

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three and six months ended June 30, 2020 and 2019
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	June 30, 2020	December 31, 2019
Assets		
Non-current assets:		
Investment properties (note 4)	\$ 1,371,387	\$ 1,362,517
Instalment notes receivable (note 5)	280	317
Deposits	1,013	593
Total non-current assets	1,372,680	1,363,427
Current assets:		
Derivative instruments (note 11)	—	14
Tenant and other receivables (note 6)	3,657	3,161
Prepaid expenses and deposits	3,010	3,202
Instalment notes receivable (note 5)	77	83
Cash and cash equivalents	34,512	5,669
Total current assets	41,256	12,129
Total assets	\$ 1,413,936	\$ 1,375,556
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 7)	\$ 779,766	\$ 681,349
Derivative instruments (note 11)	4,448	122
Class B LP Units (note 8)	21,440	28,111
Total non-current liabilities	805,654	709,582
Current liabilities:		
Mortgages payable (note 7)	42,640	111,234
Tenant rental deposits and prepayments	6,809	5,275
Accounts payable and accrued liabilities (note 10)	29,070	22,135
Derivative instruments (note 11)	1,288	—
Total current liabilities	79,807	138,644
Total liabilities	885,461	848,226
Unitholders' equity (note 12)	528,475	527,330
Total liabilities and unitholders' equity	\$ 1,413,936	\$ 1,375,556

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on August 5, 2020.

"William J. Biggar" _____ Trustee

"Roland A. Cardy" _____ Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and six months ended June 30, 2020 and 2019
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Revenue (note 14)	\$ 33,999	\$ 25,489	\$ 69,328	\$ 51,256
Expenses:				
Property operating	7,845	6,209	16,620	12,954
Realty taxes	5,163	4,129	10,608	8,331
Income before the undernoted	20,991	15,151	42,100	29,971
Other income (expenses):				
General and administration expenses	(1,495)	(1,041)	(2,691)	(2,649)
Finance costs (note 15)	(7,261)	(5,181)	(14,443)	(10,281)
Distributions on Class B LP Units (note 8)	(572)	(634)	(1,145)	(1,268)
Fair value adjustment of Class B LP Units (note 8)	(2,699)	171	6,671	(4,055)
Fair value adjustment of investment properties (note 4)	(3,967)	3,891	(2,791)	2,271
Unrealized loss on change in fair value of derivative instruments (note 11)	(535)	(101)	(5,629)	(381)
Net income and comprehensive income	\$ 4,462	\$ 12,256	\$ 22,072	\$ 13,608

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and six months ended June 30, 2020 and 2019
(Unaudited)

	Unit capital	Income and distributions	Total
	(note 12(b))		
Unitholders' equity, January 1, 2019	\$ 341,041	\$ 22,049	\$ 363,090
Changes during the period:			
Units issued, net of costs	(71)	—	(71)
Net income and comprehensive income for the period	—	13,608	13,608
Distributions	—	(17,068)	(17,068)
Issue of units under DRIP (note 12(e))	2,694	—	2,694
Unitholders' equity, June 30, 2019	343,664	18,589	362,253
Changes during the period:			
Units issued, net of costs	172,377	—	172,377
Net income and comprehensive income for the period	—	10,570	10,570
Distributions	—	(21,026)	(21,026)
Issue of units under DRIP (note 12(e))	3,156	—	3,156
Unitholders' equity, December 31, 2019	519,197	8,133	527,330
Changes during the period:			
Units issued, net of costs	56	—	56
Net income and comprehensive income for the period	—	22,072	22,072
Distributions	—	(25,293)	(25,293)
Issue of units under DRIP (note 12(e))	4,310	—	4,310
Unitholders' equity, June 30, 2020	\$ 523,563	\$ 4,912	\$ 528,475

