TSX: TNT.UN

# Q2 2021

# MANAGEMENT'S DISCUSSION & ANALYSIS

AUGUST 4, 2021

5775 Yonge Street
GTA, ON

# AT A GLANCE

True North Commercial REIT has demonstrated a solid track record

**$1.4 B**
Total Assets

**$673 M**
Market Capitalization

**4.7 YR**
Weighted Average Lease Term

**45**
Properties

**97%**
Occupancy

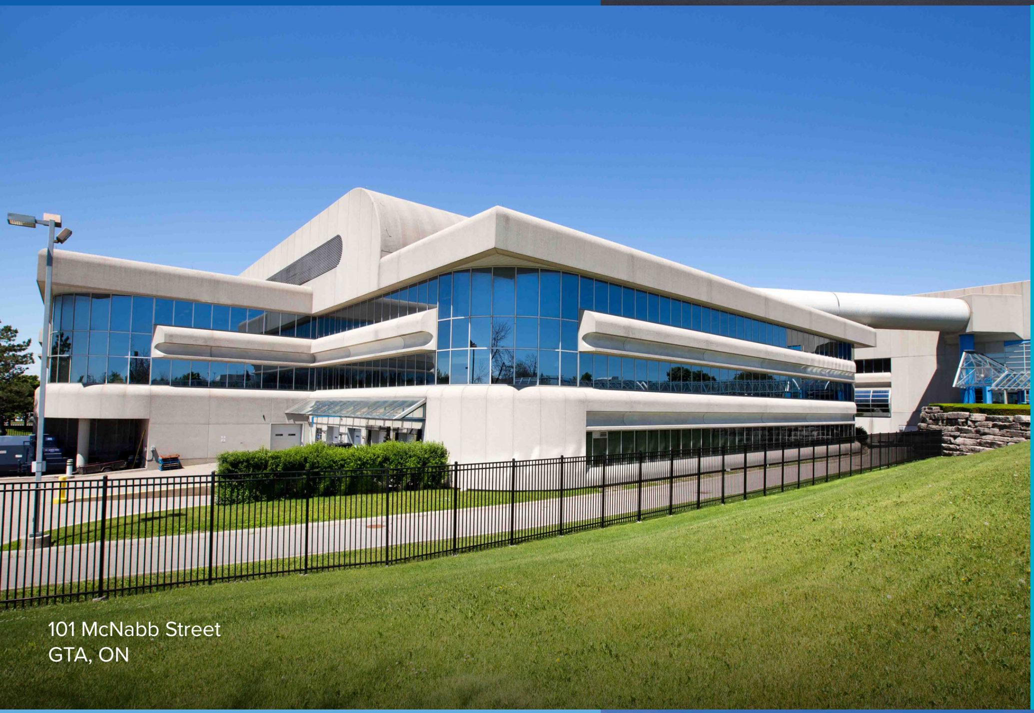
**76%**
Revenues Generated from Goverment & Credit rated Tenants

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

**Stable**
Contractual
Cash flow

6925 Century Avenue
GTA, ON

**High Quality**
Tenant Base


101 McNabb Street
GTA, ON

**Focus on**
Urban Areas


675 Cochrane Drive
GTA, ON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the consolidated financial results of True North Commercial Real Estate Investment Trust (the "REIT") is intended to provide readers with an assessment of the performance of the REIT for the three and six months ended June 30, 2021 and 2020 and should be read in conjunction with the REIT's annual audited consolidated financial statements for the years ended December 31, 2020 and 2019, and accompanying notes thereto. These documents can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com and on the REIT's website at https://truenorthreit.com/ under the tab "Financial Reports" in the "Investor" section.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

This MD&A, and the documents incorporated by reference herein, contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the REIT's business and results of operations and the effect of the coronavirus (SARS-CoV-2) ("COVID-19") pandemic on the REIT's business and operations. Forward-looking statements involve known and unknown risks and uncertainties, which may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, assumptions may not be correct and objectives, strategic goals and priorities may not be achieved. A variety of factors, many of which are beyond the REIT's control, affect the operations, performance and results of the REIT and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to, risks and uncertainties related to the trust units of the REIT ("Units"), risks related to the REIT and its business, and any risks related to the uncertainties surrounding the duration and the direct and indirect impact of the COVID-19 pandemic on the business, operations and financial condition of the REIT and its tenants, as well as on consumer behavior and the economy in general, including the ability to enforce leases, perform capital expenditure work, increase rents, raise capital through the issuance of Units or other securities of the REIT and obtain mortgage financing on the REIT's properties. The foregoing is not an exhaustive list of factors that may affect the REIT's forward-looking statements. Other risks and uncertainties not presently known to the REIT could also cause actual results or events to differ materially from those expressed in its forward-looking statements. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance actual results will be consistent with such forward-looking statements.

Information contained in forward-looking statements is based upon certain material assumptions applied in drawing a conclusion or making a forecast or projection, including management's perception of historical trends, current conditions and expected future developments, as well as other considerations believed to be appropriate in the circumstances. There can be no assurance regarding: (a) the impact of COVID-19 on the REIT's business, operations and performance, including the performance of its Units; (b) the REIT's ability to mitigate any impacts related to COVID-19; (c) the effectiveness, acceptance and availability of vaccines, as well as the duration of associated immunity and efficacy of the vaccines against variants of COVID-19 which may prolong the impacts of COVID-19 on the Canadian economy, the retail and commercial real estate industries, occupancy levels and the REIT; (d) credit, market, operational, and liquidity risks generally; (e) Starlight Group Property Holdings Inc., or any of its affiliates

(“Starlight”), continuing as asset manager of the REIT in accordance with its current asset management agreement; and (f) other risks inherent to the REIT’s business and/or factors beyond its control which could have a material adverse effect on the REIT.

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

## NON-IFRS FINANCIAL MEASURES

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

FFO is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for capital needs. The REIT calculates FFO in accordance with the guidelines set out by the Real Property Association of Canada (“Realpac”). Management considers this non-IFRS measure to be an important measure of the REIT’s operating performance.

AFFO is an important performance measure to determine the sustainability of future distributions paid to holders of Units (“Unitholders”). In calculating AFFO, the REIT makes certain non-cash adjustments to FFO such as: amortization of fair value mark-to-market adjustments on assumed mortgages, amortization of deferred financing costs, straight-line rent, instalment note receipts and non-cash Unit-based compensation expense and a deduction of a reserve for capital expenditures, tenant inducements, and leasing costs. The method applied by the REIT to calculate AFFO differs from the definition of AFFO as defined by Realpac. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance.

For the purposes of calculating FFO and AFFO per Unit, class B limited partnership units (“Class B LP Units”) of True North Commercial Limited Partnership are included as Units outstanding on both a basic and diluted basis. Diluted amounts assume the conversion of any vested, unexercised and in the money Unit options. Diluted amounts also include Incentive Units (as defined herein) of the REIT.

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

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

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

Adjusted EBITDA is defined by the REIT as net earnings before, where applicable, interest, taxes, depreciation, amortization and fair value gain (loss) on financial instruments and investment properties and excludes non-recurring items such as transaction costs on the sale of investment properties.

The interest coverage ratio is used by the REIT to monitor the REIT's ability to service interest requirements of its outstanding debt. The ratio is calculated by dividing Adjusted EBITDA by the REIT's interest obligations for the period. Management considers this non-IFRS measure useful in assessing the REIT's ability to service its debt.

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


675 Cochrane Drive
GTA, ON

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## BASIS OF PRESENTATION

The REIT's condensed consolidated financial statements for the three and six months ended June 30, 2021 and 2020 have been prepared in accordance with IFRS. The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of dollars, except for Unit and per Unit information.

Certain time periods used in this MD&A are used interchangeably such as three and six months ended June 30, 2021 ("Q2-2021") and ("YTD-2021"), respectively, three and six months ended June 30, 2020 ("Q2-2020") and ("YTD-2020"), respectively, and three months ended March 31, 2021 ("Q1-2021").

## OVERVIEW AND STRATEGY

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to the DOT, and governed by the laws of the Province of Ontario. The registered head office of the REIT is 1400 – 3280 Bloor Street West, Centre Tower, Toronto, Ontario, Canada, M8X 2X3. The Units are listed on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN. As at June 30, 2021, the REIT owned and operated a portfolio of 45 office properties across Canada consisting of approximately 4.7 million square feet.

