Consolidated Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2023 and 2022

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Independent Auditor's Report

To the Unitholders of True North Commercial Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of True North Commercial Real Estate Investment Trust and its subsidiaries (the "REIT"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of (loss) income and comprehensive (loss) income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matter

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

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

As at December 31, 2023, the fair value of the REIT's investment properties and investment properties held for sale totaled $1,305 million, which accounted for approximately 98% of the REIT's total assets.

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

How the Audit Matter was Addressed in the Audit

Our audit included the following procedures, among others:

- assessed the competence, capabilities and objectivity of a sample of external appraisers engaged by the REIT and the REIT's management who were involved in the valuation process;

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

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

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis for the year ended December 31, 2023.

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

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

We obtained the Management's Discussion and Analysis for the year ended December 31, 2023 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

/s/ BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 19, 2024

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

December 31, 2023 and 2022

		2023		2022
Assets				
Non-current assets:				
Investment properties (note 5)	$	1,250,431	$	1,340,583
Derivative instruments (note 11)		1,197		2,338
Other assets (note 4)		892		1,103
Total non-current assets		1,252,520		1,344,024
Current assets:				
Investment properties held for sale (note 5)		54,331		84,250
Tenant and other receivables (note 6)		2,847		7,318
Prepaid expenses and deposits		3,101		3,279
Derivative instruments (note 11)		1,927		1,943
Cash and cash equivalents		8,946		9,501
Total current assets		71,152		106,291
Total assets	$	1,323,672	$	1,450,315
Liabilities and Unitholders' Equity				
Non-current liabilities:				
Mortgages payable (note 7)	$	694,379	$	683,393
Class B LP Units (note 8)		4,231		14,628
Total non-current liabilities		698,610		698,021
Current liabilities:				
Mortgages payable (note 7)		103,014		163,296
Credit facility (note 9)		23,600		14,400
Tenant rental deposits and prepayments		8,998		8,259
Accounts payable and accrued liabilities (note 10)		36,646		44,201
Total current liabilities		172,258		230,156
Total liabilities		870,868		928,177
Unitholders' equity (note 12)		452,804		522,138
Total liabilities and unitholders' equity	$	1,323,672	$	1,450,315

Subsequent events (note 21).

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Trustees on March 19, 2024.

"Sandy Poklar" Trustee

"Alon Ossip" Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2023 and 2022

	2023	2022
Revenue (note 14)	$ 132,204	$ 143,575
Expenses:		
Property operating	39,492	36,882
Realty taxes	20,164	20,209
	72,548	86,484
Other income (expenses):		
General and administration expenses	(5,640)	(6,054)
Finance costs (note 15)	(34,186)	(30,334)
Transaction costs on sale of investment properties (note 3)	(1,376)	—
Distributions on Class B LP Units (note 8)	(739)	(1,673)
Fair value adjustment of Class B LP Units (note 8)	10,135	4,590
Fair value adjustment of investment properties and investment properties held for sale (note 5)	(80,205)	(41,925)
Unrealized (loss) gain on change in fair value of derivative instruments (note 11)	(1,158)	5,444
Net (loss) income and comprehensive (loss) income	$ (40,621)	$ 16,532

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2023 and 2022

	Unit capital	Income and distributions	Total
	(note 12(d))		
Unitholders' equity, January 1, 2022	$ 544,117	$ (4,048)	$ 540,069
Changes during the year:			
Units issued, net of costs	12,623	—	12,623
Net income and comprehensive income for the year	—	16,532	16,532
Distributions	—	(53,623)	(53,623)
Issue of Units under DRIP (note 12(g))	6,537	—	6,537
Unitholders' equity, December 31, 2022	563,277	(41,139)	522,138
Changes during the year:			
Units issued and repurchased, net of costs	(2,975)	—	(2,975)
Net loss and comprehensive loss for the year	—	(40,621)	(40,621)
Distributions	—	(27,329)	(27,329)
Issue of Units under DRIP (note 12(g))	1,591	—	1,591
Unitholders' equity, December 31, 2023	$ 561,893	$ (109,089)	$ 452,804

