

Consolidated Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2019 and 2018



Tel: 416-865-0200
Fax: 416-865-0887
www.bdo.ca

BDO Canada LLP
222 Bay Street
Suite 2200, PO Box 131
Toronto, ON M5K 1H1 Canada

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 (the "REIT"), which comprise the consolidated statement of financial position as at December 31, 2019 and 2018, and the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis of Consolidated Financial Results for the year ended December 31, 2019.

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 Management's Discussion and Analysis of Consolidated Financial Results 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 IFRS, 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.

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

March 3, 2020
Toronto, Canada

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

December 31, 2019 and 2018

	2019	2018
Assets		
Non-current assets:		
Investment properties (note 4)	\$ 1,362,517	\$ 928,137
Instalment notes receivable (note 5)	317	459
Deposits	593	788
Derivative instruments (note 11)	—	136
Total non-current assets	1,363,427	929,520
Current assets:		
Derivative instruments (note 11)	14	434
Tenant and other receivables (note 6)	3,161	2,655
Prepaid expenses and deposits	3,202	2,738
Instalment notes receivable (note 5)	83	134
Restricted cash	—	1,380
Cash and cash equivalents	5,669	2,492
Total current assets	12,129	9,833
Total assets	\$ 1,375,556	\$ 939,353
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 7)	\$ 681,349	\$ 481,184
Derivative instruments (note 11)	122	—
Class B LP Units (note 8)	28,111	24,162
Total non-current liabilities	709,582	505,346
Current liabilities:		
Mortgages payable (note 7)	111,234	46,012
Credit facilities (note 9)	—	3,800
Tenant rental deposits and prepayments	5,275	4,526
Accounts payable and accrued liabilities (note 10)	22,135	16,579
Total current liabilities	138,644	70,917
Total liabilities	848,226	576,263
Unitholders' equity (note 12)	527,330	363,090
Total liabilities and unitholders' equity	\$ 1,375,556	\$ 939,353

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Trustees on March 3, 2020.

"William J. Biggar" Trustee

"Roland A. Cardy" Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

	2019	2018
Revenue (note 14)	\$ 106,457	\$ 87,068
Expenses:		
Property operating	27,394	21,653
Realty taxes	16,998	14,108
Income before the undernoted	62,065	51,307
Other income (expenses):		
General and administration expenses	(5,534)	(3,100)
Finance costs (note 15)	(21,032)	(16,057)
Transaction costs on sale of investment property	(581)	(403)
Distributions on Class B LP Units (note 8)	(2,515)	(2,536)
Fair value adjustment of Class B LP Units (note 8)	(6,933)	4,482
Fair value adjustment of investment properties (note 4)	(615)	16,080
Unrealized loss on change in fair value of derivative instruments (note 11)	(677)	(153)
Net income and comprehensive income	\$ 24,178	\$ 49,620

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, 2019 and 2018

	Trust Unit capital	Cumulative income and distributions	Totals
	(note 12(c))		
Unitholders' equity, January 1, 2018	\$ 245,259	\$ 2,938	\$ 248,197
Changes during the year:			
Units issued, net of costs	92,166	—	92,166
Net income and comprehensive income for the year	—	49,620	49,620
Distributions	—	(30,509)	(30,509)
Issue of units under DRIP (note 12(f))	3,616	—	3,616
Unitholders' equity, December 31, 2018	341,041	22,049	363,090
Changes during the year:			
Units issued, net of costs	172,306	—	172,306
Net income and comprehensive income for the year	—	24,178	24,178
Distributions	—	(38,094)	(38,094)
Issue of units under DRIP (note 12(f))	5,850	—	5,850
Unitholders' equity, December 31, 2019	\$ 519,197	\$ 8,133	\$ 527,330