The objectives of the REIT are to:

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

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

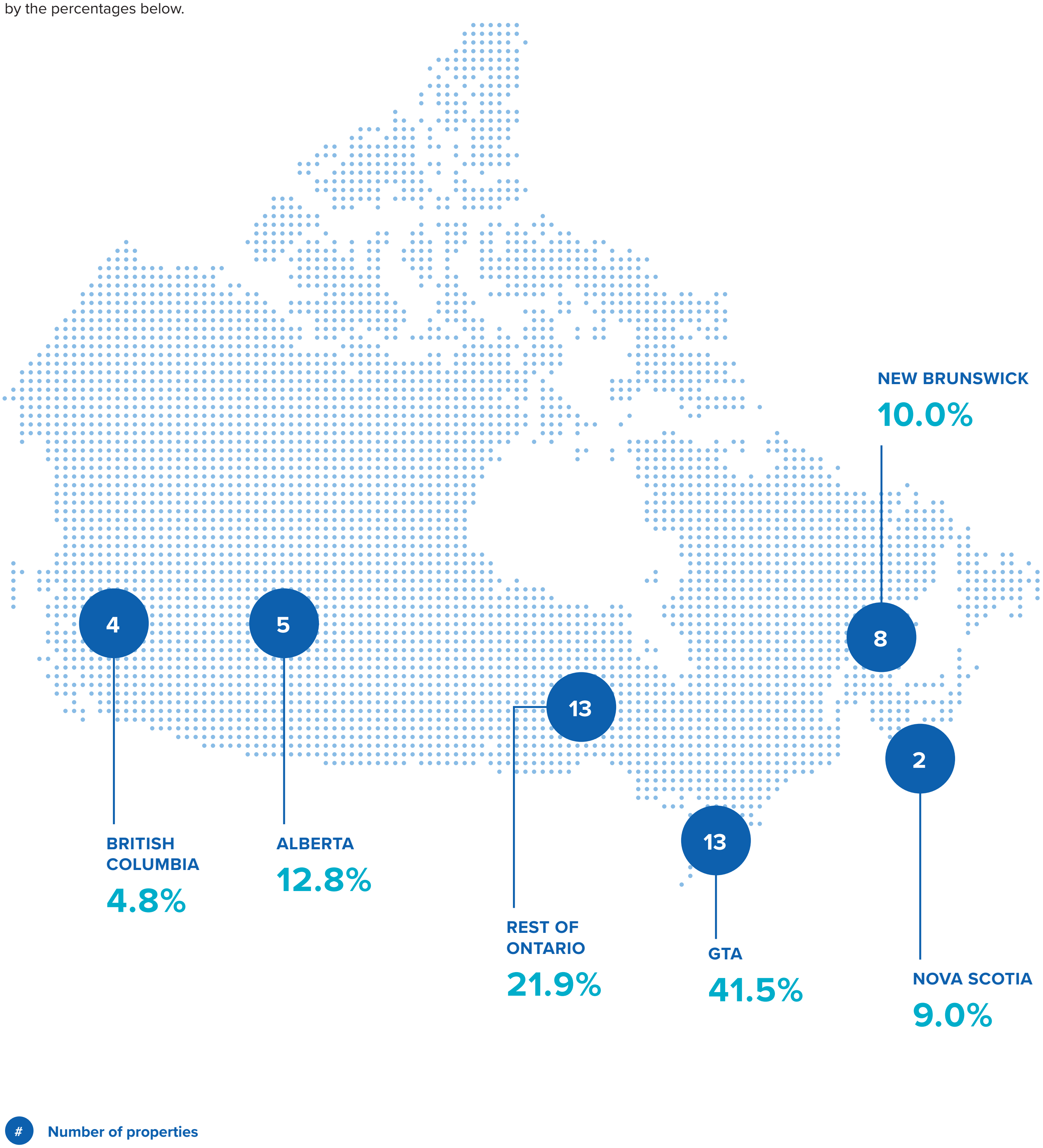
9200 Glenlyon Parkway
Burnaby, BC

# PORTFOLIO OVERVIEW

As at June 30, 2021, the REIT's portfolio was comprised of 45 office properties totaling approximately 4.7 million square feet of gross leasable area ("GLA"). See Appendix A for a detailed listing of the REIT's properties.

### Current Portfolio & Geographic Diversification

GLA by province as at June 30, 2021 is denoted by the percentages below.



# TENANT PROFILE

Top 20 tenants account for 69% of revenue. Approximately 76% of the REIT's portfolio revenue is generated by government and credit rated tenants.

**36%**
government tenants

+

**40%**
credit rated tenants

=

**76%**
total government and credit rated tenants

### The REIT's top 20 tenants as at June 30, 2021:

| TENANT | % OF GROSS REVENUE | GLA | REMAINING LEASE TERM[1] |
|---|---|---|---|
| Federal Government of Canada | 14.2% | 658,800 | 6.3 years |
| Province of Alberta | 9.7% | 412,800 | 4.9 years |
| Province of Ontario | 7.0% | 288,200 | 3.1 years |
| TD Insurance | 5.7% | 275,600 | 3.6 years |
| Golder Associates Ltd. | 3.8% | 148,300 | 6.7 years |
| General Motors of Canada Company | 3.5% | 154,800 | 5.2 years |
| Province of New Brunswick | 2.4% | 172,400 | 1.3 years |
| Stantec Consulting Ltd. | 2.3% | 105,100 | 2.0 years |
| Lumentum Ottawa Inc. | 2.2% | 148,100 | 1.6 years |
| LMI Technologies Inc. | 2.1% | 90,600 | 5.6 years |
| Intact Insurance Co. | 2.1% | 77,800 | 3.9 years |
| Province of British Columbia | 1.9% | 81,600 | 6.3 years |
| Staples Canada ULC | 1.9% | 122,000 | 12.3 years |
| General Dynamics Land Systems | 1.8% | 148,400 | 2.5 years |
| EMS Technologies Canada, Ltd. | 1.7% | 107,200 | 3.2 years |
| Ceridian Canada Ltd. | 1.5% | 49,800 | 4.7 years |
| Smucker Foods of Canada Corporation | 1.4% | 60,800 | 8.4 years |
| Paymentus (Canada) Corporation | 1.3% | 55,800 | 9.8 years |
| ADP Canada Co. | 1.2% | 65,600 | 5.0 years |
| Trans Union Of Canada Inc. | 1.1% | 41,500 | 1.3 years |
| **Total** | **68.7%** | **3,265,200** | **4.9 years** |

(1) Weighted by annualized gross revenue.

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

| Public Administration | Services | Finance, Insurance, Real Estate | Manufacturing | Other |
|---|---|---|---|---|
| **36%** | **26%** | **17%** | **12%** | **9%** |

# LEASING ACTIVITY

As of June 30, 2021, the REIT's occupancy remained stable at 97% with a weighted average remaining lease term of 4.7 years.

The following table summarizes leasing activity for Q2-2021 and YTD- 2021:

| | New Lease Deals | | Lease Renewals and Replacements | | |
|---|---|---|---|---|---|
| | Leasable Area | Weighted Average Lease Term | Leasable Area | Weighted Average Lease Term | % Increase In Rents |
| QTD 2021 | 25,500 SF | 0.9 YR | 188,300 SF | 4.0 YR | 3.8% |
| YTD 2021 | 31,000 SF | 1.5 YR | 287,700 SF | 5.1 YR | 2.6% |

In Q2-2021, the REIT secured a one year lease of swing space for approximately 22,000 square feet in Halifax, Nova Scotia while the tenant completes their renovation at a nearby building. YTD-2021 also includes a new lease deal for 3,000 square feet in Calgary, Alberta, which remains one of Canada's toughest office leasing markets.

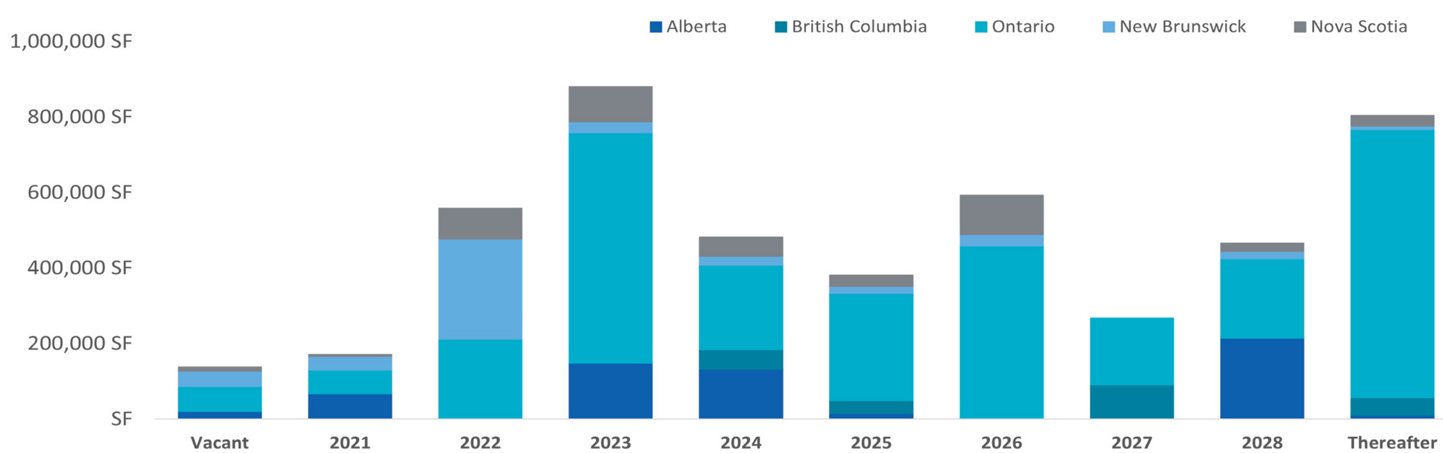
The REIT renewed and replaced 188,300 square feet with a weighted average lease term of 4.0 years and 3.8% increase over expiring base rents. This included lease renewals with two key credit rated tenants for a term of five years each in Halifax, Nova Scotia for 65,600 square feet and Fredericton, New Brunswick for 19,500 square feet. Government tenancy renewals totaled 67,700 square feet with an average term of 2.9 years in Toronto and Ottawa, Ontario.