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2023 and 2022

	2023	2022
Operating activities:		
Net (loss) income and comprehensive (loss) income for the year	$ (40,621)	$ 16,532
Adjustments for financing activities included in (loss) income:		
Finance costs (note 15)	34,186	30,334
Unrealized loss (gain) on change in fair value of derivative instruments (note 11)	1,158	(5,444)
Distributions on Class B LP Units (note 8)	739	1,673
Fair value adjustment of Class B LP Units (note 8)	(10,135)	(4,590)
Adjustments for items not involving cash:		
Fair value adjustment of investment properties and investment properties held for sale (note 5)	80,205	41,925
Unit-based compensation expense	563	665
Fair value adjustment of Unit-based compensation	(571)	(580)
Straight-line rental revenue	(866)	2,339
Amortization of leasing costs and tenant inducements	9,261	6,784
Transaction costs on sale of investment properties	1,376	—
Change in non-cash operating working capital (note 16)	(1,352)	13,633
Cash provided by operating activities	73,943	103,271
Investing activities:		
Dispositions (acquisitions) (note 3)	47,374	(41,147)
Additions to investment properties and investment properties held for sale (note 5)	(14,927)	(31,653)
Cash provided by (used in) investing activities	32,447	(72,800)
Financing activities:		
Proceeds from credit facility	24,700	39,700
Repayment of credit facility	(15,500)	(25,300)
Proceeds from mortgage financing, net of costs	129,510	147,958
Repayment of mortgage financing	(125,327)	(98,892)
Repayment of mortgages on sale of investment properties	(31,057)	—
Principal payments on mortgages	(23,778)	(24,251)
Payments received on instalment notes receivable	54	63
Proceeds from vendor take-back mortgage	1,725	2,670
Cash distributions on Class B LP Units	(809)	(1,477)
Finance costs paid	(32,747)	(28,808)
Units repurchased and cancelled under NCIB, net of costs	(3,378)	—
Proceeds from issuance of Units, net of costs	—	9,045
Cash distributions to unitholders	(30,338)	(47,154)
Cash used in financing activities	(106,945)	(26,446)
(Decrease) increase in cash and cash equivalents	(555)	4,025
Cash and cash equivalents, beginning of year	9,501	5,476
Cash and cash equivalents, end of year	$ 8,946	$ 9,501
Supplemental cash flow information:		
Units issued under DRIP – unitholders	$ 1,536	$ 6,316
Units issued under DRIP – Class B LP Units	55	221
Units issued in exchange for Class B LP Units (note 8)	262	3,182

See accompanying notes to consolidated financial statements.

Organization:

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

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

On November 24, 2023, the REIT executed a consolidation of its Units, special voting Units of the REIT and the Class B LP Units (as defined below) on the basis of 5.75:1. All Unit and per Unit amounts included in the consolidated financial statements have been retroactively adjusted to reflect the Unit consolidation.

1. Basis of presentation

(a) Statement of compliance:

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

(b) Basis of presentation:

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

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

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties, class B limited partnership units of TNCLP ("Class B LP Units"), trust unit ("Units") options, incentive units under the REIT's incentive trust unit plan dated June 19, 2019 as amended and restated on March 21, 2022 and March 14, 2023 (the "Incentive Unit Plan") and derivative instruments, which are stated at their fair values.

(c) Critical judgments and estimates:

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any applicable future period.

1. Basis of presentation (continued):

(i) Critical judgments in applying accounting policies:

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

(a) Income taxes:

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

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

(ii) Key sources of estimation uncertainty:

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

(a) Valuation of investment properties:

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

The REIT continues to revise its estimates concerning rental growth and lease renewal assumptions to reflect expected market conditions, and currently, future cash flows are predicted to remain relatively stable as government and credit rated tenants comprise the

1. Basis of presentation (continued):

majority of the REIT’s tenant base. However, given the continued uncertainty surrounding the approach by certain tenants to continue working from home, combined with fluctuating interest rates and the potential negative impact these may have on certain sectors of the real estate industry, it is not possible to predict how the fair value of the REIT’s investment properties may be impacted in the longer term. Significant changes in rental income, occupancy rates, tenant inducements and market rents could negatively impact future valuations of the REIT’s investment properties. The fair value of the REIT’s investment properties as at December 31, 2023 is based upon available market data which given the lack of relevant transactions is limited.

