted and reinvested	55,918		263
Redeemed and expired	(87,019)		(301)
Fair value adjustment	—		(245)
Balance, June 30, 2023	62,143	$	48

The number of Restricted Units outstanding as at August 3, 2023 is as follows:

Balance, June 30, 2023	62,143
Granted and reinvested	38,942
Balance, August 3, 2023	101,085

UNIT OPTION PLAN

The REIT's Unit Option Plan has been suspended and no further options will be granted. As of June 30, 2023, all options have vested and are eligible to be exercised prior to the applicable expiry dates.

Options outstanding as at June 30, 2023 consist of the following:

Exercise price [1]	Outstanding	Exercisable	Expiry Date
$6.66	137,334	137,334	September 20, 2023

[1] In actual dollars.

SHORT FORM BASE SHELF PROSPECTUS

On February 17, 2022, the REIT filed a short-form base shelf prospectus ("base shelf prospectus"). The base shelf prospectus 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.

AT-THE-MARKET (“ATM”) EQUITY PROGRAM

On April 21, 2022, the REIT filed a prospectus supplement to establish an 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 six months ended June 30, 2023, the REIT did not issue Units (for the year ended December 31, 2022, 1,450,800 Units were issued for $9,460) through the ATM Program.

NCIB PROGRAM

On April 12, 2023, the REIT announced the intention to commence a NCIB, as approved by the TSX. Under the NCIB, the REIT will have the ability to purchase for cancellation up to a maximum of 8,239,557 of its Units, representing 10% of the REIT's public float of 82,395,573 Units through the facilities of the TSX or through a Canadian alternative trading system and in accordance with applicable regulatory requirements at a price per Unit equal to the market price at the time of acquisition. The NCIB became effective on April 18, 2023 and will remain in place until the earlier of April 17, 2024 or the date on which the REIT has purchased the maximum number of Units permitted under the NCIB. Any Units acquired through the NCIB will be cancelled.

During the six months ended June 30, 2023, the REIT repurchased 124,900 Units for $300 under the NCIB. Subsequent to quarter end, the REIT repurchased 83,500 Units for $200 under the NCIB.

COMMITMENTS AND CONTINGENCIES

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

The REIT entered into unconditional agreements of purchase and sale to dispose of the following investment properties held for sale:

Property		Sale Price	Closing Date
32071 South Fraser Way, Abbotsford, British Columbia	$	24,000	July 31, 2023
360 Laurier Avenue West, Ottawa, Ontario	$	17,500	July 10, 2023

Subsequent to quarter end, the REIT completed the sale of both properties.

As at June 30, 2023, the REIT had entered into commitments for building renovations, capital upgrades and landlord work at certain properties totaling $4,155 (December 31, 2022- $476).

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Starlight is considered a related party to the REIT as Starlight is controlled by Daniel Drimmer, the Chief Executive Officer (“CEO”) and Chairman of the Board of the REIT, who is also a significant Unitholder.

ARRANGEMENTS WITH STARLIGHT

Pursuant to the asset management agreement (“Asset Management Agreement”), Starlight provides advisory, asset management and administrative services to the REIT. The REIT is administered and operated by the REIT’s CEO and Chief Financial Officer (“CFO”) and an experienced team of real estate professionals at Starlight.

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

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

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

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

(b) Acquisition fee equal to:

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

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

(d) Capital expenditure fees equal to 5% of all hard construction costs incurred on each capital project with costs in excess of $1,000 excluding work done on behalf of tenants or any maintenance capital expenditures.

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

	Three months ended June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Asset management fees	$ 1,191	$ 1,151	2,372	2,287
Other expenses	57	33	98	63
Total	$ 1,248	$ 1,184	2,470	2,350

At June 30, 2023, $398 (December 31, 2022 - $417) was included in accounts payable and accrued liabilities. No incentive fees were earned or capital expenditure fees were charged for the three and six months ended June 30, 2023 and 2022.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the securities and activities of the REIT. Risks and uncertainties are disclosed, in the REIT's annual MD&A dated March 14, 2023 for the year ended December 31, 2022 and in the AIF. The annual MD&A and AIF are available on SEDAR+ at www.sedarplus.ca. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

USE OF ESTIMATES

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

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. In preparing the condensed consolidated interim financial statements, significant judgments made by management in applying accounting policies were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2022.

FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

Class B LP Units are carried at fair value and the fair value of the Class B LP Units has been determined with reference to the trading price of the Units. The fair value adjustment for the three and six months ended June 30, 2023 was a gain of $2,734 (Q2-2022 - $2,661) and $8,595 (YTD 2022 - $3,416).

Derivative instruments, such as interest rate swaps, are valued using a valuation technique. The most frequently applied valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs including forward rates and interest rate curves. The REIT has entered into various interest rate swaps to limit its interest rate exposure from floating to fixed for the terms of certain mortgages. Total unrealized gain on change in the fair value of the derivative instruments for the three and six months ended June 30, 2023 was $1,537 (Q2-2022 - $1,709) and $695 (YTD 2022 - $4,660).

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

ACCOUNTING POLICIES

The accounting policies applied by the REIT during Q2-2023 are consistent with those followed for the year ended December 31, 2022, except for the adoption of new standards effective January 1, 2023. The REIT has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The amendments that apply for the first time in 2023 do not have a material impact on the condensed consolidated interim financial statements of the REIT.

The REIT's critical judgments and estimates in applying accounting policies can be found in Section 1(c) on page 6 of the REIT's audited consolidated financial statements as at and for the year ended December 31, 2022.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

The CEO and CFO evaluated the effectiveness of the REIT’s disclosure controls and procedures (as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings* (“NI 52-109”) and concluded that the design and operation of the REIT’s disclosure controls and procedures were effective for the three and six months ended June 30, 2023.

The CEO and CFO evaluated the design and effectiveness of the REIT’s internal controls over financial reporting (as defined in NI 52-109) and concluded that the design and effectiveness of internal controls over financial reporting continue to be appropriate and were effective for the three and six months ended June 30, 2023.

OUTLOOK

In the second quarter of 2023, office vacancy in Canada continued to rise as tenants continued to adjust their office space requirements. Calgary and Halifax were the only two markets that had contracting vacancy. There continues to be a growing vacancy rate differential between downtown and suburban markets, with the suburban vacancy rate 180 basis points lower than downtown. Suburban class A office experienced the strongest rental growth with rents increasing 7.8% since the first quarter of 2020. The flight to quality continues as tenants remain focused on high quality, modernized spaces with a variety of amenities in optimal locations that reduce employee commute times. All of these factors are expected to entice employees back to physical office spaces. The REIT has incurred capital expenditures over the last year specifically geared towards tenant amenities including lounges, gyms and cafes and has continued this program in 2023. The majority of the REIT's properties are in near urban spaces with accessibility to transit, ample parking and numerous amenities. Management continues to support the REIT's tenants through various initiatives so their employees find benefit in being back in the office environment.

The Bank of Canada raised its policy rate twice since January 25, 2023 to 5.00%. It is projected that inflation will remain around 3% next year, gradually reaching the Bank of Canada's 2% target by the middle of 2025. The REIT continues to actively monitor the current interest rate environment and any associated impact this may have on the REIT's financial performance.

The GTA downtown office vacancy increased by 50 basis points to 15.8% while the GTA suburban office vacancy increased 40 basis points to 20.5% in Q2-2023. The REIT’s suburban GTA office portfolio experienced positive traction this quarter with the completion of 39,500 square feet of new leases, renewals and expansions.

The Ottawa office market continues to soften but at a slower pace compared to previous quarters. Ottawa's overall vacancy rate increased 60 basis points to 12.9%. Ottawa's return to office levels continue to lag all the other major Canadian office markets (excluding Calgary). The REIT’s Ottawa portfolio continues to outperform the market with occupancy at 98.7% (excluding the Laurier Property).

The Halifax office market improved this quarter as vacancy decreased by 70 basis points to 14.7%, which is still well above the REIT’s Halifax portfolio vacancy of 3.8%. The Calgary office market also improved, with vacancy falling 70 basis points to 29.2%. This was driven by expansions in industry groups such as engineering, construction, and education, in addition to the several ongoing office building conversions. The REIT's Calgary portfolio occupancy remained strong at 94.9%.

The REIT remains optimistic about the long-term demand for office space and in particular, a physical work environment that emphasizes collaboration to support and develop employees, as well as enrich company culture.

Additional information relating to the REIT including the REIT’s annual information form, can be found on SEDAR+ at www.sedarplus.ca.