The REIT's renewal activity YTD-2021 achieved a 2.6% increase in base rents over expiring rates and included 108,700 square feet of government tenant renewals with a weighted average lease term of 5.6 years.

The REIT's retention rate of 81% since inception continues to be the REIT's key to success and is testament to the REIT's active asset management strategy that prioritizes maintaining strong relationships with tenants.

## LEASE ROLLOVER PROFILE

Lease maturities are based on the square footage of the REIT's leases. As at June 30, 2021, the lease rollover profile was as follows:



## IMPACT OF COVID-19

The REIT continues to perform well given the uncertainty surrounding the COVID-19 pandemic. We continue to remain engaged with our tenants to ensure concerns are promptly and meaningfully addressed. As of August 4, 2021, the REIT had collected, approximately 99.5% of its Q1-2021 and Q2-2021 contractual rents. This is reflective of the REIT's high quality tenant base given approximately 36% of its revenue is generated from the Federal Government of Canada and the Provincial Governments of Alberta, British Columbia, New Brunswick and Ontario. Additionally, 40% of its revenue is generated from credit rated tenants that are well capitalized and possess the financial resources to meet their rental obligations.

At the end of Q2-2021, the REIT had access to approximately $62,473 of cash and undrawn credit facilities. With a weighted average maturity of 3.59 years for its mortgage portfolio, the REIT also has minimal refinancing exposure with only 1.1% of its portfolio maturing in 2021.

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 and the Canada Emergency Rent Subsidy ("CERS") program. These programs assist businesses experiencing a significant drop in revenue as a result of COVID-19. Businesses that qualify for CERS will receive a subsidy for rent or mortgage interest payments, as applicable. CERS subsidizes, on a sliding scale, up to a maximum of 65% of eligible expenses (including rent), as well as an additional 25% to businesses that have been temporarily shut down by a mandatory public health order issued by a qualified public health authority. On April 19, 2021, the Federal government announced the extension of the program to October 23, 2021. As of the date of this MD&A, six of the REIT's tenants totaling 15,800 square feet (0.03% of the REIT's GLA) are participating in CERS. The REIT recognized a $26 and $51 expense in property operating costs representing its rental contribution granted to tenants as part of the CERS program for the three and six months ended June 30, 2021.

For the three and six months ended June 30, 2021, the REIT agreed to defer rental payments of approximately $4 and $8, respectively. The REIT has deferred a total of $446 of rental payments for certain tenants since the start of the pandemic. As of June 30, 2021, all deferred rental payments had been received.

While vaccination programs continue throughout Canada, most industries, including commercial real estate, continue to be affected to varying degrees by COVD-19. Canada recently began to reopen as lockdown and other public health restrictions began to ease during the second half of Q2-2021. The continuation of mass vaccination programs to inoculate Canadians against COVID-19 has resulted in increased economic optimism, particularly in the office market as employers have commenced their return to office programs. Current government forecasts indicate that eligible Canadians who want to receive the vaccine are anticipated to be fully immunized by the end of September 2021. The growing emergence of COVID-19 variants of concern that are more transmissible and carry increased health risks threaten to escalate COVID-19 case counts and hospitalizations, and it remains uncertain whether or not there will be a fourth wave in Canada. Disruptions caused by the imposition of future lockdowns and emergency measures may negatively impact, among other things: the ability of the REIT to collect rent and implement rent increases; economic activity in regions where the REIT's investment properties are located; the REIT's property operating costs and expenses incurred under the CERS program or any additional programs; the REIT's ability to raise capital (which, in turn, could materially impact the REIT's business strategy); and to maintain its distributions. Although emergency measures have started to ease in many provinces and territories as more Canadians receive vaccinations and active cases decline the uncertainty created by variants of concern and potential further closures of certain businesses could impact the REIT's business and operations for a prolonged period.

It continues to be difficult to predict the duration and extent of the impact of COVID-19 on the REIT's business and operations, both in the short and long-term. Certain aspects of the REIT's business and operations that could potentially be impacted include, without limitation, rental income, occupancy, tenant inducements, future demand for space and market rents, all of which ultimately may impact the underlying valuation of the REIT's investment properties and its ability to maintain its distributions to Unitholders. See "Risks and Uncertainties" for a discussion about the risks associated with COVID-19.

Management continues to actively assess and respond where possible, to the effects of the COVID-19 pandemic on the REIT's tenants, suppliers and service providers, while monitoring governmental actions being taken to curtail the spread of COVID-19. The REIT is continuing to review its future cash flow projections and the valuation of its properties in light of the COVID-19 pandemic, and intends to continue following health and safety guidelines as they evolve.

With a close to fully occupied portfolio of predominantly government and credit rated tenants, the REIT is well positioned to maintain stability through these times of uncertainty. The REIT is confident the strategic measures implemented to date will help to ensure its continued success and its ability to provide value to Unitholders.

## SECOND QUARTER AND YEAR TO DATE HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

The REIT has continued to perform in line with management expectations in the first half of 2021 with positive financial results for Q2-2021. Collections remain strong with approximately 99.5% of contractual rents collected for the six months ended June 30, 2021. Q2-2021 occupancy remained stable at 97% with an average remaining lease term of 4.7 years and 76% of revenue generated from government and credit rated tenants.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Portfolio** | | | | |
| Number of properties | | | 45 | 49 |
| Portfolio GLA | | | 4,744,700 sf | 4,836,600 sf |
| Occupancy | | | 97 % | 97 % |
| Remaining weighted average lease term | | | 4.7 years | 5.0 years |
| Revenue from government and credit rated tenants | | | 76 % | 76 % |
| **Financial** | | | | |
| Revenue | $ 33,896 | $ 33,999 | $ 68,840 | $ 69,328 |
| NOI | 20,531 | 20,991 | 41,621 | 42,100 |
| Net income and comprehensive income | 6,521 | 4,462 | 16,241 | 22,072 |
| Same Property NOI | 21,996 | 22,061 | 44,084 | 44,001 |
| Same Property NOI growth | (0.3) % | (1.9) % | 0.2 % | (1.1)% |
| FFO | $ 13,436 | $ 13,456 | $ 26,947 | $ 26,629 |
| FFO per Unit - basic | 0.15 | 0.15 | 0.30 | 0.30 |
| FFO per Unit - diluted | 0.15 | 0.15 | 0.29 | 0.30 |
| AFFO | $ 12,816 | $ 12,906 | $ 25,602 | $ 25,493 |
| AFFO per Unit - basic | 0.14 | 0.14 | 0.28 | 0.29 |
| AFFO per Unit - diluted | 0.14 | 0.14 | 0.28 | 0.29 |
| AFFO payout ratio - diluted | 106 % | 103 % | 106 % | 104 % |
| Distributions declared | $ 13,467 | $ 13,250 | $ 26,888 | $ 26,438 |

Revenue and NOI have remained stable with a small decline of 0.3% (YTD - 1%) and 2% (YTD - 1%), respectively, due to the sale of four properties during the last 12 months coupled with a slight decline in Same Property NOI of 0.3%. Three of the dispositions were located in smaller tertiary markets and reflect the REIT's strategy to focus on office properties in larger urban markets. The fourth disposition totaling 40,000 square feet was an opportunistic sale of a smaller asset and the sale price was above both original purchase price and IFRS value.

FFO and AFFO per Unit on both a basic and diluted basis have remained stable at $0.15 and $0.14, respectively, when compared to Q2-2020. YTD-2021 FFO basic per Unit remained at $0.30 and FFO diluted per Unit decreased $0.01 to $0.29 compared to the prior year. YTD-2021 AFFO basic and diluted per Unit decreased $0.01 to $0.28.