2. Material accounting policy information:

(a) Investment properties:

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

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

(b) Investment properties held for sale:

Investment properties are classified as held for sale when their carrying amount is to be recovered primarily through a sale transaction rather than from continuing use. An investment property held for sale is available for sale in its present condition and the sale is considered highly probable within one year. Investment properties held for sale are measured at fair value.

(c) Revenue recognition:

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

2. Material accounting policy information (continued):

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

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

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

(d) Class B LP Units:

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

(e) Unit capital:

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

(g) Unit-based compensation plans:

Incentive Unit Plan

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

2. Material accounting policy information (continued):

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

(i) Deferred Units

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

(ii) Restricted Units

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

Unit Option Plan

The REIT measures the outstanding options at fair value as at the grant date, using the Black-Scholes option pricing model. The Unit options are fair valued at each reporting period, are classified as a liability within accounts payable and accrued liabilities, and the change in fair value is recognized in profit or loss. Unit-based compensation expense is recognized in general and administrative expenses over the vesting period. The Unit option plan has been suspended and no further options may be granted. As at December 31, 2023, all Unit options have vested and expired.

(h) Income taxes:

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

2. Material accounting policy information (continued):

(i) Financial instruments:

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

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

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

Transaction costs directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception.

Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate (“EIR”) over the anticipated life of the related instrument.

Transaction costs or financial assets and liabilities measured at FVTPL are expensed in the period incurred. Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

The REIT recognizes an allowance for expected credit losses (“ECL”) for financial assets measured at amortized cost at each balance sheet date. The ECL model requires considerable judgment, including 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

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

2. Material accounting policy information (continued):

statements of income and comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

(j) Future accounting policy changes:

(i) Amendment to IAS 1 Presentation of Financial Statements - Non-current Liabilities with Covenants:

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants. The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024. Earlier application of the amendments is permitted. If an entity applies the amendments for an earlier period, it is also required to apply the 2020 amendments early. The REIT is currently evaluating the impact of this amendment on future periods and and does not anticipate a material impact to the REIT as a result of the amendments to IAS 1.

3. Acquisitions and Dispositions:

The REIT completed the sale of the following properties during the year ended December 31, 2023:

Property	Sale Date	Sale Price	Net Proceeds [1]
400 Carlingview Drive, Toronto, Ontario	March 10, 2023	$ 7,250	$ 7,006
360 Laurier Avenue West, Ottawa, Ontario	July 10, 2023	$ 17,500	$ 17,080
32071 South Fraser Way, Abbotsford, British Columbia	July 31, 2023	$ 24,000	$ 23,288
		$ 48,750	$ 47,374

[1] These net proceeds are after transactions costs on the sale but before repayment of the mortgage on the property.

All three properties were classified under investment properties held for sale as at December 31, 2022. The assets and liabilities associated with the disposition of these properties have been derecognized.

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

3. Acquisitions and Dispositions (continued):

There were no acquisitions completed during the year ended December 31, 2023.

The REIT acquired 400 Cumberland Street, Ottawa, Ontario on August 22, 2022. The acquisition was accounted for as an asset acquisition. The fair value of consideration was allocated to the identifiable assets acquired and liabilities assumed based on their fair values at the date of acquisition. There were no dispositions completed during the year ended December 31, 2022.

Year end December 31, 2022:

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

4. Other assets:

		2023		2022
Installment notes receivable	$	81	$	128
Deposits		811		975
	$	892	$	1,103

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

5. Investment properties:

The following table summarizes the changes in investment properties for the years ended December 31, 2023 and 2022

	Investment properties	Investment properties held for sale	Total
Balance, December 31, 2021	$ 1,403,579	$ —	$ 1,403,579
Acquisitions (note 3)	38,845	—	38,845
Additions	31,653	—	31,653
Amortization of leasing costs, tenant inducements and straight-line rents	(7,319)	—	(7,319)
Fair value adjustment	(41,925)	—	(41,925)
Investment properties held for sale	(84,250)	84,250	—
Balance, December 31, 2022	1,340,583	84,250	1,424,833
Additions	14,635	292	14,927
Dispositions (note 3)	—	(48,750)	(48,750)
Amortization of leasing costs, tenant inducements and straight-line rents	(5,707)	(336)	(6,043)
Fair value adjustment	(75,144)	(5,061)	(80,205)
Investment properties held for sale	(23,936)	23,936	—
Balance, December 31, 2023	$ 1,250,431	$ 54,331	$ 1,304,762

During the year ended December 31, 2023 the REIT disposed of three properties which were classified as held for sale as at December 31, 2022 (note 3).