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and six months ended June 30, 2020 and 2019
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Operating activities:				
Net income and comprehensive income for the period	\$ 4,462	\$ 12,256	\$ 22,072	\$ 13,608
Adjustments for financing activities included in income:				
Finance costs (note 15)	7,261	5,181	14,443	10,281
Unrealized loss on change in fair value of derivative instruments (note 11)	535	101	5,629	381
Distributions on Class B LP Units (note 8)	572	634	1,145	1,268
Fair value adjustment of Class B LP Units (note 8)	2,699	(171)	(6,671)	4,055
Adjustments for items not involving cash:				
Fair value adjustment of investment properties (note 4)	3,967	(3,891)	2,791	(2,271)
Unit-based compensation expense	144	(14)	(332)	451
Change in other non-cash operating items	270	424	532	713
Change in non-cash operating working capital (note 16)	4,089	(1,733)	7,840	(2,495)
Cash provided by operating activities	23,999	12,787	47,449	25,991
Investing activities:				
Acquisitions	—	—	—	(24,474)
Additions to investment properties (note 4)	(3,241)	(2,780)	(12,114)	(7,258)
Cash used in investing activities	(3,241)	(2,780)	(12,114)	(31,732)
Financing activities:				
Proceeds from credit facilities	—	10,180	—	13,980
Proceeds from mortgage refinancing, net of costs	35,137	(17)	128,031	27,548
Repayments of mortgage refinancing	(20,552)	(4,515)	(88,193)	(4,515)
Principal payments on mortgages	(5,445)	(4,033)	(10,580)	(7,906)
Payments received on instalment notes receivable (note 5)	21	34	43	69
Finance costs paid	(7,136)	(5,469)	(14,383)	(10,753)
Change in restricted cash	—	1,228	—	1,228
Unit issuance costs	(132)	(92)	(215)	(94)
Cash distributions to unitholders	(10,403)	(7,293)	(21,195)	(14,610)
Cash provided by (used in) financing activities	(8,510)	(9,977)	(6,492)	4,947
Increase (decrease) in cash and cash equivalents	12,248	30	28,843	(794)
Cash and cash equivalents, beginning of period	22,264	1,668	5,669	2,492
Cash and cash equivalents, end of period	\$ 34,512	\$ 1,698	\$ 34,512	\$ 1,698
Supplemental cash flow information:				
Units issued under DRIP – unitholders	\$ 2,253	\$ 1,246	\$ 4,061	\$ 2,436
Units issued under DRIP – Class B LP Units	130	129	249	258

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and six months ended June 30, 2020 and 2019
(Unaudited)

Organization:

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

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

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the REIT have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions significant to understand the changes in financial position and performance of the REIT since the last audited annual consolidated financial statements as at and for the year ended December 31, 2019. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed.

The condensed consolidated interim financial statements were approved on behalf of the Board of Trustees on August 5, 2020.

(b) Basis of presentation:

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

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

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

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

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1. Basis of preparation (continued):

(c) Critical judgments and estimates:

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying accounting policies were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2019.

2. Significant accounting policies:

The accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its audited consolidated financial statements as at and for the year ended December 31, 2019 with the addition of the new accounting standard applied on January 1, 2020 as noted below:

Amendment to IFRS 3: Definition of a Business (“IFRS 3”)

The amendment to IFRS 3 clarifies to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. Also, it clarifies a business can exist without including all of the inputs and processes needed to create outputs.

This amendment has no impact on the condensed consolidated interim financial statements of the REIT.

3. Impact of COVID-19:

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

Rent concessions

The duration and impact of COVID-19 is currently unknown and the Canadian federal and provincial governments have enacted subsidies and other stimulus in an attempt to stabilize economic conditions. Since the pandemic was declared, certain tenants of the REIT have required financial assistance in the form of short-term rental deferrals or participation in the Canadian Emergency Commercial Rent Assistance (“CECRA”) program.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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3. Impact of COVID-19 (continued):

For the six months ended June 30, 2020, the REIT has agreed to defer rental payments of approximately \$220 for certain tenants. The deferred payments are to be paid by December 31, 2020. The REIT's assessment of expected credit losses is subjective and is based upon forward looking assessments of collectability. As a result, any expected credit loss is uncertain and the assumptions upon which it is based may change due to the ongoing uncertainty caused by COVID-19.