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, 2019 and 2018

	2019	2018
Operating activities:		
Net income and comprehensive income for the year	\$ 24,178	\$ 49,620
Adjustments for financing activities included in income:		
Finance costs (note 15)	21,032	16,057
Unrealized loss on change in fair value of derivative instruments (note 11)	677	153
Distributions on Class B LP Units (note 8)	2,515	2,536
Fair value adjustment of Class B LP Units (note 8)	6,933	(4,482)
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 4)	615	(16,080)
Unit-based compensation expense	1,302	(280)
Change in other non-cash operating items	2,265	(1,188)
Change in non-cash operating working capital (note 16)	(923)	6,975
Cash provided by operating activities	58,594	53,311
Investing activities:		
Acquisitions (note 3)	(411,744)	(231,024)
Net proceeds from sale of investment properties (note 3)	8,115	6,478
Additions to investment properties (note 4)	(14,441)	(8,917)
Cash used in investing activities	(418,070)	(233,463)
Financing activities:		
Proceeds (repayment) of credit facilities	(3,800)	3,800
Proceeds from mortgage financing, net of costs	297,140	165,817
Repayment of mortgages	(16,708)	(29,805)
Principal payments on mortgages	(16,080)	(12,693)
Payments received on instalment notes receivable (note 5)	193	151
Finance costs paid	(21,802)	(16,826)
Change in restricted cash	1,380	(652)
Proceeds from issuance of Units, net of costs	153,728	92,062
Cash distributions to unitholders	(31,398)	(26,626)
Cash provided by financing activities	362,653	175,228
Increase (decrease) in cash and cash equivalents	3,177	(4,924)
Cash and cash equivalents, beginning of year	2,492	7,416
Cash and cash equivalents, end of year	\$ 5,669	\$ 2,492
Supplemental cash flow information:		
Units issued under DRIP – unitholders	\$ 5,332	\$ 3,095
Units issued under DRIP – Class B LP Units	518	521
Mortgages assumed on acquisition on investment properties	—	25,334
Issuance of Units on acquisition of investment property (note 12)	15,000	—
Units issued in exchange for Class B LP Units (note 8)	2,984	—
Mortgages assumed on sale of investment property	—	8,399

See accompanying notes to consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

Organization:

True North Commercial Real Estate Investment Trust (the “REIT”) is an unincorporated, open-ended real estate investment trust established pursuant to a 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 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 (“Unit”) options, incentive units 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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

1. Basis of preparation (continued):

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.

(i) Critical judgments in applying accounting policies:

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

(a) Accounting for acquisitions:

The REIT assesses whether an acquisition is an asset acquisition or a business combination.

The REIT accounts for an acquisition as a business combination if the assets acquired and liabilities assumed constitute a business and the REIT obtains control of the business. When the cost of a business combination exceeds the fair value of the identifiable assets acquired or liabilities assumed, such excess is recognized as goodwill. Transaction related costs are expensed as incurred.

If an acquisition does not meet the definition of a business combination, the REIT accounts for the acquisition as an asset acquisition. The investment property acquired is initially measured at the purchase price, including directly attributable costs. Subsequent to initial measurement, investment properties are carried at fair value.

(b) 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 that it qualifies as a real estate investment trust.

The REIT expects 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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

1. Basis of preparation (continued):

(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.

(b) Unit-based compensation:

The estimates used when determining the fair value of Unit-based compensation are the average expected Unit option holding period, the average expected volatility rate, and the average risk-free interest rate. The average expected Unit option holding period used is estimated to be half of the life of the respective option contract applied to that Unit option upon vesting. The average expected volatility rate applied is estimated based on the historical volatility of the Units. The average risk-free interest rate is based on zero-coupon Government of Canada bonds with terms consistent with the average expected Unit option holding period. Management determines the fair value internally, utilizing the aforementioned inputs, which are available using external market data and internal financial information.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

2. Significant accounting policies:

(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 statements of financial position date. Related fair value gains and losses are recorded in profit or loss during the period in which they arise.

(b) Restricted cash:

Restricted cash consists of cash held with restrictions pursuant to mortgage agreements.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and deposits.

(d) 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 works 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.

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

2. Significant accounting policies (continued):

accordance with the terms of the lease, the REIT does not recognize the expenses or any related recovery revenue.