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

	2023	2022
Terminal and direct capitalization rates – range	5.50% to 9.50%	4.25% to 9.50%
Terminal and direct capitalization rate – weighted average	6.68%	6.14%
Discount rates – range	6.00% to 9.75%	5.75% to 9.75%
Discount rate – weighted average	7.16%	6.96%

Investment properties are independently appraised at the time of acquisition. In addition, the REIT engages independent valuation firms to appraise its investment properties such that the majority of the portfolio is independently appraised at least once over a three year period. When an independent

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

5. Investment properties (continued):

appraisal is obtained, the reasonableness of the assumptions are assessed and adjustments made to the internal valuations as required. During the year ended December 31, 2023 there were 17 (for the year ended December 31, 2022 – 21) properties externally appraised representing a total fair value of $516,640 (for the year ended December 31, 2022 – $747,910).

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

		2023
Weighted average terminal, direct capitalization and discount rate:		
25-basis point increase	$	(57,342)
25-basis point decrease		45,225

6. Tenant and other receivables:

		2023		2022
Tenant receivables	$	2,067	$	1,655
Mortgage loan receivable		—		1,725
Instalment notes receivable		47		54
Other receivables		733		3,884
	$	2,847	$	7,318

Mortgage loan receivable consisted of a vendor take-back mortgage on an investment property disposition. This mortgage bore interest at 3.45% per annum and was repaid on October 20, 2023.

7. Mortgages payable:

As at December 31, 2023, the REIT had $800,682 (December 31, 2022 – $850,434) of mortgage principal balances outstanding. The mortgages carry a weighted average fixed interest rate of 3.90% (December 31, 2022 – 3.54%) and a weighted average term to maturity of 3.01 years (December 31, 2022 – 3.27 years). All interest rates are fixed for the term of the respective mortgage except for three (December 31, 2022 – two) of the REIT’s mortgages, two (December 31, 2022 - two) of which have utilized interest rate swaps to fix their floating interest rates (note 11). The mortgages are secured by first and second charges on the respective properties.

As at December 31, 2023, mortgages including mortgages payable associated with investment properties held for sale (note 5) are repayable as follows:

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

7. Mortgages payable (continued):

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2024	$ 22,751	$ 81,644	$ 104,395	$ 29,725
2025	15,625	197,178	212,803	21,653
2026	14,026	199,012	213,038	19,514
2027	8,715	78,910	87,625	10,797
2028	6,041	90,583	96,624	5,684
Thereafter	4,195	82,002	86,197	3,279
Face value	$ 71,353	$ 729,329	$ 800,682	$ 90,652
Unamortized mark to market mortgage adjustments			127	
Unamortized financing costs			(3,416)	
Total mortgages payable			$ 797,393	

The outstanding balance of mortgages payable associated with investment properties held for sale as at December 31, 2023 was $42,372 (December 31, 2022 - $58,330).

The following table provides a breakdown of the current and non-current portions of mortgages payable including mortgages payable associated with investment properties held for sale (note 5):

	2023	2022
Current:		
Mortgages payable	$ 104,395	$ 164,521
Unamortized mark to market mortgage adjustments	30	34
Unamortized financing cost	(1,411)	(1,259)
	103,014	163,296
Non-current:		
Mortgages payable	696,287	685,913
Unamortized mark to market mortgage adjustments	97	127
Unamortized financing cost	(2,005)	(2,647)
	694,379	683,393
	$ 797,393	$ 846,689

8. Class B LP Units:

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

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

8. Class B LP Units (continued):

The following table summarizes the changes in Class B LP Units for the years ended December 31, 2023 and 2022

	Class B LP Units	Amount
Outstanding, January 1, 2022	525,702	$ 22,400
Class B LP Units exchanged to Units	(86,337)	(3,182)
Fair value adjustment	—	(4,590)
Outstanding, December 31, 2022	439,365	14,628
Class B LP Units exchanged to Units	(18,478)	(262)
Fair value adjustment	—	(10,135)
Outstanding, December 31, 2023	420,887	$ 4,231

During the years ended December 31, 2023 and 2022 distributions on Class B LP Units were 739 and $1,673, respectively, and have been recorded as an expense in the consolidated statements of income and comprehensive income.