During the three and six months ended June 30, 2020 the REIT recognized \$70 in rent concessions under the CECRA program which are included in property operating expenses.

Fair value of investment properties

Throughout Canada, investment activity in the second quarter remained limited. The fair value of the REIT's investment properties at June 30, 2020 is based upon the best available market data, including capitalization rates; however given the continued uncertainty around the duration of the pandemic and the potential negative impact it may have on certain sectors of the real estate industry and its tenants, it is not possible to predict how the fair value of the REIT's investment properties may be impacted.

The REIT continues to monitor the economic impact COVID-19 is having on its operations and future cash flows, which ultimately impacts the value of the underlying real estate. The future cash flows of an investment property are based upon rental income from current leases and assumptions about occupancy rates, market rents from future leases and the cash outflows arising from current and future leases. The REIT continues to revise its estimates concerning rental growth and lease renewal assumptions to reflect expected market conditions, and currently, future cash flows are predicted to remain relatively stable as government and credit rated tenants comprise approximately 76% of the REIT's tenant base. It is not possible however, to forecast with certainty how COVID-19 will continue to impact the REIT's investment properties. Significant changes in rental income, occupancy rates, tenant inducements and market rents could negatively impact future valuations of the REIT's investment properties.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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4. Investment properties:

The following table summarizes the changes in investment properties for the six months ended June 30, 2020 and 2019:

	Investment properties
Balance, December 31, 2018	\$ 928,137
Acquisitions	25,342
Additions	7,258
Amortization of leasing costs, tenant inducements and straight-line rents	(656)
Fair value adjustment	2,271
Balance, June 30, 2019	962,352
Acquisitions	405,452
Additions	7,183
Dispositions	(8,700)
Amortization of leasing costs, tenant inducements and straight-line rents	(884)
Fair value adjustment	(2,886)
Balance, December 31, 2019	1,362,517
Additions	12,114
Amortization of leasing costs, tenant inducements and straight-line rents	(453)
Fair value adjustment	(2,791)
Balance, June 30, 2020	\$ 1,371,387

The REIT did not acquire or dispose of any investment properties during the three and six months ended June 30, 2020.

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:

	June 30, 2020	June 30, 2019
Terminal and direct capitalization rates - range	4.75% to 10.25%	4.75% to 10.25%
Terminal and direct capitalization rate - weighted average	6.29%	6.39%
Discount rates - range	5.75% to 10.25%	5.75% to 10.25%
Discount rate - weighted average	7.08%	7.14%

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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4. Investment properties (continued):

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

	June 30, 2020	June 30, 2019
Weighted average terminal and direct capitalization rate:		
25-basis points increase	\$ (42,972)	\$ (30,012)
25-basis points decrease	46,659	32,437
Weighted average discount rate:		
25-basis points increase	(40,875)	(27,965)
25-basis points decrease	43,626	29,580

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

5. Instalment notes receivable:

The REIT received non-interest bearing instalment notes from the vendor of certain properties acquired in December 2014. The instalment payments allow the REIT to achieve an effective interest rate of 3.3% per annum on certain assumed mortgages. These instalment notes mature on various dates co-terminously with the assumed mortgages.

The following table provides a breakdown of the current and non-current portions of instalment notes receivable:

	June 30, 2020	December 31, 2019
Current	\$ 77	\$ 83
Non-current	280	317
	\$ 357	\$ 400

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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6. Tenant and other receivables:

The following table presents details of tenant and other receivables:

	June 30, 2020	December 31, 2019
Tenant receivables	\$ 2,587	\$ 2,294
Other receivables	1,070	867
	<u>\$ 3,657</u>	<u>\$ 3,161</u>

As a result of the COVID-19 pandemic, as discussed in note 3, the REIT has recorded a \$70 expense representing its 25% rental contribution granted to tenants as part of the CECRA program for the three and six months ended June 30, 2020.