(e) 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.

(f) 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 repurchases:

If the REIT repurchases its own Units, those Units are deducted from unitholders' equity and the associated Units are cancelled. No gain or loss is recognized and the consideration paid, including any directly attributable incremental costs, is recognized in unitholders' equity.

(h) Unit-based compensation:

On June 10, 2019 the REIT established an incentive trust unit plan (the "Incentive Unit Plan") that replaced the Unit option plan. The Incentive Unit Plan issues two types of units: (i) deferred units; and (ii) 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 reporting period.

The Incentive Units are puttable and, therefore, meet the definition of a financial liability under IAS 32. The Incentive Units are classified as a liability within accounts payable and accrued liabilities. The Incentive Units are fair valued at each reporting period and the change in fair value is recorded as profit or loss. The fair value of the Incentive Units is based on the quoted market price of the Units.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

2. Significant accounting policies (continued):

Prior to June 10, 2019, the REIT had a Unit option plan, which provided holders with the right to receive Units, which were puttable. The REIT measures these amounts at fair value at the grant date, using the Black-Scholes option pricing model for options valuations. Compensation expense related to Unit-based compensation is recognized over the vesting period. The amounts are fair valued at each reporting period and the change in fair value is recognized as an expense. Unit-based compensation is classified as a liability within accounts payable and accrued liabilities.

(i) 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.

(j) Financial instruments:

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

2. Significant accounting policies (continued):

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:	
Instalment notes receivable	Amortized cost
Derivative instrument	FVTP&L
Deposits	Amortized cost
Tenant and other receivable	Amortized cost
Restricted cash	Amortized cost
Cash and cash equivalents	Amortized cost
Financial liabilities:	
Mortgages payable	Amortized cost
Derivative instrument	FVTP&L
Class B LP Units	FVTP&L
Credit facilities	Amortized cost
Tenant rental deposits and prepayments	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Unit-based compensation	FVTP&L

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

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

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

2. Significant accounting policies (continued):

(k) Accounting standards implemented:

The REIT adopted IFRS 16, Leases (“IFRS 16”) on January 1, 2019 on a retrospective basis. IFRS 16 supersedes the following accounting standards: IAS 17 Leases, IFRS Interpretations Committee 4 Determining whether an Arrangement contains a Lease, Standards Interpretation Committee (“SIC”) - 15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 Leases accounting standards.

The adoption of IFRS 16 did not have an impact on the consolidated financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

3. Acquisitions and dispositions:

The following acquisitions were completed during the years ended December 31, 2019 and 2018. All acquisitions were accounted for as asset acquisitions.

The fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed based on their fair values at the date of acquisition.

Year end December 31, 2019:

	360 Laurier Avenue West	3699 63rd Avenue	101 McNabb Street	6925 Century Avenue	675 Cochrane Drive	Net assets acquired
Acquisition date	February 7, 2019	November 4, 2019	November 15, 2019	December 12, 2019	December 18, 2019	
Net assets acquired:						
Investment properties (including acquisition costs of \$10,494)	\$ 25,342	\$ 101,801	\$ 92,633	\$ 89,928	\$ 121,090	\$ 430,794
Other receivables	—	7	—	18	38	63
Prepaid expenses and deposits	7	188	88	63	192	538
Tenant rental deposits	(27)	—	—	(81)	(528)	(636)
Accounts payable and accrued liabilities	(848)	(413)	(846)	(524)	(1,384)	(4,015)
	\$ 24,474	\$ 101,583	\$ 91,875	\$ 89,404	\$ 119,408	\$ 426,744
Consideration:						
Cash on hand	\$ 7,547	\$ 36,557	\$ 14,175	\$ 32,812	\$ 43,266	\$ 134,357
Issuance of Units			15,000			15,000
Mortgage financing, net of financing costs of \$1,383	16,927	65,026	62,700	56,592	76,142	277,387
	\$ 24,474	\$ 101,583	\$ 91,875	\$ 89,404	\$ 119,408	\$ 426,744