Same Property NOI decreased 0.3% for the quarter and increased 0.2% YTD-2021. Same Property NOI in Ontario increased mainly due to higher rental rates associated with a 78,000 square foot lease expiry in Q2 and Q3 of 2020, the majority of which was re-leased in the first half of 2021. This increase was offset by a reduction in parking revenue due to lower utilization at certain properties due to COVID-19 and lower project management fees and one-time termination payments earned during the quarter. The New Brunswick and Nova Scotia portfolios continue to contribute positive results from occupancy increases and/or contractual rent step ups. While occupancy has increased in the REIT's Alberta portfolio, Same Property NOI decreased by 4.2% when compared to the same period in 2020. The REIT's Edmonton property has experienced an increase in occupancy and NOI, while the property in downtown Calgary has been negatively impacted by increased vacancy and slightly lower rental rates.

In Q2-2021, the REIT completed 25,500 square feet of lease deals in Halifax, Nova Scotia with a weighted average lease term of 0.9 years. The REIT also renewed and replaced 188,300 square feet with a weighted average lease term of 4.0 years representing a 3.8% increase over expiring rates. This included lease renewals with two key credit rated tenants for a term of five years each in Halifax, Nova Scotia for 65,600 square feet and Fredericton, New Brunswick for 19,500 square feet. Government tenancy renewals totaled 67,700 square feet with an average term of 2.9 years in Toronto and Ottawa, Ontario.

| | **June 30, 2021** | **December 31, 2020** |
|---|---|---|
| Indebtedness to GBV ratio | 57.4 % | 57.8 % |
| Interest coverage ratio | 2.98 x | 2.96 x |
| Indebtedness - weighted average fixed interest rate | 3.37 % | 3.37 % |
| Indebtedness - weighted average term to maturity | 3.59 years | 4.06 years |

The REIT has limited refinancing exposure in 2021 with only 1.1% of its portfolio maturing this year. An additional 20.9% of the portfolio matures in 2022 for which the REIT is exploring early refinancing opportunities to take advantage of the low interest rate environment.

### Dispositions

On April 12, 2021, the REIT disposed of 529-533 Exmouth Street located in Sarnia, Ontario totaling 15,400 square feet for a sale price of $1,850. The proceeds from this disposition included an interest-only vendor take-back mortgage of $1,550. The mortgage bears interest at 5.5% per annum and matures on April 30, 2024.

On June 1, 2021, the REIT disposed of 5900 Explorer Drive, Mississauga, Ontario totaling 40,000 square feet for a sale price of $11,900 which was above both the original purchase price and IFRS value.

### At-The-Market Equity Program

On May 5, 2021 the REIT filed a prospectus supplement to establish an at-the-market equity program (the "ATM Program") that allows the REIT to issue and sell up to $50 million of Units to the public, from time to time, at the REIT's discretion. Units sold under the ATM Program will be sold through the Toronto Stock Exchange or on other marketplaces to the extent permitted at the prevailing market prices at the time of sale. The REIT intends to use the net proceeds from the ATM Program, if any, to fund potential future acquisitions and for general trust purposes.

### Officer and Board Appointments

On May 17, 2021, Daniel Drimmer transitioned his role as President and Chief Executive Officer of the REIT and Leslie Veiner was appointed as Chief Executive Officer and joined the Board of Trustees of the REIT. Mr. Veiner's appointment is expected to augment the REIT's existing senior management team and concurrently Tracy Sherren, the REIT's current Chief Financial Officer, was promoted on May 17, 2021 to serve as President of the REIT in addition to her existing position as Chief Financial Officer and Trustee of the REIT. Mr. Drimmer continues to serve as Chairman of the Board of Trustees.

## QUARTERLY INFORMATION

| | Q2-21 | Q1-21 | Q4-20 | Q3-20 | Q2-20 | Q1-20 | Q4-19 | Q3-19 |
|---|---|---|---|---|---|---|---|---|
| Revenue | $33,896 | $34,944 | $36,189 | $33,914 | $33,999 | $35,329 | $29,533 | $25,668 |
| Property operating costs | (13,365) | (13,854) | (15,448) | (13,013) | (13,008) | (14,220) | (12,411) | (10,696) |
| NOI | 20,531 | 21,090 | 20,741 | 20,901 | 20,991 | 21,109 | 17,122 | 14,972 |
| General and administration expenses | (1,930) | (1,904) | (1,662) | (1,412) | (1,495) | (1,196) | (1,498) | (1,387) |
| Finance costs | (7,131) | (7,174) | (7,200) | (7,233) | (7,261) | (7,182) | (5,698) | (5,053) |
| Transaction costs on sale of investment properties | (623) | — | (73) | (160) | — | — | — | (581) |
| Distributions on Class B LP Units | (469) | (504) | (573) | (573) | (572) | (573) | (613) | (634) |
| Fair value adjustment of Class B LP Units | (1,706) | (1,895) | (2,314) | (579) | (2,699) | 9,370 | (1,555) | (1,323) |
| Fair value adjustment of investment properties | (2,166) | (2,348) | (1,115) | (1,806) | (3,967) | 1,176 | (6,081) | 3,195 |
| Unrealized gain (loss) on change in fair value of derivative instruments | 15 | 2,455 | 495 | 243 | (535) | (5,094) | (252) | (44) |
| **Net income and comprehensive income for the period** | $ 6,521 | $ 9,720 | $ 8,299 | $ 9,381 | $ 4,462 | $ 17,610 | $ 1,425 | $ 9,145 |
| **FFO per Unit - basic** | $ 0.15 | $ 0.15 | $ 0.15 | $ 0.15 | $ 0.15 | $ 0.15 | $ 0.14 | $ 0.15 |
| **AFFO per Unit - basic** | $ 0.14 | $ 0.14 | $ 0.14 | $ 0.14 | $ 0.14 | $ 0.14 | $ 0.13 | $ 0.15 |
| **AFFO per Unit - diluted** | $ 0.14 | $ 0.14 | $ 0.14 | $ 0.14 | $ 0.14 | $ 0.14 | $ 0.13 | $ 0.15 |
| **AFFO payout ratio - basic** | 105 % | 105 % | 105 % | 104 % | 103 % | 105 % | 111 % | 101 % |
| **AFFO payout ratio - diluted** | 106 % | 106 % | 105 % | 104 % | 103 % | 105 % | 112 % | 102 % |
| **Number of investment properties** | 45 | 47 | 47 | 48 | 49 | 49 | 49 | 45 |
| **Occupancy rate** | 97 % | 97 % | 98 % | 98 % | 97 % | 97 % | 97 % | 97 % |

Q2-2021 revenue decreased as a result of the two property dispositions completed during the quarter and lower recovery revenue directly attributable to lower snow removal and utility expenses which fluctuate with seasonality. NOI decreased $559 during the quarter mainly due to decreased rental revenue from the property dispositions as well as lower project management fees and one-time termination payments.

Excluding the changes in the fair value of Unit-based compensation, general and administration expenses were lower due to professional fees associated with annual tax and year end audit work recognized in Q1-2021 partially offset by expenses incurred for the annual Unitholders' meeting held in June 2021.

Finance costs decreased during the quarter due to lower interest expense as a result of the repayment of mortgages on disposition of the two investment properties.

Transaction costs on sale of investment properties include legal and brokerage fees.

Distributions on Class B LP Units decreased in the quarter due to the exchange of 697,380 Class B LP Units to Units completed on February 25, 2021.

FFO and AFFO per Unit have remained stable when compared to Q1-2021 at $0.15 and $0.14, respectively.

## ANALYSIS OF FINANCIAL PERFORMANCE

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Revenue | $ 33,896 | $ 33,999 | $ 68,840 | $ 69,328 |
| Expenses: | | | | |
| Property operating costs | (8,387) | (7,845) | (16,912) | (16,620) |
| Realty taxes | (4,978) | (5,163) | (10,307) | (10,608) |
| NOI | $ 20,531 | $ 20,991 | $ 41,621 | $ 42,100 |
| Other income (expenses): | | | | |
| General and administration expenses | (1,930) | (1,495) | (3,834) | (2,691) |
| Finance costs | (7,131) | (7,261) | (14,305) | (14,443) |
| Transaction costs on sale of investment properties | (623) | — | (623) | — |
| Distributions on Class B LP Units | (469) | (572) | (973) | (1,145) |
| Fair value adjustment of Class B LP Units | (1,706) | (2,699) | (3,601) | 6,671 |
| Fair value adjustment of investment properties | (2,166) | (3,967) | (4,514) | (2,791) |
| Unrealized gain (loss) on change in fair value of derivative instruments | 15 | (535) | 2,470 | (5,629) |
| **Net income and comprehensive income** | $ 6,521 | $ 4,462 | $ 16,241 | $ 22,072 |

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

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

The REIT's revenue and NOI decreased 0.3% and 2%, respectively, compared to the same quarter in 2020. YTD-2021 revenue and NOI decreased 1% compared to YTD-2020. The disposition activity in late 2020 and Q2-2021 as well as a slight decrease in Same Property NOI of 0.3% are the main contributors to the decline in revenue and NOI. Realty tax expense also decreased as a result of property dispositions. Property operating expenses increased due to higher repairs and maintenance costs for parking lot and HVAC repairs at certain properties. Property operating expenses for the comparative period were lower than normal as a result of the COVID-19 pandemic declared in March 2020 which resulted in stay at home orders and mandatory closures that impacted the timing of regular repairs and maintenance in Q2-2020.