7. Mortgages payable:

As at June 30, 2020, the REIT had \$826,366 (December 31, 2019 – \$795,856) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.37% (December 31, 2019 – 3.38%) and a weighted average term to maturity of 4.42 years (December 31, 2019 – 3.87 years). All interest rates are fixed for the term of the respective mortgages except for six (December 31, 2019 – seven) of the REIT's mortgages that have utilized interest rate swaps to fix their floating interest rates (note 11). The mortgages are secured by first and second charges on the respective properties.

As at June 30, 2020, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2020 - remainder of year	\$ 11,266	\$ 21,004	\$ 32,270	\$ 13,573
2021	22,879	15,211	38,090	26,322
2022	21,446	147,764	169,210	23,842
2023	15,607	141,596	157,203	16,731
2024	13,983	79,399	93,382	13,644
Thereafter	22,975	313,236	336,211	18,724
Face value	<u>\$ 108,156</u>	<u>\$ 718,210</u>	<u>\$ 826,366</u>	<u>\$ 112,836</u>
Unamortized mark to market mortgage adjustments			240	
Unamortized financing costs			(4,200)	
Total mortgages payable			<u>\$ 822,406</u>	

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

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7. Mortgages payable (continued):

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

	June 30, 2020	December 31, 2019
Current:		
Mortgages payable	\$ 43,703	\$ 112,240
Unamortized mark to market mortgage adjustments	20	22
Unamortized financing cost	(1,083)	(1,028)
	42,640	111,234
Non-current:		
Mortgages payable	782,663	683,616
Unamortized mark to market mortgage adjustments	220	230
Unamortized financing cost	(3,117)	(2,497)
	779,766	681,349
	\$ 822,406	\$ 792,583

8. Class B LP Units:

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

The following table summarizes the changes in Class B LP Units for the six months ended June 30, 2020 and 2019:

	Class B LP Units	Amount
Outstanding, January 1, 2019	4,268,837	\$ 24,162
Fair value adjustment	—	4,055
Outstanding, June 30, 2019	4,268,837	28,217
Class B LP Units exchanged to Units	(412,655)	(2,984)
Fair value adjustment		2,878
Outstanding, December 31, 2019	3,856,182	28,111
Fair value adjustment	—	(6,671)
Outstanding, June 30, 2020	3,856,182	\$ 21,440

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

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8. Class B LP Units (continued):

During the three and six months ended June 30, 2020 and 2019, distributions on Class B LP Units were \$572 (June 30, 2019 - \$634) and 1,145 (June 30, 2019 - 1,268), respectively, and have been recorded as an expense in the condensed consolidated interim statements of income and comprehensive income.

9. Credit facility:

The REIT has a credit agreement with a Canadian chartered bank for a \$20,000 (December 31, 2019 - \$20,000) unsecured floating rate revolving credit facility. The facility bears interest on cash advances at 225 basis points per annum above the prime rate or 325 basis points per annum over the floating banker's acceptance rate and matures on December 1, 2020. This facility was undrawn as at June 30, 2020 and December 31, 2019.

10. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities balances:

	June 30, 2020	December 31, 2019
Accounts payable and accrued liabilities	\$ 22,306	\$ 15,276
Finance costs payable	2,144	1,751
Distributions payable	4,233	4,196
Unit-based compensation liability (note 12(c)(iii))	387	912
	\$ 29,070	\$ 22,135

11. Derivative instruments:

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

The combined notional principal amount of the outstanding interest swap contracts at June 30, 2020 was \$100,697 (December 31, 2019 - \$129,488). Total unrealized loss on change in the fair value of the derivative instruments for the three and six months ended June 30, 2020 and 2019 was \$535 (2019 - \$101) and \$5,629 (2019 - \$381), respectively.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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12. Unitholders' equity:

(a) Units:

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

(b) Units outstanding:

The following table summarizes the changes in Units for the six months ended June 30, 2020 and 2019:

	Units	Amount
Balance, December 31, 2018	57,216,643	\$ 341,041
Issue of Units – non-executive Trustee Unit issuance plan	3,427	23
Issue of Units – DRIP	429,195	2,694
Issue of Units – options exercised	2,000	13
Issuance costs	—	(107)
Balance, June 30, 2019	57,651,265	343,664
Issue of Units for cash – public offering	23,839,500	161,065
Issue of Units – acquisition of investment property	2,148,904	15,000
Issue of Units – exchange of Class BLP Units (note 8)	412,655	2,984
Issue of Units – DRIP	472,230	3,156
Issue of Units – options exercised	237,875	1,708
Issuance costs	—	(8,380)
Balance, December 31, 2019	84,762,429	519,197
Issue of Units – DRIP	725,124	4,310
Issue of Units – options exercised	35,112	271
Issuance costs	—	(215)
Balance, June 30, 2020	85,522,665	\$ 523,563

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12. Unitholders' equity (continued):

(c) Unit-based compensation plans:

(i) Incentive Unit Plan:

On June 10, 2019, the REIT established an incentive trust unit plan (the "Incentive Unit Plan"). The Incentive Unit Plan issues two types of units: (i) deferred Units ("Deferred Units"); and (ii) restricted Units ("Restricted Units"), collectively ("Incentive Units").

Deferred Units are granted to the non-executive Trustees as part of a Trustee's annual fees and vest immediately.

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 (i.e. vesting requirements) the Trustees may impose. The Trustees may not extend any vesting conditions beyond November 30 of the third calendar year from grant date.

Incentive Units granted under the Incentive Unit Plan are classified as liabilities (note 10) 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 recorded in general and administration expenses.

The following table summarizes the changes in Incentive Units for the six months ended June 30, 2020 and 2019:

	Incentive Units	Amount
Balance at January 1, 2019	—	\$ —
Incentive Units granted	5,137	34
Balance, June 30, 2019	5,137	34
Incentive Units granted	11,840	83
Fair value adjustments	—	4
Balance, December 31, 2019	16,977	121
Incentive Units granted	16,350	78
Fair value adjustments	—	(14)
Balance, June 30, 2020	33,327	\$ 185

On July 15, 2020, the REIT issued 42,457 Restricted Units to eligible participants at a price of \$5.64 per Unit.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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12. Unitholders' equity (continued):

(ii) Unit Options:

On June 10, 2019 the non-executive trustee unit issuance plan was terminated and the Unit-based compensation plan suspended and no further options will be granted. Options that have or will vest are eligible to be exercised prior to the applicable expiry dates.

The following table summarizes the changes in Unit based options outstanding for the six months ended June 30, 2020 and 2019:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2018	2,160,500	\$ 6.32	3.15	970,474
Unit options exercised	(2,000)	6.43	—	—
Outstanding, June 30, 2019	2,158,500	6.32	2.66	1,075,968
Unit options exercised	(743,327)	6.19	—	—
Outstanding, December 31, 2019	1,415,173	6.38	2.83	785,313
Unit options exercised	(254,998)	6.29	—	—
Outstanding, June 30, 2020	1,160,175	6.41	2.42	637,813

Options outstanding as of June 30, 2020 consist of the following:

Exercise price	Unit Options Outstanding	Unit Options exercisable	Expiry Date
\$6.04	85,000	85,000	August 5, 2021
\$6.28	124,168	124,168	November 14, 2021
\$6.17	180,003	86,663	August 11, 2022
\$6.44	206,168	103,994	November 16, 2022
\$6.43	267,502	159,994	March 9, 2023
\$6.66	297,334	77,994	September 20, 2023
	1,160,175	637,813	

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

12. Unitholders' equity (continued):

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

	June 30, 2020	June 30, 2019
Average expected Unit option holding period	1.24 years	1.64 years
Average expected volatility rate	30.12 %	14.16 %
Average dividend yield	10.68 %	8.99 %
Average risk-free interest rate	0.26 %	1.57 %