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements

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

Years ended December 31, 2019 and 2018

3. Acquisitions and dispositions (continued):

Year end December 31, 2018:

	3115 Harvester Road	5775 Yonge Street	80 Whitehall Drive	32071 South Fraser Way	6 Staples Avenue	1020 68th Avenue NE	2300 St. Laurent Boulevard	9200 Glenlyon Parkway	Net assets acquired
Acquisition date	January 18, 2018	June 6, 2018	August 16, 2018	August 3, 2018	September 7, 2018	September 14, 2018	October 1, 2018	November 7, 2018	
Net assets acquired:									
Investment properties (including acquisition costs of \$7,984)	\$ 23,168	\$ 89,559	\$ 20,903	\$ 22,287	\$ 34,003	\$ 27,092	\$ 6,525	\$ 35,568	\$ 259,105
Other receivables	29	77	41	33	31	26	21	32	290
Prepaid expenses and deposits	8	300	27	79	64	56	28	1,259	1,821
Tenant rental deposits and prepayments	(56)	(234)	(118)	—	—	—	—	(287)	(695)
Accounts payable and accrued liabilities	(148)	(1,272)	(740)	(89)	(283)	(161)	(235)	(1,353)	(4,281)
	\$ 23,001	\$ 88,430	\$ 20,113	\$ 22,310	\$ 33,815	\$ 27,013	\$ 6,339	\$ 35,219	\$ 256,240
Consideration:									
Cash on hand	\$ 8,341	\$ 33,627	\$ 8,073	\$ 8,142	\$ 12,418	\$ 9,832	\$ 1,970	\$ 12,883	\$ 95,286
New and assumed mortgage financing, net of financing costs of \$997	14,660	54,803	12,040	14,168	21,397	17,181	4,369	22,336	160,954
	\$ 23,001	\$ 88,430	\$ 20,113	\$ 22,310	\$ 33,815	\$ 27,013	\$ 6,339	\$ 35,219	\$ 256,240

On July 25, 2019, the REIT completed the sale of 417 Exeter Road, for a sale price of \$8,700. The proceeds from the disposition, net of costs was \$8,115. The assets and liabilities associated with the property have been derecognized.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

3. Acquisitions and dispositions (continued):

On December 20, 2018, the REIT completed the sale of 63 Innovation Drive and 1035 Industrial Road for a combined sale price of \$15,375. The proceeds from the disposition, net of costs, and mortgages assumed were \$6,478. The assets and liabilities associated with the properties have been derecognized.

4. Investment properties:

The following table summarizes the changes in investment properties for the years ended December 31, 2019 and 2018:

	Investment properties
Balance, December 31, 2017	\$ 657,727
Acquisitions	259,105
Additions	8,917
Dispositions	(15,375)
Amortization of leasing costs, tenant inducements and straight-line rents	1,683
Fair value adjustment	16,080
Balance, December 31, 2018	928,137
Acquisitions	430,794
Additions	14,441
Dispositions	(8,700)
Amortization of leasing costs, tenant inducements and straight-line rents	(1,540)
Fair value adjustment	(615)
Balance, December 31, 2019	\$ 1,362,517

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:

	2019	2018
Terminal and direct capitalization rates - range	4.75% to 10.25%	5.00% to 10.25%
Terminal and direct capitalization rate - weighted average	6.36%	6.45%
Discount rates - range	5.75% to 10.25%	5.75% to 10.25%
Discount rate - weighted average	7.13%	7.26%

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

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:

	2019	2018
Weighted average terminal and direct capitalization rate:		
25-basis points increase	\$ (30,230)	\$ (29,232)
25-basis points decrease	34,131	32,129
Weighted average discount rate:		
25-basis points increase	(28,446)	(27,606)
25-basis points decrease	31,534	29,606

5. Instalment note 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 schedule principal and imputed interest instalment receipts at December 31, 2019 are as follows:

	Principal receipts	Imputed interest receipts
2020	\$ 83	\$ 33
2021	72	35
2022	62	36
2023	54	37
2024	47	36
Thereafter	82	76
	\$ 400	\$ 253

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

5. Instalment notes receivable (continued):

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

	2019		2018	
Current	\$	83	\$	134
Non-current		317		459
	\$	400	\$	593

6. Tenant and other receivables:

The following table presents details of tenant and other receivables:

	2019		2018	
Tenant receivables	\$	2,294	\$	2,247
Other receivables		867		408
	\$	3,161	\$	2,655

As at December 31, 2019 and 2018, there was no impairment of tenant and other receivables.