Occupancy for the property portfolio remained stable at 97% for Q2-2021 compared to Q2-2020.

## SAME PROPERTY ANALYSIS

Same Property NOI includes investment properties owned for the entire current and comparative reporting periods.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Number of properties | 45 | 45 | 45 | 45 |
| Revenue | $ 33,605 | $ 33,536 | $ 68,175 | $ 68,406 |
| Expenses: | | | | |
| Property operating | (8,297) | (7,742) | (16,747) | (16,398) |
| Realty taxes | (4,944) | (5,077) | (10,206) | (10,435) |
| | $ 20,364 | $ 20,717 | $ 41,222 | $ 41,573 |
| Add: | | | | |
| Amortization of leasing costs and tenant inducements | 1,516 | 1,061 | 2,716 | 1,871 |
| Straight-line rent | 116 | 283 | 146 | 557 |
| Same Property NOI | $ 21,996 | $ 22,061 | $ 44,084 | $ 44,001 |

**Same Property Occupancy**

| | As at June 30 | |
|---|---|---|
| | 2021 | 2020 |
| Alberta | 96.6 % | 93.0 % |
| British Columbia | 100.0 % | 100.0 % |
| New Brunswick | 91.4 % | 93.5 % |
| Nova Scotia | 97.5 % | 92.4 % |
| Ontario | 97.8 % | 99.2 % |
| Total | 97.1 % | 97.2 % |

**Same Property NOI**

| | Three months ended June 30 | | | |
|---|---|---|---|---|
| | 2021 | 2020 | Variance | Variance % |
| Alberta | $ 3,442 | $ 3,594 | $ (152) | (4.2)% |
| British Columbia | 1,251 | 1,260 | (9) | (0.7)% |
| New Brunswick | 1,263 | 1,249 | 14 | 1.1 % |
| Nova Scotia | 1,611 | 1,600 | 11 | 0.7 % |
| Ontario | 14,429 | 14,358 | 71 | 0.5 % |
| | $ 21,996 | $ 22,061 | $ (65) | (0.3)% |

Q2-2021 Same Property NOI decreased 0.3% and increased 0.2% YTD-2021.

While occupancy has increased in the REIT's Alberta portfolio, Same Property NOI has decreased by 4.2% when compared to the same period in 2020. The REIT's Edmonton property experienced an increase in occupancy and NOI, while the property in downtown Calgary was impacted by increased vacancy and lower rental rates.

Favourable Same Property NOI in New Brunswick is mainly attributed to a lease commencement during the quarter for space that was previously vacant. Same property occupancy slightly decreased due to a lease expiry at the end of Q2-2021.

Nova Scotia continues to be positively impacted by contractual rent step ups while same property occupancy increased significantly due to leasing activity completed in Q2-2021 with rents commencing in Q3-2021.

Same Property NOI in Ontario increased 0.5% mainly due to higher rental rates associated with a 78,000 square foot lease expiry in Q2 and Q3 of 2020, the majority of which was re-leased in the first half of 2021. This increase was offset by a reduction in parking revenue due to lower utilization at certain properties due to COVID-19, lower project management fees and lower one-time termination payments earned during the quarter.

## GENERAL AND ADMINISTRATION EXPENSES

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

Excluding the changes in the fair value of Unit-based compensation, general and administration expenses increased 9% in Q2-2021 and 5% YTD-2021 when compared to 2020 due to the granting of Restricted Units (as defined below) in the latter half of 2020 and Q1-2021.

## FINANCE COSTS

The REIT's finance costs for the three and six months ended June 30, 2021 and 2020 are summarized below. Finance costs exclude cash distributions and fair value adjustments on Class B LP Units.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Interest on mortgages payable | $ 6,741 | $ 6,951 | $ 13,557 | $ 13,798 |
| Other interest expense and standby fees | 88 | 17 | 140 | 82 |
| Amortization of mortgage premiums | (13) | (6) | (26) | (12) |
| Amortization of financing costs | 315 | 299 | 634 | 575 |
| | $ 7,131 | $ 7,261 | $ 14,305 | $ 14,443 |

Lower interest on mortgages payable was due to the property dispositions completed in late 2020 and Q2 2021 where the associated borrowings were repaid.

Other interest expense and standby fees relate to costs incurred on the REIT's credit facility (the "Credit Facility") which was partially drawn throughout Q2-2021 resulting in higher interest expense compared to the same period in 2020. In addition, standby fees were higher due to the increase in the amounts available under the Credit Facility.

## DISTRIBUTIONS ON CLASS B LP UNITS

The REIT currently pays monthly distributions of $0.0495 per Class B LP Unit or $0.594 per Class B LP Unit on an annualized basis. Distributions declared were $469 in Q2-2021 ($572 - Q2-2020) and $973 in YTD-2020 ($1,145 - YTD-2020). The decrease in distributions was due to the conversion of 697,380 Class B LP Units to Units on February 25, 2021.

## FAIR VALUE ADJUSTMENT OF CLASS B LP UNITS

The fair value change in Class B LP Units represents the change in the trading price of the Units (given the Class B LP Units have economic and voting rights equivalent, in all material aspects, to Units). Any resulting change in the fair value of the Class B LP Units is reported in the period such change occurs. The fair value loss of $1,706 in Q2-2021 was due to an increase in the trading price of the Units from $6.87 at March 31, 2021 to $7.41 at June 30, 2021. The fair value loss of $3,601 in YTD-2021 was due to an increase in the trading price of the Units from $6.31 at December 31, 2020 to $7.41 at June 30, 2021.

## FAIR VALUE ADJUSTMENT OF INVESTMENT PROPERTIES

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

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

The REIT continues to monitor the value of its properties affected by COVID-19. The REIT revises its estimates concerning rental growth and lease renewal assumptions to reflect expected market conditions, and currently, future cash flows are expected to remain relatively stable as government and credit rated tenants comprise the majority of the REIT’s tenant base. It is not possible however, to forecast with certainty how COVID-19 will continue to impact the valuation of the REIT’s investment properties. The REIT however remains committed to owning high-quality assets with long term value propositions.

For the three and six months ended June 30, 2021, the REIT had a fair value loss of $2,166 and $4,514, respectively. The fair value loss was largely due to higher vacancy allowances and moderated leasing assumptions on certain properties, which was partially offset by the increase in value of certain properties that benefited from contractual rent step-ups.

The key valuation assumptions for the REIT’s investment properties as at June 30, 2021 and 2020 are as follows:

| | **2021** | **2020** |
|---|---|---|
| Terminal and direct capitalization rates - range | 4.75% to 10.25% | 4.75% to 10.25% |
| Terminal and direct capitalization rate - weighted average | 6.26% | 6.29% |
| Discount rates - range | 5.75% to 10.25% | 5.75% to 10.25% |
| Discount rate - weighted average | 7.06% | 7.08% |

## UNREALIZED GAIN (LOSS) ON CHANGE IN FAIR VALUE OF DERIVATIVE INSTRUMENTS

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

The notional principal amounts of the outstanding interest rate swap contracts at June 30, 2021 were $77,589 (December 31, 2020 - $78,619). Unrealized gain on change in the fair value of the derivative instruments totaled $15 in Q2-2021 (unrealized loss of $535 in Q2-2020) and $2,470 YTD-2021 (unrealized loss of $5,629 YTD-2020). The unrealized loss in 2020 was due to the emergency interest rate cuts that took place in March 2020 in response to the COVID-19 pandemic and the decrease in projected future interest rates. In Q1-2021, projected future interest rates began to increase due to economic optimism as a result of Canada's ongoing COVID-19 vaccination campaign and the gradual lifting of COVID-19 restrictions. In Q2-2021, projected future interest rates remained relatively flat compared to the prior quarter.

Given the interest rate swap removes the floating rate exposure on the REIT's debt and replaces it with a fixed rate, the unrealized gain is not a gain in itself, but represents the opportunity cost of not maintaining floating rate debt.