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

- (iii) For the six months ended June 30, 2020 and 2019, the amount of Unit based compensation liability included in accounts payable and accrued liabilities (note 10) is as follows:

Balance, December 31, 2018	\$	63
Unit options expense		42
Fair value adjustment		408
Balance, June 30, 2019	\$	513
Unit options expense		28
Unit options exercised		(703)
Deferred units granted		117
Fair value adjustment		957
Balance, December 31, 2019	\$	912
Unit options expense		15
Unit options exercised		(367)
Deferred units granted		78
Fair value adjustment		(251)
Balance, June 30, 2020	\$	387

Unit based compensation expense is included in general and administration expenses.

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12. Unitholders' equity (continued):

(d) Distributions:

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

The REIT currently pays a monthly distribution of \$0.0495 per Unit or \$0.594 per Unit on an annualized basis.

For the six months ended June 30, 2020 and 2019, the REIT declared distributions of \$25,293 and \$17,068, respectively.

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

Pursuant to the DRIP, unitholders can elect to reinvest cash distributions into additional Units at a 3% discount to the weighted average closing price of the Units for the five trading days immediately preceding the applicable date of distribution.

For the six months ended June 30, 2020 and 2019, the REIT issued 725,124 and 429,195 Units under the DRIP for a value of \$4,310 and \$2,694, respectively.

13. Transactions with related parties:

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

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

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13. Transactions with related parties (continued):

- (ii) 0.75% of the purchase price of a property, on the next \$100,000 of properties acquired in each fiscal year; and
- (iii) 0.50% of the purchase price on properties in excess of \$200,000 of properties acquired in each fiscal year.
- (c) An annual incentive fee is payable by the REIT equal to 15% of the REIT's funds from operations ("FFO") per Unit in excess of FFO per Unit for fiscal 2013 plus 50% of the annual increase in the weighted average consumer price index (or other similar metric, as determined by the Trustees) of the jurisdictions in which the properties are located.
- (d) Pursuant to the Asset Management Agreement, 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 incurred by Starlight in connection with the performance of the services described in the Asset Management Agreement, including capital expenditures, or such other services which the REIT and Starlight agree in writing are to be provided from time to time.

The following table presents the expenses incurred for the three and six months ended June 30, 2020 and 2019:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Asset management fees	\$ 1,130	\$ 791	\$ 2,258	\$ 1,564
Acquisition fees	—	—	—	245
Other expenses	25	22	53	46

At June 30, 2020, \$386 (December 31, 2019 - \$370) is included in accounts payable and accrued liabilities.

No incentive fees were earned or capital expenditure fees charged for the three and six months ended June 30, 2020 and 2019.

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14. Revenue:

The components of the REIT's revenues for the three and six months ended June 30, 2020 and 2019 are as follows:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Base rent	\$ 19,847	\$ 14,117	\$ 39,746	\$ 28,184
Operating costs and realty tax recoveries	13,242	10,484	27,678	21,312
Parking and other	910	888	1,904	1,760
	<u>\$ 33,999</u>	<u>\$ 25,489</u>	<u>\$ 69,328</u>	<u>\$ 51,256</u>

15. Finance costs:

The following table presents the financing costs incurred for the three and six months ended June 30, 2020 and 2019:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Interest on mortgages payable	\$ 6,951	\$ 4,689	\$ 13,798	\$ 9,361
Other interest expense and standby fees	17	232	82	416
Amortization of mortgage discounts (premiums)	(6)	(8)	(12)	(17)
Amortization of financing costs	299	268	575	521
	<u>\$ 7,261</u>	<u>\$ 5,181</u>	<u>\$ 14,443</u>	<u>\$ 10,281</u>

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three and six months ended June 30, 2020 and 2019 are as follows:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Deposits	\$ 160	\$ (8)	\$ (420)	\$ (8)
Tenant and other receivables	379	(436)	(496)	(116)
Prepaid expenses and deposits	1,262	(236)	192	(832)
Tenant rental deposits and prepayments	(52)	359	1,534	227
Accounts payable and accrued liabilities	2,340	(1,412)	7,030	(1,766)
	<u>\$ 4,089</u>	<u>\$ (1,733)</u>	<u>\$ 7,840</u>	<u>\$ (2,495)</u>

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17. Commitments and contingencies:

As at June 30, 2020, the REIT has entered into commitments for building renovations totaling \$916 (December 31, 2019 - \$1,347).