7. Mortgages payable:

As at December 31, 2019, the REIT had \$795,856 (December 31, 2018 – \$529,660) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.38% (December 31, 2018 – 3.41%) after giving effect to the instalment note receipts, and a weighted average term to maturity of 3.87 years (December 31, 2018 – 3.85 years). All interest rates are fixed for the term of the respective mortgages except for seven (December 31, 2018 – six) 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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

7. Mortgages payable (continued):

As at December 31, 2019, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2020	\$ 20,315	\$ 91,925	\$ 112,240	\$ 24,257
2021	20,018	23,247	43,265	22,837
2022	18,050	155,434	173,484	20,180
2023	11,929	141,596	153,525	13,053
2024	10,189	79,394	89,583	10,077
Thereafter	9,112	214,647	223,759	8,534
Face value	<u>\$ 89,613</u>	<u>\$ 706,243</u>	<u>\$ 795,856</u>	<u>\$ 98,938</u>
Unamortized mark to market mortgage adjustments			252	
Unamortized financing costs			(3,525)	
Total mortgages payable			<u>\$ 792,583</u>	

As at December 31, 2018, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2019	\$ 15,329	\$ 31,551	\$ 46,880	\$ 17,641
2020	12,855	76,399	89,254	14,645
2021	12,181	26,737	38,918	13,332
2022	9,855	152,690	162,545	10,885
2023	3,572	134,811	138,383	4,245
Thereafter	7,114	46,566	53,680	6,494
Face value	<u>\$ 60,906</u>	<u>\$ 468,754</u>	<u>\$ 529,660</u>	<u>\$ 67,242</u>
Unamortized mark to market mortgage adjustments			293	
Unamortized financing costs			(2,757)	
Total mortgages payable			<u>\$ 527,196</u>	

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

7. Mortgages payable (continued):

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

	2019	2018
Current:		
Mortgages payable	\$ 112,240	\$ 46,880
Unamortized mark to market mortgage adjustments	22	33
Unamortized financing cost	(1,028)	(901)
	111,234	46,012
Non-current:		
Mortgages payable	683,616	482,780
Unamortized mark to market mortgage adjustments	230	260
Unamortized financing cost	(2,497)	(1,856)
	681,349	481,184
	\$ 792,583	\$ 527,196

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 year ended December 31, 2019 and 2018:

	Class B LP Units	Amount
Outstanding, January 1, 2018	4,268,837	\$ 28,644
Fair value adjustment	—	(4,482)
Outstanding, December 31, 2018	4,268,837	24,162
Class B LP Units exchanged to Units	(412,655)	(2,984)
Fair value adjustment	—	6,933
Outstanding, December 31, 2019	3,856,182	\$ 28,111

During the years ended December 31, 2019 and 2018, distributions on Class B LP Units were \$2,515 and \$2,536, respectively, and have been recorded as an expense in the consolidated statements of income and comprehensive income.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

9. Credit facilities:

The REIT has two credit facilities available from two Canadian chartered banks.

The \$35,000 (December 31, 2018 - \$30,000) secured floating rate revolving credit facility bears interest on cash advances at 100 basis points per annum above the prime rate or 205 basis points per annum over the floating banker's acceptance rate. This facility is secured by certain investment properties and matures on March 31, 2020. As at December 31, 2019, the facility was undrawn (December 31, 2018 - \$3,800).

The \$20,000 (December 31, 2018 - \$20,000) unsecured floating rate revolving credit 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 December 31, 2019 and December 31, 2018.