## FFO AND AFFO

The REIT calculates FFO in accordance with the guidelines set out by Realpac. Reconciliation of net income and comprehensive income determined in accordance with IFRS, to FFO and AFFO is as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Net income and comprehensive income** | $ 6,521 | $ 4,462 | $ 16,241 | $ 22,072 |
| Add (deduct): | | | | |
| Fair value adjustment of Unit-based compensation | 448 | 137 | 733 | (252) |
| Fair value adjustment of investment properties | 2,166 | 3,967 | 4,514 | 2,791 |
| Fair value adjustment of Class B LP Units | 1,706 | 2,699 | 3,601 | (6,671) |
| Transaction costs on sale of investment properties | 623 | — | 623 | — |
| Distributions on Class B LP Units | 469 | 572 | 973 | 1,145 |
| Unrealized (gain) loss on change in fair value of derivative instruments | (15) | 535 | (2,470) | 5,629 |
| Amortization of leasing costs and tenant inducements | 1,518 | 1,084 | 2,732 | 1,915 |
| **FFO** | $ 13,436 | $ 13,456 | $ 26,947 | $ 26,629 |
| Add (deduct): | | | | |
| Non-cash compensation expense | 125 | 41 | 221 | 78 |
| Amortization of financing costs | 315 | 299 | 634 | 575 |
| Amortization of mortgage discounts | (13) | (6) | (26) | (12) |
| Instalment note receipts | 26 | 29 | 53 | 59 |
| Straight-line rent | 117 | 290 | 146 | 570 |
| Capital reserve [(1)] | (1,190) | (1,203) | (2,373) | (2,406) |
| **AFFO** | $ 12,816 | $ 12,906 | $ 25,602 | $ 25,493 |
| **FFO per Unit:** | | | | |
| Basic | $ 0.15 | $ 0.15 | $ 0.30 | $ 0.30 |
| Diluted | $ 0.15 | $ 0.15 | $ 0.29 | $ 0.30 |
| **AFFO per Unit:** | | | | |
| Basic | $ 0.14 | $ 0.14 | $ 0.28 | $ 0.29 |
| Diluted | $ 0.14 | $ 0.14 | $ 0.28 | $ 0.29 |
| **AFFO payout ratio:** | | | | |
| Basic | 105 % | 103 % | 105 % | 104 % |
| Diluted | 106 % | 103 % | 106 % | 104 % |
| Distributions declared | $ 13,467 | $ 13,250 | $ 26,888 | $ 26,438 |
| **Weighted average Units outstanding (000s):** | | | | |
| Basic | 90,634 | 89,146 | 90,498 | 88,953 |
| Add: | | | | |
| Unit options and Incentive Units | 809 | 26 | 898 | 22 |
| Diluted | 91,443 | 89,172 | 91,396 | 88,975 |

Notes:

[(1)] Based on an estimate of $1.00 (2020 - $1.00) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

The REIT's FFO and AFFO decreased $21, or 0.2% and $90, or 1%, respectively in Q2-2021 over the comparable period. The decrease in FFO and AFFO was impacted by lower NOI primarily due to disposition activity over the last twelve months, slightly higher general and administration expenses and slightly lower same property NOI due to a decrease in occupancy and lower rental rates at a property in downtown Calgary, Alberta. This decrease was partially offset by lower finance costs.

Q2-2021 FFO and AFFO basic and diluted per Unit remained stable at $0.15 and $0.14, respectively.

The REIT's FFO and AFFO increased $317, or 1% and $109 or 0.4%, respectively in YTD-2021 over the comparable period. The increase in FFO and AFFO benefited from higher Same Property NOI and lower finance costs, partially offset by lower NOI from dispositions and higher general and administration expenses.

YTD-2021 FFO basic per Unit remained at $0.30 and FFO diluted per Unit decreased $0.01 to $0.29 over the comparable period in the prior year. YTD-2021 AFFO basic and diluted per Unit decreased $0.01 to $0.28.

## DISTRIBUTIONS

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

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

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

| | Three months ended June 30 | Six months ended June 30 | Years ended December 31 | |
|---|---|---|---|---|
| | **2021** | **2021** | **2020** | **2019** |
| Distributions declared | $ 13,467 | $ 26,888 | $ 53,139 | $ 40,609 |
| Less: DRIP | (1,616) | (3,242) | (9,014) | (5,850) |
| Cash distributions paid | $ 11,851 | $ 23,646 | $ 44,125 | $ 34,759 |

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

| | Three months ended June 30 | Six months ended June 30 | Years ended December 31 | |
|---|---|---|---|---|
| | **2021** | **2021** | **2020** | **2019** |
| Net income and comprehensive income | $ 6,521 | $ 16,241 | $ 39,752 | $ 24,178 |
| Cash flow provided by operating activities | 21,522 | 39,719 | 91,384 | 58,594 |
| Less: Interest paid | (6,873) | (13,786) | (27,418) | (19,805) |
| Adjusted cash flow provided by operating activities | 14,649 | 25,933 | 63,966 | 38,789 |
| *Declared basis:* | | | | |
| Excess (shortfall) of net income and comprehensive income over distributions | (6,946) | (10,647) | (13,387) | (16,431) |
| Excess (shortfall) of adjusted cash flow provided by operating activities over distributions | 1,182 | (955) | 10,827 | (1,820) |
| *Cash basis:* | | | | |
| Excess (shortfall) of net income and comprehensive income over distributions | (5,330) | (7,405) | (4,373) | (10,581) |
| Excess of adjusted cash flow provided by operating activities over distributions | 2,798 | 2,287 | 19,841 | 4,030 |

Net income and comprehensive income was lower than declared and cash distributions during the quarter and YTD-2021 primarily due to the fair value adjustments on Class B LP Units and investment properties which are non-cash adjustments and included in income and comprehensive income.

Adjusted cash flow provided by operating activities was higher than declared distributions by $1,182 for the quarter and lower than declared distribution by $955 for YTD-2021. In Q2-2021, adjusted cash flow provided by operating activities was higher than cash distributions by $2,798 and $2,287 for YTD-2021. The shortfall for the YTD-2021 was mainly due to the timing of the payments of tenant inducements, leasing costs and certain capital projects and changes in working capital. The REIT has not been required to fund distributions from alternate sources such as debt, mortgages and other financing instruments.

## RECONCILIATION OF ADJUSTED CASH FLOW PROVIDED BY OPERATING ACTIVITIES TO AFFO

Adjusted cash flow provided by operating activities represents cash provided by operating activities less interest paid. The reconciliation of adjusted cash flow provided by operating activities to AFFO measures the amount of cash generated by operations and available for distribution to Unitholders. See “Distributions”.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Adjusted cash flow provided by operating activities | $ 14,649 | $ 17,305 | $ 25,933 | $ 33,962 |
| Non-cash compensation expense | 127 | (6) | 127 | 81 |
| Change in finance costs payable | 44 | (274) | 89 | (393) |
| Instalment note receipts | 26 | 29 | 53 | 59 |
| Capital reserve | (1,190) | (1,203) | (2,373) | (2,406) |
| Change in non-cash operating working capital | (840) | (2,944) | 1,773 | (5,809) |
| **AFFO** | $ 12,816 | $ 12,907 | $ 25,602 | $ 25,494 |

AFFO of $12,816 was less than distributions declared by $651 and exceeded distributions paid by $965 in Q2-2021. YTD-2021 AFFO of $25,602 was less than distributions declared by $1,286 and exceeded distributions paid by $1,956. The REIT expects to be able to fund distributions paid from AFFO on a go forward basis.

## CAPITAL RESERVE

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

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

# LIQUIDITY AND CAPITAL INVESTMENT

## LIQUIDITY

Cash flow from operating activities represents the primary source of liquidity to fund distributions, debt service, capital improvements, tenant inducements and leasing costs. The REIT's cash flow from operating activities is dependent upon the occupancy level of its investment properties, the rental rates on its leases, the collectability of rent from its tenants, and other factors. Material changes in these factors may adversely affect the REIT's cash flow from operating activities and hence its liquidity. A more detailed discussion of these risks can be found under the "Risks and Uncertainties" section in the annual information form of the REIT dated March 3, 2021 (the "AIF"). Also see "Risks and Uncertainties".

As at June 30, 2021, the REIT had access to approximately $62,473 of cash and undrawn Credit Facility. The REIT also has in place an ATM program pursuant to which it can issue up to $50 million of Units. With a weighted average maturity of 3.59 years for its mortgage portfolio, the REIT also had limited refinancing exposure with only 1.1% of its portfolio maturing in 2021. An additional 20.9% of the portfolio matures in 2022 for which the REIT is currently exploring early refinancing opportunities to take advantage of the low interest rate environment.