18. Segmented disclosure:

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

19. Capital management:

The REIT's capital management objectives and policies are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended December 31, 2019.

The REIT was in compliance with all financial covenants as at June 30, 2020.

20. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

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

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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20. Risk management and fair values (continued):

As at June 30, 2020 and December 31, 2019, the REIT's interest-bearing financial instruments were:

	Carrying value	
	June 30, 2020	December 31, 2019
Fixed-rate instruments:		
Mortgages payable	\$ 826,366	\$ 795,856
Variable-rate instruments:		
Credit facility	\$ —	\$ —

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

An increase (decrease) of 100 basis points in interest rates at June 30, 2020 for the REIT's variable-rate financial instruments would have no impact on net income and comprehensive income.

(ii) Credit risk:

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

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

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

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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20. Risk management and fair values (continued):

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

	June 30, 2020	December 31, 2019
0 to 30 days	\$ 249	\$ 1,068
31 to 90 days	600	227
Over 90 days	510	76
Total	\$ 1,359	\$ 1,371

(b) Fair values:

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

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

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

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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20. Risk management and fair values (continued):

The tables below presents the REIT's assets and liabilities measured or disclosed at fair value:

June 30, 2020	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ —	\$ —	\$ 1,371,387	\$ 1,371,387
Instalment notes receivable	—	539	—	539
	\$ —	\$ 539	\$ 1,371,387	\$ 1,371,926
Liabilities:				
Mortgages payable	\$ —	\$ 846,800	\$ —	\$ 846,800
Class B LP Units	21,440	—	—	21,440
Derivative instruments, net	—	5,736	—	5,736
Unit-based compensation	—	—	387	387
	\$ 21,440	\$ 852,536	\$ 387	\$ 874,363

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ —	\$ —	\$ 1,362,517	\$ 1,362,517
Instalment notes receivable	—	591	—	591
	\$ —	\$ 591	\$ 1,362,517	\$ 1,363,108
Liabilities:				
Mortgages payable	\$ —	\$ 795,700	\$ —	\$ 795,700
Class B LP Units	28,111	—	—	28,111
Derivative instruments, net	—	108	—	108
Unit-based compensation	—	—	912	912
	\$ 28,111	\$ 795,808	\$ 912	\$ 824,831

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

(i) Investment properties:

The REIT determines the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and the direct capitalization method, both of which are generally accepted appraisal methodologies. The key valuation assumptions of the REIT's investment properties are described in notes 3 and 4.

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20. Risk management and fair values (continued):

(ii) Instalment notes receivable:

The fair value of instalment notes receivable is estimated based on the present value of future receipts, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying instalment note, plus an estimated credit spread at the reporting date for a comparable financial instrument. The estimated fair value of instalment notes receivable at June 30, 2020 was approximately \$539 (December 31, 2019 - \$591).

(iii) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at June 30, 2020 was approximately \$846,800 (December 31, 2019 - \$795,700).

(iv) Class B LP Units:

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

(v) Unit-based compensation:

Incentive Units granted are carried at fair value, the REIT has chosen to use the closing market price of Units as a practical measure for fair value measurement of its Incentive Units.

Unit options granted are carried at fair value, estimated using the Black-Scholes option pricing model for option valuation using level 3 inputs as described in note 12(c)(ii).

(vi) Derivative instruments:

Derivative instruments, such as interest rate swaps, are valued using a valuation technique with level 2 market-observable inputs. 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.