9. Credit facility:

The REIT has a $60,000 floating rate revolving credit facility (“Credit Facility”) with a Canadian chartered bank which is comprised of two tranches: (i) up to $35,000 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) $25,000 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 been received on July 31, 2023 to align with the sale of 32071 South Fraser Way.

As at December 31, 2023, the REIT had $23,600 drawn on the Credit Facility ($14,400 - December 31, 2022).

10. Accounts payable and accrued liabilities:

	2023	2022
Accounts payable and accrued liabilities	$ 34,347	$ 36,974
Finance costs payable	1,999	1,925
Class B LP distributions payable	—	125
Distributions payable	—	4,545
Unit-based compensation liability (note 12(e))	300	632
	$ 36,646	$ 44,201

11. Derivative instruments:

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

The combined notional principal amount of the outstanding interest rate swap contracts as at December 31, 2023 was $72,145 (December 31, 2022 – $74,383). The fair value of the interest rate swaps were in an asset position of $3,124 as at December 31, 2023 (December 31, 2022 - $4,281). The unrealized loss on change in the fair value of the derivative instruments for the year ended December 31, 2023 was $1,158 (December 31, 2022 - unrealized gain of $5,444).

12. Unitholders' equity:

(a) Units:

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

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

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

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

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

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

12. Unitholders' equity (continued):

(b) Special Voting Units:

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

(c) Unit consolidation:

On November 24, 2023, the REIT executed a consolidation of its Units, special voting Units of the REIT and the Class B LP Units on the basis of 5.75:1.

(d) Units outstanding:

The following table summarizes the changes in Units for the years ended December 31, 2023 and 2022:

	Units	Amount
Balance, December 31, 2021	15,429,254	$ 544,117
Issue of Units:		
DRIP	179,178	6,537
Options exercised	10,780	398
Exchange of Class B LP Units (note 8)	86,337	3,182
ATM Program	252,313	9,460
Incentive Units redeemed	9,620	368
Issuance costs	—	(785)
Balance, December 31, 2022	15,967,482	563,277
Issuance (repurchase) of Units:		
DRIP	46,847	1,591
Exchange of Class B LP Units (note 8)	18,478	262
Incentive Units redeemed	6,949	141
Units repurchased and cancelled under NCIB	(363,112)	(3,281)
Issuance and repurchase costs	—	(97)
Balance, December 31, 2023	15,676,644	$ 561,893

For the year ended December 31, 2023 the REIT did not issue Units through the at-the-market equity program ("ATM Program"). For the year ended December 31, 2022 the REIT issued 252,313 Units for cash of $9,460 through the ATM Program.

During the year ended December 31, 2023 the REIT repurchased and cancelled 363,112 Units for cash of $3,281 through the normal course issuer bid ("NCIB") (2022 - $nil).

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

12. Unitholders' equity (continued):

(e) Unit-based compensation plan:

As at December 31, 2023 the carrying value of the unit-based compensation liability was $300 (December 31, 2022 – $632) (note 10) which includes the Incentive Unit Plan and Unit Options as outlined below.

(i) Incentive Unit Plan:

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

Deferred Units

Deferred Units are granted to the non-executive Trustees as part of a Trustee's annual board retainer, including any chairman retainers, 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 for the years ended December 31, 2023 and 2022:

	Deferred Units		Amount
Balance, January 1, 2022	13,532	$	576
Granted and reinvested	5,407		194
Redeemed	(10,726)		(390)
Fair value adjustments	—		(107)
Balance, December 31, 2022	8,213		273
Granted and reinvested	13,014		170
Redeemed	(626)		(22)
Fair value adjustments	—		(214)
Balance, December 31, 2023	20,601	$	207

Restricted Units

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

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

12. Unitholders' equity (continued):

The following table summarizes the changes in Restricted Units for the years ended December 31, 2023 and 2022:

	Restricted Units	Amount
Balance at January 1, 2022	15,718	$ 393
Granted and reinvested	18,199	471
Redeemed and expired	(17,700)	(436)
Fair value adjustment	—	(97)
Balance, December 31, 2022	16,217	331
Granted and reinvested	17,404	393
Redeemed and expired	(15,134)	(301)
Fair value adjustment	—	(330)
Balance, December 31, 2023	18,487	$ 93

On July 4, 2023, the REIT issued 6,659 Restricted Units at a price of $13.5148 per Unit. On March 14, 2023, the REIT issued 8,866 Restricted Units at a price of $33.3575 per Unit.

On June 30, 2023, 6,133 Restricted Units were redeemed for 2,850 Units at a price of $13.4268 per Unit. On May 15, 2023, 751 Restricted Units were redeemed for 357 Units at a price of $15.2157 per Unit. On March 21, 2023, 5,774 Restricted Units were redeemed for 2,431 Units at a price of $21.6459 per Unit. On March 13, 2023, 2,446 Restricted Units were redeemed for 1,053 Units at a price of $33.7456 per Unit.

On June 30, 2022, 927 Restricted Units were redeemed for 420 Units at a price of $36.3601 per Unit. On March 21, 2022, the REIT issued 16,701 Restricted Units and 9,921 Restricted Units were redeemed for 4,282 Units at a price of $40.5139 per Unit.

(ii) Unit Options:

The Unit option plan has been suspended and no further options may be granted. As at December 31, 2023, all Unit options have vested and expired.

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

12. Unitholders' equity (continued):

The following table summarizes the changes in Unit options outstanding:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2021	87,189	$ 37.26	1.23	87,189
Unit options exercised	(36,638)	36.57	—	—
Outstanding, December 31, 2022	50,551	37.72	0.49	50,551
Unit options expired or exercised	(50,551)	37.72	—	—
Outstanding, December 31, 2023	—	—	—	—

There are no Unit options outstanding as of December 31, 2023.

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

	2023	2022
Average expected Unit option holding period	—	0.44 years
Average expected volatility rate	— %	25.19 %
Average dividend yield	— %	10.26 %
Average risk-free interest rate	— %	4.02 %

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

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

12. Unitholders' equity (continued):

The REIT's Unit-based compensation expense recognized in general and administrative expense for the years ended December 31, 2023 and 2022 was:

	2023	2022
Unit options	$ (27)	$ (376)
Restricted Units	63	374
Deferred Units	(44)	87
Unit-based compensation expense	$ (8)	$ 85
Fair value remeasurement expense included in the above:		
Unit options	$ (27)	$ (376)
Restricted Units	(330)	(97)
Deferred Units	(214)	(107)
	$ (571)	$ (580)

(f) Distributions:

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

The REIT paid a monthly distribution of $0.2846 per Unit or $3.4155 per Unit on an annualized basis until March 14, 2023, when the REIT reduced its monthly cash dividend from $0.2846 per Unit to $0.1423 per Unit or $1.70775 per Unit on an annualized basis. The new declared distribution was paid on April 17, 2023 to unitholders of record on March 31, 2023. On November 13, 2023, the Trustees determined that the most effective use of available capital was to reallocate substantially all distributions paid to Unitholders for the month commencing November 1, 2023 and ending April 30, 2024 to purchase the maximum number of Units available under the NCIB or through other acquisition programs, with the intention of revisiting the reallocation in approximately six months to reinstate a sustainable distribution to Unitholders. For the years ended December 31, 2023 and 2022, the REIT declared distributions of $27,329 and $53,623 respectively.

(g) Dividend reinvestment plan ("DRIP"):

On April 12, 2023, the REIT announced the suspension of 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. For the years ended December 31, 2023 and 2022, the REIT issued 46,847 and 179,178 Units under the DRIP for a value of $1,591 and $6,537, respectively.

12. Unitholders' equity (continued):

(h) Short form base shelf prospectus:

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

On April 21, 2022 the REIT filed a prospectus supplement to establish 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 year ended December 31, 2023, the REIT did not issue any Units (for the year ended December 31, 2022, 252,313 Units were issued for $9,460) through the ATM Program or under the short form base shelf prospectus.