10. Accounts payable and accrued liabilities:

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

	2019	2018
Accounts payable and accrued liabilities	\$ 15,276	\$ 12,117
Finance costs payable	1,751	1,567
Distributions payable	4,196	2,832
Unit-based compensation liability (note 12)	912	63
	<u>\$ 22,135</u>	<u>\$ 16,579</u>

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 notional principal amount of the outstanding interest rate swap contracts at December 31, 2019 was \$129,488 (December 31, 2018 - \$66,712). Total unrealized loss on change in the fair value of the derivative instruments for the year ended December 31, 2019 was \$677 (2018 - \$153).

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

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. 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 (as defined in the DOT) 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 board of trustees of the REIT ("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.

(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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

12. Unitholders' equity (continued):

(c) Units outstanding:

The following table summarizes the changes in Units for the years ended December 31, 2019 and 2018:

	Units	Amount
Balance, December 31, 2017	41,287,734	\$ 245,259
Issue of Units – public offering	15,337,550	97,790
Issue of Units – non-executive Trustee Unit issuance plan	14,660	92
Issue of Units – DRIP	575,786	3,616
Issue of Units – options exercised	913	6
Issuance costs	—	(5,722)
Balance, December 31, 2018	57,216,643	341,041
Issue of Units – public offering	23,839,500	161,065
Issue of Units – acquisition of investment property	2,148,904	15,000
Issue of Units – non-executive Trustee Unit issuance plan	3,427	23
Issue of Units – exchange of Class B LP Units (note 8)	412,655	2,984
Issue of Units – DRIP	901,425	5,850
Issue of Units – options exercised	239,875	1,721
Issuance costs	—	(8,487)
Balance, December 31, 2019	84,762,429	\$ 519,197

On November 18, 2019, the REIT issued 11,638,000 Units for cash of \$80,535 pursuant to a public offering.

On November 15, 2019, the REIT issued 2,148,904 Units for \$15,000 as partial consideration paid for the purchase of 101 McNabb Street.

On September 12, 2019, the REIT issued 12,201,500 Units for cash of \$80,530 pursuant to a public offering.

On July 20, 2018, the REIT issued 9,012,550 Units for cash of \$57,500 pursuant to a public offering.

On March 1, 2018, the REIT issued 6,325,000 Units for cash of \$40,290 pursuant to a public offering.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

12. Unitholders' equity (continued):

(d) Unit-based compensation plans:

(i) Incentive Unit Plan:

On June 10, 2019, the REIT established the Incentive Unit Plan to replace the non-executive trustee unit issuance plan and the Unit-based compensation plan (collectively, the "Plans"). The previous Plans granted Units and options respectively. The Incentive Unit Plan issues two types of units: (i) deferred Units; and (ii) restricted Units.

Deferred Units are granted to the non-executive Trustees as part of a Trustee's annual board retainer and meeting 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) that 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 comparable to that of the previous Plans and will continue to be classified as liabilities within the REIT's statement of financial position. Unit based compensation expense is recognized in net income and comprehensive income over the vesting period of the Incentive Units. Fair value adjustments are made upon the revaluation of the Incentive Units at each reporting period and recorded in net income and comprehensive income.

As at December 31, 2019, the REIT issued 16,634 Incentive Units with a fair value of \$121.

(ii) Unit Options:

Prior to June 10, 2019, the Trustees had the discretion to grant certain Trustees, officers of the REIT and its subsidiaries and certain eligible service providers, non-transferable options to purchase Units pursuant to the REIT's Unit-based compensation plan.