The REIT's available funds are as follows:

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Cash | $ 4,573 | $ 24,580 |
| Undrawn Credit Facility | 57,900 | 60,000 |
| Available funds | $ 62,473 | $ 84,580 |

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

## CAPITAL INVESTMENT

The REIT's properties require ongoing capital and leasing expenditures. Leasing expenditures include tenant inducements, leasing commissions and leasehold improvements incurred in connection with the leasing of vacant space and the renewal or replacement of current tenants. The REIT plans to continue to invest capital in its properties throughout 2021 and beyond, subject to any delays from stay at home orders due to the pandemic. Future expenditures are expected to be funded through cash flow generated by operations, the Credit Facility and cash on hand. For the six months ended June 30, 2021 and 2020, the REIT invested $17,519 and $12,114 respectively, in capital and leasing expenditures.

# ASSET PROFILE

## INVESTMENT PROPERTIES

The following table summarizes changes in the REIT's investment properties for the six months ended June 30, 2021 and 2020:

| | | Investment properties |
|---|---|---|
| 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 |
| Additions | | 7,885 |
| Dispositions | | (3,650) |
| Amortization of leasing costs, tenant inducements and straight-line rents | | (517) |
| Fair value adjustment | | (2,921) |
| Balance, December 31, 2020 | | 1,372,184 |
| Additions | | 17,519 |
| Dispositions | | (13,750) |
| Amortization of leasing costs, tenant inducements and straight-line rents | | (1,465) |
| Fair value adjustment | | (4,514) |
| Balance, June 30, 2021 | $ | 1,369,974 |

## ADDITIONS

Additions to investment properties for the six months ended June 30, 2021 were $17,519, consisting of the following:

- Capital expenditures of $909 mainly for elevator, washroom and parking garage upgrades and boiler replacements; and
- Tenant inducements and leasing costs of $16,610 which include costs incurred to renew and secure new tenants.

## PREPAID EXPENSES AND DEPOSITS

At June 30, 2021, the REIT had $4,037 in prepaid expenses and deposits, compared to $1,523 at December 31, 2020. The increase is due to an increase in prepaid realty taxes and insurance.

# DEBT

## MORTGAGES PAYABLE

The following table sets out, as at June 30, 2021, scheduled principal repayments and amounts maturing over each of the next five fiscal years:

| | Scheduled principal payments | Debt maturing during the year | Total mortgages payable | Percentage of total mortgages payable | Weighted average interest rate of maturing debt | Scheduled interest payments |
|---|---|---|---|---|---|---|
| 2021 - remainder of year | $ 11,660 | $ 7,971 | $ 19,631 | 2.5 % | 2.70 % | $ 13,264 |
| 2022 | 22,089 | 147,869 | 169,958 | 21.3 % | 3.33 % | 24,431 |
| 2023 | 16,272 | 141,596 | 157,868 | 19.7 % | 3.65 % | 17,298 |
| 2024 | 14,666 | 79,399 | 94,065 | 11.8 % | 3.39 % | 14,193 |
| 2025 | 7,420 | 189,469 | 196,889 | 24.7 % | 3.15 % | 6,824 |
| Thereafter | 16,103 | 142,680 | 158,783 | 20.0 % | 3.47 % | 12,317 |
| | $ 88,210 | $ 708,984 | $ 797,194 | 100.0 % | 3.37 % | $ 88,327 |
| Unamortized mark to market mortgage adjustments | | | 231 | | | |
| Unamortized financing costs | | | (3,477) | | | |
| | | | $ 793,948 | | | |

Mortgages payable have a weighted average fixed interest rate of 3.37% (December 31, 2020 – 3.37%) and a weighted average term to maturity of 3.59 years (December 31, 2020 – 4.06 years).

## CREDIT FACILITY

The REIT has a $60,000 floating rate revolving Credit Facility with a Canadian chartered bank which is comprised of two tranches: (i) up to $30,000 secured by second charges on certain investment properties, bearing interest on cash advances at 95 basis points per annum above the prime rate or 195 basis points per annum over the floating banker's acceptance rate; and (ii) $30,000 unsecured, bearing interest on cash advances at 190 basis points per annum above the prime rate or 290 basis points per annum over the floating banker's acceptance rate.

The Credit Facility matures on December 1, 2022. As at June 30, 2021 the REIT had $2,100 drawn under the Credit Facility (December 31, 2020 - $0).

## INDEBTEDNESS TO GBV

As at June 30, 2021, the REIT's overall leverage, as represented by the ratio of Indebtedness to GBV was 57.4% compared to 57.8% at December 31, 2020. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT's Indebtedness to GBV ratio as at June 30, 2021 and December 31, 2020.

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| Total assets | $ 1,385,077 | $ 1,404,882 |
| Deferred financing costs | 6,241 | 6,300 |
| GBV | $ 1,391,318 | $ 1,411,182 |
| Mortgages payable | 793,948 | 812,489 |
| Credit facility | 2,100 | — |
| Unamortized financing costs and mark to market mortgage adjustments | 3,246 | 3,860 |
| Indebtedness | $ 799,294 | $ 816,349 |
| **Indebtedness to GBV** | **57.4 %** | **57.8 %** |

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

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

As at June 30, 2021, 0.3% (December 31, 2020 - 0%) of the REIT's debt was at floating rates.

## ADJUSTED EBITDA AND INTEREST COVERAGE RATIO

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

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

| | Twelve months ended June 30 | |
|---|---|---|
| | **2021** | **2020** |
| Net income and comprehensive income | $ 33,921 | $ 32,642 |
| Add (deduct): | | |
| Interest expense | 27,563 | 24,092 |
| Fair value adjustment of Unit-based compensation | 940 | 706 |
| Transaction costs on sale of investment properties | 856 | 581 |
| Fair value adjustment of investment properties | 7,435 | 5,677 |
| Fair value adjustment of Class B LP Units | 6,494 | (3,793) |
| Distributions on Class B LP Units | 2,119 | 2,392 |
| Unrealized loss on change in fair value of derivative instruments | (3,208) | 5,925 |
| Amortization of leasing costs, tenant inducements, mortgage premium (discounts) and financing costs | 6,142 | 4,312 |
| Adjusted EBITDA | $ 82,262 | $ 72,534 |

| | Twelve months ended June 30 | |
|---|---|---|
| | **2021** | **2020** |
| Adjusted EBITDA | $ 82,262 | $ 72,534 |
| Interest expense | 27,563 | 24,092 |
| Interest coverage ratio | 2.98 x | 3.01 x |

Interest coverage ratio for the period decreased as a result of higher adjusted EBITDA from the acquisition activity completed in the second half of 2019 with the corresponding interest expense from additional borrowing associated with the acquisitions and refinancings completed in 2020.

### CLASS B LP UNITS

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

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

As at June 30, 2021, there were 3,158,802 Class B LP Units issued and outstanding valued at $23,408 compared to $24,333 as at December 31, 2020. The change in value is due to the conversion of 697,380 Class B LP Units to Units on February 25, 2021 combined with an increase in the Unit price from $6.31 at December 31, 2020 to $7.41 at June 30, 2021.

There have been no further changes in the Class B LP Units outstanding as of August 4, 2021.

## UNITHOLDERS' EQUITY

### OUTSTANDING UNITS

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

The following table summarizes changes in the Unit capital of the REIT for the year ended June 30, 2021:

| | Units | | Amount |
|---|---|---|---|
| Balance, December 31, 2020 | 86,346,019 | $ | 528,175 |
| Issue of Units – DRIP | 480,210 | | 3,242 |
| Issue of Units – options exercised | 110,841 | | 808 |
| Issue of Units - exchange of Class B LP Units | 697,380 | | 4,526 |
| Balance, June 30, 2021 | 87,634,450 | $ | 536,751 |

The number of Units outstanding as of August 4, 2021 is as follows:

| | |
|---|---|
| Balance, June 30, 2021 | 87,634,450 |
| Issue of Units - DRIP | 79,097 |
| Balance, August 4, 2021 | 87,713,547 |

## INCENTIVE UNIT PLAN

The REIT has established an incentive trust unit plan (the "Incentive Unit Plan") pursuant to which the REIT may issue two types of units: (i) deferred Units ("Deferred Units"); and (ii) restricted Units ("Restricted Units", and collectively with the Deferred Units, the "Incentive Units").