(i) Normal course issuer bid:

On April 12, 2023, the REIT announced the intention to commence a NCIB, as approved by the TSX. Under the NCIB, the REIT has the ability to purchase for cancellation up to a maximum of 1,432,966 of its Units, representing 10% of the REIT's public float of 14,329,664 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 effect 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 year ended December 31, 2023, the REIT repurchased 363,112 Units for $3,281 under the NCIB.

13. Transactions with related parties:

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

(a) Pursuant to an asset management agreement (the "Asset Management Agreement"), the affiliate of Starlight is to perform asset management services for a base annual management fee calculated and payable on a monthly basis in arrears on the first day of each month equal to

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

13. Transactions with related parties (continued):

0.35% of the sum of: (i) the historical purchase price of the properties; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties.

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

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

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

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

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

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

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

The following table presents the expenses incurred for the years ended December 31, 2023 and 2022:

	2023	2022
Asset management fees	$ 4,712	$ 4,677
Acquisition fees	—	405
Other expenses	171	133

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

13. Transactions with related parties (continued):

At December 31, 2023, $414 (December 31, 2022 – $417) is included in accounts payable and accrued liabilities. No incentive fees were earned or capital expenditure fees charged for the years ended December 31, 2023 and 2022.

(f) Key management compensation:

Key management compensation consists of salaries, bonuses, other short-term benefits and Trustee compensation. Key management compensation for the year ended December 31, 2023 was $1,142 (2022 - $1,572) which includes compensation paid by Starlight (pursuant to the Asset Management Agreement) to key REIT management personnel of $701 (2022 - $984). Also included is $403 (December 31, 2022 - $539) of Deferred Units and Restricted Units granted to Trustees and officers of the REIT.

14. Revenue:

The components of the REIT's revenue for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Base rent	$ 72,886	$ 76,264
Property operating and realty tax recoveries	54,460	55,747
Parking and other	4,858	11,564
	$ 132,204	$ 143,575

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

	2023
Within one year (1)	$ 77,327
Later than one year and not longer than five years (1)	223,793
Thereafter (1)	67,595
	$ 368,715

(1) Excludes future rent associated with investment properties held for sale (note 5).

For the year ended December 31, 2023, the Federal Government of Canada provides 24% (December 31, 2022 - 24%) of the REIT's rental revenue.

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

15. Finance costs:

The following table presents the financing costs incurred for the years ended December 31, 2023 and 2022:

	2023	2022
Interest on mortgages payable	$ 31,320	$ 28,311
Other interest expense and standby fees	1,501	544
Amortization of mortgage premiums	(34)	(45)
Amortization of financing costs	1,399	1,524
	$ 34,186	$ 30,334

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the years ended December 31, 2023 and 2022

	2023	2022
Deposits	$ 164	$ 4
Tenant and other receivables	2,739	1,056
Prepaid expenses and deposits	178	(78)
Tenant rental deposits and prepayments	739	142
Accounts payable and accrued liabilities	(5,172)	12,509
	$ (1,352)	$ 13,633

17. Commitments and contingencies:

As at December 31, 2023, the REIT has entered into commitments for building renovations totaling $2,537 (December 31, 2022 – $476).

18. Segmented disclosure:

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

19. Capital management:

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

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

19. Capital management (continued):

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

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

The REIT was in compliance with all financial covenants as at December 31, 2023 and 2022.

The following table presents the REIT's capital at December 31, 2023 and 2022:

	2023	2022
Unitholders' equity	$ 452,804	$ 522,138
Class B LP Units	4,231	14,628
Credit Facility	23,600	14,400
Mortgages payable	797,393	846,689
	$ 1,278,028	$ 1,397,855

20. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

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

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

20. Risk management and fair values (continued):

As at December 31, 2023 and December 31, 2022, the REIT's interest-bearing financial instruments were:

	Carrying value 2023	2022
Fixed-rate instruments:		
Mortgages payable	$ 787,701	$ 850,434
Variable-rate instruments:		
Mortgages payable	$ 12,981	$ —
Credit Facility	$ 23,600	$ 14,400

The REIT is exposed to interest rate risk on its floating-rate debt on three of its properties. For two of these debt instruments, the risk is mitigated by entering into interest rate swaps (note 11). The REIT is also exposed to interest rate risk on its Credit Facility which fluctuates based on prime or floating bankers' acceptance rates. An increase (decrease) of 100 basis points in interest rates at December 31, 2023 for the REIT's variable-rate financial instruments would have minimal impact on net income and comprehensive income.