On June 10, 2019 the non-executive trustee unit issuance plan was terminated and the Unit-based compensation plan was 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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

12. Unitholders' equity (continued):

The following table summarizes the changes in Unit based options outstanding for the years ended December 31, 2019 and 2018:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2017	2,005,500	\$ 6.51	2.89	902,482
Unit options exercised	(24,999)	6.17	—	—
Unit options expired and cancelled	(474,001)	7.47	—	—
Unit options granted	654,000	6.55	4.46	—
Outstanding, December 31, 2018	2,160,500	6.32	3.15	970,474
Unit options exercised	(745,327)	6.19	—	—
Outstanding, December 31, 2019	1,415,173	6.38	2.83	785,313

On March 9 and September 20, 2018, the REIT granted 325,000 Unit options and 329,000 Unit options at an exercise price of \$6.43 and \$6.66 per Unit option, expiring on March 9, 2023 and September 20, 2023, respectively.

Options outstanding as of December 31, 2019 consist of the following:

Exercise price	Unit Options Outstanding	Unit Options exercisable	Expiry Date
\$6.04	140,000	140,000	August 5, 2021
\$6.28	184,168	184,168	November 14, 2021
\$6.17	226,669	133,329	August 11, 2022
\$6.44	252,834	150,660	November 16, 2022
\$6.43	290,835	75,829	March 9, 2023
\$6.66	320,667	101,327	September 20, 2023
	1,415,173	785,313	

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

12. Unitholders' equity (continued):

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

	2019	2018
Average expected Unit option holding period	1.74 years	2.06 years
Average expected volatility rate	15.11%	14.78%
Average dividend yield	8.15%	10.49%
Average risk-free interest rate	1.70%	1.84%

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.

- (iii) The following table summarizes for the years ended December 31, 2019 and 2018, the amount of Unit based compensation liability included in accounts payable and accrued liabilities:

Balance, December 31, 2017	\$	351
Unit options granted		109
Unit options exercised		(6)
Fair value adjustment		(391)
Balance, December 31, 2018	\$	63
Unit options expense		70
Unit options exercised		(703)
Deferred units granted		117
Fair value adjustment		1,365
Balance, December 31, 2019	\$	912

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

12. Unitholders' equity (continued):

(e) 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 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 years ended December 31, 2019 and 2018, the REIT declared distributions of \$38,094 and \$30,509, respectively.

(f) 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 on the TSX for the five trading days immediately preceding the applicable date of distribution.

For the years ended December 31, 2019 and 2018, the REIT issued 901,425 and 575,786 Units under the DRIP, including DRIP on the Class B LP Units for a stated value of \$5,850 and \$3,616, respectively.

(g) Short form base shelf prospectus:

On June 1, 2018, the REIT filed a short-form base shelf prospectus ("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 \$300,000.

As at December 31, 2019, the REIT issued 32,852,050 Units for gross proceeds of \$218,565 pursuant to the Prospectus. During 2019, the REIT issued 23,839,500 Units for gross proceeds of \$161,065.

On January 23, 2020, the REIT filed a short-form base shelf prospectus which is valid for a 25 month period for an aggregate offering amount of up to \$500,000 and replaces the Prospectus.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

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"), entered into with Starlight on December 14, 2012, which was assigned to a Starlight affiliate effective January 1, 2018, 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;
 - (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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

13. Transactions with related parties (continued):

The following table presents the expenses incurred for the years ended December 31, 2019 and 2018:

	2019	2018
Asset management fees	\$ 3,280	\$ 2,625
Acquisition fees	2,852	2,008
Other expenses	155	142

At December 31, 2019, \$370 (December 31, 2018 - \$277) is included in accounts payable and accrued liabilities.

No incentive fees were earned or capital expenditure fees charged for the years ended December 31, 2019 and 2018.

(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, 2019 was \$1,027 (December 31, 2018 - \$901). It includes compensation paid by Starlight (pursuant to the Asset Management Agreement) to key REIT management personnel for the years ended December 31, 2019 and 2018 of \$820 and \$690, respectively.

(g) Public offerings:

An entity under the same common ownership as Starlight purchased 657,295 Units for \$4,500 and 203,500 Units for \$1,298 in the 2019 and 2018 public offerings.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

14. Revenue:

The components of the REIT's revenues are as follows:

	2019	2018
Base rent	\$ 58,070	\$ 48,041
Operating costs and realty tax recoveries	44,521	35,711
Parking and other	3,866	3,316
	\$ 106,457	\$ 87,068

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

Within one year	\$ 74,731
Later than one year and not longer than five years	214,577
Thereafter	110,790
	\$ 400,098

For the year ended December 31, 2019, the Federal Government of Canada provides 20% (2018 - 21%) of the REIT's rental revenue.