Dated: August 3, 2023
Toronto, Ontario, Canada

APPENDIX A - PROPERTY LISTING AT JUNE 30, 2023

	Property Name	City	Occupancy	Remaining Lease Term [1]	GLA
	Alberta				
1	855 8th Avenue SW	Calgary	68 %	1.9 years	75,700
2	4500 & 4520 - 16th Avenue NW	Calgary	97 %	1.5 years	77,600
3	1020 68th Avenue NE	Calgary	100 %	0.5 years	148,400
4	3699 63rd Avenue NE	Calgary	100 %	5.4 years	209,400
5	13140 St. Albert Trail	Edmonton	92 %	5.3 years	95,200
	Total Alberta		*94 %*	*3.6 years*	*606,300*
	British Columbia				
6	810 Blanshard Street	Victoria	100 %	1.6 years	34,400
7	727 Fisgard Street	Victoria	100 %	6.3 years	50,200
8	1112 Fort Street	Victoria	100 %	3.2 years	52,000
9	9200 Glenlyon Parkway	Burnaby	100 %	3.6 years	90,600
10	32071 South Fraser Way	Abbotsford	100 %	1.3 years	52,300
	Total British Columbia		*100 %*	*3.4 years*	*279,500*
	New Brunswick				
11	500 Beaverbrook Court	Fredericton	80 %	3.8 years	56,000
12	295 Belliveau Avenue	Shediac	100 %	3.6 years	42,100
13	410 King George Highway	Miramichi	75 %	7.9 years	73,200
14	551 King Street	Fredericton	89 %	4.1 years	85,300
15	495 Prospect Street	Fredericton	93 %	4.8 years	87,100
16	845 Prospect Street	Fredericton	50 %	4.7 years	39,000
17	414-422 York Street	Fredericton	95 %	1.9 years	33,000
18	440-470 York Street	Fredericton	90 %	4.0 years	60,200
	Total New Brunswick		*85 %*	*4.6 years*	*475,900*

[1] Weighted by annualized gross revenue

	Property Name	City	Occupancy	Remaining Lease Term [1]	GLA
	Nova Scotia				
19	36 & 38 Solutions Drive	Halifax	96 %	2.2 years	131,300
20	120, 130, 134 & 140 Eileen Stubbs Avenue	Halifax	96 %	4.0 years	297,300
	Total Nova Scotia		*96 %*	*3.4 years*	*428,600*
	Ontario				
21	1595 16th Avenue	Richmond Hill	100 %	6.9 years	123,200
22	251 Arvin Avenue	Hamilton	100 %	1.0 years	6,900
23	61 Bill Leathem Drive	Ottawa	100 %	4.6 years	148,100
24	777 Brock Road	Pickering	100 %	4.7 years	98,900
25	6865 Century Avenue	Mississauga	100 %	0.9 years	63,800
26	6925 Century Avenue	Mississauga	81 %	6.4 years	253,500
27	675 Cochrane Drive	Markham	87 %	4.0 years	370,700
28	1161 Crawford Drive	Peterborough	100 %	3.8 years	32,500
29	400 Cumberland Street	Ottawa	98 %	5.5 years	174,400
30	520 Exmouth Street	Sarnia	100 %	3.4 years	34,700
31	3115 Harvester Road	Burlington	76 %	4.9 years	78,800
32	135 Hunter Street East	Hamilton	100 %	5.1 years	24,400
33	340 Laurier Avenue West	Ottawa	100 %	6.6 years	279,800
34	360 Laurier Avenue West	Ottawa	5 %	1.8 years	107,100
35	400 Maple Grove Road	Ottawa	100 %	1.2 years	107,200
36	101 McNabb Street	Markham	100 %	3.9 years	315,400
37	78 Meg Drive	London	100 %	1.9 years	11,300
38	301 & 303 Moodie Drive	Ottawa	94 %	3.1 years	148,200
39	8 Oakes Avenue	Kirkland Lake	100 %	8.8 years	41,000
40	5160 Orbitor Drive	Mississauga	100 %	6.8 years	31,400
41	231 Shearson Crescent	Cambridge	100 %	2.2 years	60,700
42	6 Staples Avenue	Richmond Hill	100 %	10.3 years	122,000
43	2300 St. Laurent Boulevard	Ottawa	100 %	3.5 years	37,500
44	3650 Victoria Park Avenue	Toronto	16 %	2.2 years	154,400
45	80 Whitehall Drive	Markham	100 %	6.4 years	60,800
46	5775 Yonge Street	Toronto	79 %	4.0 years	274,400
	Total Ontario		*87 %*	*4.8 years*	*3,161,100*
	Average/Total Portfolio		89 %	4.4 years	4,951,400

[1] Weighted by annualized gross revenue.

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