(ii) Credit risk:

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

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

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

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

20. Risk management and fair values (continued):

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

	2023	2022
0 to 30 days	$ 410	$ 545
31 to 90 days	199	210
Over 90 days	265	269
Total	$ 874	$ 1,024

(iii) Liquidity Risk:

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

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

	Total	2024	2025	2026	2027	2028	Thereafter
Mortgages payable [(1)] (note 7)	$ 800,682	$ 104,395	$ 212,803	$ 213,038	$ 87,625	$ 96,624	$ 86,197
Mortgage interest payable	90,652	29,725	21,653	19,514	10,797	5,684	3,279
Tenant rental deposits and prepayments	8,998	8,998	—	—	—	—	—
Credit Facility	23,600	23,600	—	—	—	—	—
Accounts payable and accrued liabilities (note 10)	36,646	36,646	—	—	—	—	—
	$ 960,578	$ 203,364	$ 234,456	$ 232,552	$ 98,422	$ 102,308	$ 89,476

(1) Includes mortgages payable associated with investment properties held for sale (note 5).

Management's strategy to managing liquidity risk is to ensure, to the extent possible, it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities. To mitigate the risk associated with the refinancing of maturing debt, the REIT staggers the maturity dates of its mortgage portfolio over a number of years. In addition, the REIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its ongoing operational and capital commitments and future growth in its business.

(b) Fair values:

The fair values of the REIT's financial assets and liabilities, except as noted below, approximate their carrying values due to their short-term nature. The REIT uses various methods in estimating the fair values of its financial instruments and investment properties. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

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

20. Risk management and fair values (continued):

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

The tables below present the fair value hierarchy of the REIT's non-current assets and liabilities as at December 31, 2023 and 2022:

2023	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ —	$ —	$ 1,250,431	$ 1,250,431
Investment properties held for sale	—	—	54,331	54,331
Derivative instruments, net	—	3,124	—	3,124
	$ —	$ 3,124	$ 1,304,762	$ 1,307,886
Liabilities:				
Mortgages payable[1]	$ —	$ 770,700	$ —	$ 770,700
Class B LP Units	4,231	—	—	4,231
	$ 4,231	$ 770,700	$ —	$ 774,931

[1] Includes mortgages payable associated with investment properties held for sale (note 5).

2022	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ —	$ —	$ 1,340,583	$ 1,340,583
Investment properties held for sale	—	—	84,250	84,250
Derivative instruments, net	—	4,281	—	4,281
	$ —	$ 4,281	$ 1,424,833	$ 1,429,114
Liabilities:				
Mortgages payable[1]	$ —	$ 806,900	$ —	$ 806,900
Class B LP Units	14,628	—	—	14,628
	$ 14,628	$ 806,900	$ —	$ 821,528

[1] Includes mortgages payable associated with investment properties held for sale (note 5).

20. Risk management and fair values (continued):

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

(i) Investment properties and investment properties held for sale:

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

(ii) Mortgages payable

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at December 31, 2023 was approximately $770,700 (December 31, 2022 – $806,900).

(iii) Class B LP Units:

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

(iv) Derivative instruments:

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

21. Subsequent Events:

Subsequent to December 31, 2023, the REIT entered into an unconditional agreement of purchase and sale to dispose of 251 Arvin Avenue located in Hamilton, Ontario for a sale price of $2,700, 6865 Century Avenue located in Mississauga, Ontario for a sale a price of $15,300 and 135 Hunter Street East located in Hamilton, Ontario for a sale price of $6,375. Closing is expected on or about April 8, 2024, April 10, 2024 and April 21, 2024, respectively. As of December 31, 2023 these properties were classified as investment properties held for sale (note 5).

Subsequent to December 31, 2023, the REIT repurchased and cancelled an additional 463,580 Units for $4,334 under the NCIB.