15. Finance costs:

The following table presents the financing costs incurred for the years ended December 31, 2019 and 2018:

	2019	2018
Interest on mortgages payable	\$ 19,353	\$ 15,050
Other interest expense and standby fees	636	243
Amortization of mortgage discounts (premiums)	(29)	2
Amortization of financing costs	1,072	762
	\$ 21,032	\$ 16,057

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Deposits	\$ 195	\$ (334)
Tenant and other receivables	(443)	1,240
Prepaid expenses and deposits	74	2,160
Tenant rental deposits and prepayments	113	1,337
Accounts payable and accrued liabilities	(862)	2,572
	<u>\$ (923)</u>	<u>\$ 6,975</u>

17. Commitments and contingencies:

As at December 31, 2019, the REIT has entered into commitments for building renovations totaling \$1,347 (December 31, 2018 - \$1,040).

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 facilities. 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.

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, as opportunities arise.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

19. Capital management (continued):

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, 2019 and 2018.

The following table presents the REIT's capital at December 31, 2019 and 2018:

	2019	2018
Unitholders' equity	\$ 527,330	\$ 363,090
Class B LP Units	28,111	24,162
Mortgages payable	792,583	527,196
Credit facilities	—	3,800
	<u>\$ 1,348,024</u>	<u>\$ 918,248</u>

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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

20. Risk management and fair values (continued):

As at December 31, 2019 and December 31, 2018, the REIT's interest-bearing financial instruments were:

	Carrying value	
	2019	2018
Fixed-rate instruments:		
Mortgages payable	\$ 795,856	\$ 529,660
Variable-rate instruments:		
Credit facilities	\$ —	\$ 3,800

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 December 31, 2019 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 all financial assets and its exposure is generally limited to the carrying amount on the consolidated statement 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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

20. Risk management and fair values (continued):

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

	2019		2018	
0 to 30 days	\$	1,068	\$	530
31 to 90 days		227		54
Over 90 days		76		163
Total	\$	1,371	\$	747

(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	2020	2021	2022	2023	2024	Thereafter
Mortgages payable (note 7)	\$ 795,856	\$ 112,240	\$ 43,265	\$ 173,484	\$ 153,525	\$ 89,583	\$ 223,759
Tenant rental deposits and prepayments	5,275	5,275	—	—	—	—	—
Accounts payable and accrued liabilities (note 10)	22,135	22,135	—	—	—	—	—
	\$ 823,266	\$ 139,650	\$ 43,265	\$ 173,484	\$ 153,525	\$ 89,583	\$ 223,759

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.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

20. Risk management and fair values (continued):

(a) Fair values:

The fair values of the REIT's financial assets and financial 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.

The tables below presents the REIT's assets and liabilities measured or disclosed at fair value on the consolidated statements of financial position as at December 31, 2019 and 2018:

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

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

20. Risk management and fair values (continued):

2018	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ —	\$ —	\$ 928,137	\$ 928,137
Instalment notes receivable	—	815	—	815
Derivative instruments, net	—	570	—	570
	\$ —	\$ 1,385	\$ 928,137	\$ 929,522
Liabilities:				
Mortgages payable	\$ —	\$ 528,500	\$ —	\$ 528,500
Class B LP Units	24,162	—	—	24,162
Unit-based compensation	—	—	63	63
	\$ 24,162	\$ 528,500	\$ 63	\$ 552,725

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

(a) Investment properties:

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

(b) 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 December 31, 2019 was approximately \$591 (December 31, 2018 - \$815).

(c) 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, 2019 was approximately \$795,700 (December 31, 2018 - \$528,500).

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2019 and 2018

20. Risk management and fair values (continued):

(d) 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.

(e) 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(d).

(f) 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.