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

### Deferred Units

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

The following table summarizes the changes in Deferred Units:

| | Deferred Units | | Amount |
|---|---|---|---|
| Balance, January 1, 2020 | 16,977 | $ | 121 |
| Granted and reinvested | 16,350 | | 78 |
| Fair value adjustments | — | | (14) |
| Balance, June 30, 2020 | 33,327 | | 185 |
| Granted and reinvested | 17,647 | | 114 |
| Fair value adjustments | — | | 22 |
| Balance, December 31, 2020 | 50,974 | | 321 |
| Granted and reinvested | 13,310 | | 98 |
| Fair value adjustments | — | | 57 |
| Balance, June 30, 2021 | 64,284 | $ | 476 |

The number of Deferred Units outstanding as at August 4, 2021 is as follows:

| | |
|---|---|
| Balance, June 30, 2021 | 64,284 |
| Deferred Units granted | 431 |
| Balance, August 4, 2021 | 64,715 |

### Restricted Units

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

The following table summarizes the changes in Restricted Units:

| | Restricted Units | | Amount |
|---|---|---|---|
| Balance, June 30, 2020 | — | $ | — |
| Granted and reinvested | 44,252 | | 64 |
| Fair value adjustments | — | | 7 |
| Balance, December 31, 2020 | 44,252 | | 71 |
| Granted and reinvested | 42,573 | | 122 |
| Fair value adjustments | — | | 43 |
| Balance, June 30, 2021 | 86,825 | $ | 236 |

The number of Restricted Units outstanding as at August 4, 2021 is as follows:

| | |
|---|---|
| Balance, June 30, 2021 | 86,825 |
| Restricted Units reinvested | 579 |
| Balance, August 4, 2021 | 87,404 |

## UNIT OPTION PLAN

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 option plan (the "Unit Option Plan". This plan has been suspended and no further options have since been granted. Options that have or will vest are eligible to be exercised prior to the applicable expiry dates.

Options outstanding as at June 30, 2021 consist of the following:

| Exercise price [1] | Unit Options Outstanding | Unit Options exercisable | Expiry Date |
|---|---|---|---|
| $6.28 | 3,334 | 3,334 | November 14, 2021 |
| $6.17 | 110,001 | 110,001 | August 11, 2022 |
| $6.44 | 139,001 | 139,001 | November 16, 2022 |
| $6.43 | 158,334 | 158,334 | March 9, 2023 |
| $6.66 | 215,669 | 109,329 | September 20, 2023 |
| | 626,339 | 519,999 | |

[1] In actual dollars.

## SHORT FORM BASE SHELF PROSPECTUS

On January 23, 2020, the REIT filed a short-form base shelf prospectus ("Prospectus"). The Prospectus was filed with the securities regulatory authorities in each of the provinces and territories of Canada and is valid for a 25 month period, during which time the REIT may issue the following securities: (i) Units; (ii) preferred Units; (iii) unsecured debt securities; (iv) subscription receipts exchangeable for Units and/or other securities of the REIT; (v) warrants exercisable to acquire Units and/or other securities of the REIT; and (vi) securities comprised of more than one of Units, debt securities, subscription receipts and/or warrants offered together as a unit, or any combination thereof in amounts, at prices and on terms based on market conditions at the time of sale and set forth in an accompanying prospectus supplement, for an aggregate offering amount of up to $500,000. On April 27, 2021, the REIT filed an amendment to the Prospectus to conform with recent amendments to National Instrument 44-102 – *Shelf Distributions* ("NI 44-102") requiring that the cover page of the Prospectus state that it may qualify an "at-the-market distribution" (as such term is defined in NI 44-102).

### AT-THE-MARKET EQUITY PROGRAM

On May 5, 2021 the REIT filed a prospectus supplement to establish an ATM Program that allows the REIT to issue and sell up to $50 million of Units to the public, from time to time, at the REIT's discretion. Units sold under the ATM Program will be sold through the Toronto Stock Exchange or on other marketplaces to the extent permitted at the prevailing market prices at the time of sale. The REIT intends to use the net proceeds from the ATM Program, if any, to fund potential future acquisitions and for general trust purposes.

No Units were issued pursuant to the Prospectus or ATM Program for the six months ended June 30, 2021.

## COMMITMENTS AND CONTINGENCIES

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

As at June 30, 2021, the REIT had entered into commitments for building renovations, capital upgrades and Landlord's work totaling $2,745 (December 31, 2020- $3,190). As at June 30, 2021, $256 (December 31, 2020 - $1,649) of this amount was included in accounts payable and accrued liabilities.

## RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Starlight is considered a related party to the REIT as Starlight is controlled by Daniel Drimmer, the Chairman of the Board of the REIT, who is also a significant Unitholder.

### ARRANGEMENTS WITH STARLIGHT

Pursuant to the asset management agreement dated December 14, 2012 (“Asset Management Agreement”), Starlight through a wholly-owned subsidiary, provides advisory, asset management and administrative services to the REIT. The REIT is administered and operated by the REIT’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) and an experienced team of real estate professionals at Starlight.

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

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

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

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

(b) Acquisition fee equal to:

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

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

(d) Capital expenditures 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.

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Asset management fees | $ 1,131 | $ 1,130 | $ 2,254 | $ 2,258 |
| Other expenses | 46 | 25 | 108 | 53 |
| Total | $ 1,177 | $ 1,155 | $ 2,362 | $ 2,311 |

At June 30, 2021, $391 (December 31, 2020 - $416) was 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, 2021 and 2020.

## RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the securities and activities of the REIT. Risks and uncertainties are disclosed below, in the REIT's annual MD&A dated March 3, 2021 for the year ended December 31, 2020 and in the AIF. The annual MD&A and AIF are available on SEDAR at www.sedar.com. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

The following risk and uncertainty has been updated by management from the REIT's annual MD&A:

### COVID-19 AND OTHER PUBLIC HEALTH CRISIS

While the REIT continues to monitor related developments, there still remains a great deal of uncertainty regarding COVID-19 and it continues to be difficult to reliably predict the full scope, duration and extent of the impact of COVID-19 on the REIT's business and operations, and to accurately assess the length, impact and severity the pandemic will have on the REIT's operations, financial condition or results, and Unit price in both the short and long-term.

While vaccination programs are ongoing throughout Canada, industries, including commercial real estate, continue to be affected in varying degrees by COVID-19. Subsequent to March 3, 2021, several Canadian provinces declared another provincial emergency requiring various restrictions such as stay at home orders, mandatory closures of certain types of businesses and reduced limits on social gatherings. As of August 4, 2021, many of these restrictions have been lifted as a result of higher vaccination rates and lower active case counts across the country. While public health restrictions have not yet had a significant impact on the REIT's operations, the REIT cannot predict the extent to which they may affect the REIT, particularly if new or additional containment measures are mandated by governments in the future.

The REIT is required and continues to comply with the directives provided by the Federal and Provincial governments and public health authorities to help mitigate the spread of COVID-19. These changes and any additional changes in operations in response to COVID-19 could materially impact, among other things, the operations and financial results of the REIT. Specifically, such changes may impact tenants' ability to pay rent in full or at all. In response, the REIT has assessed rent collectability when determining future cash flows and has determined the current risk of default to be low given the quality of the REIT's tenant base, which largely consists of government and credit rated tenants. Certain tenants have been identified to be in need of financial assistance either in the form of short-term rent deferrals or through the CERS program. As a result, the REIT has recognized $51 expense in property operating costs representing a rental provision granted to tenants as part of the CERS program. There can be no assurance that expenses incurred by the REIT under the CERS program will not continue or increase in future periods or that additional programs will be instituted causing increased or additional expenses to be incurred by the REIT.

For the six months ended June 30, 2021, the REIT agreed to defer rental payments of approximately $8. The REIT deferred a total of $446 of rental payments for certain tenants since the start of the pandemic. As of June 30, 2021, all deferrals have been received in accordance with those deferral agreements. There can be no assurance that future rent deferrals, if granted, will be repaid in whole or in part.

The current public health crisis has also resulted in general economic slowdown and extreme volatility in financial markets. In addition to impacting the Unit price, this may create difficulty in raising capital in debt and equity markets, which could in turn adversely impact the REIT's strategy. In response to the global economic slowdown, governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. Notwithstanding any of the foregoing, the extent to which COVID-19 and any other pandemic or public health crisis impacts the REIT's business, affairs, operations, financial condition (including the REIT's ability to raise capital), liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information which may emerge concerning the severity of and the actions required to contain the COVID-19 pandemic or remedy its impact, among others. At this time, the duration and impact of COVID-19 is unknown, as is the efficacy of the government and central bank interventions. It is not possible at this time to reliably predict the overall long term impact on the REIT's financial performance. The wide ranging disruptions caused by COVID-19 may materially adversely affect the REIT's performance. The economic uncertainty surrounding the COVID-19 pandemic may, in the short and/or long term, materially adversely impact the REIT's tenants and/or the debt and equity markets as well as Unit price, both of which could materially adversely affect the REIT's operations and financial performance.

In response to the work-from-home measures implemented due to COVID-19, the REIT has enhanced its processes, procedures and controls in an effort to mitigate any potential cybersecurity risks that may stem from working remotely. Certain initiatives taken by the REIT include the addition of software programs that search, monitor and analyze machine data to identify unusual activity, protect against malware, detect malicious traffic and report on widely known vulnerabilities and threat data in connection with connected assets. The REIT has also increased its firewall protections and implemented desktop administration software that aids in the tracking of inventory and allows the REIT to remotely control applications. There can be no assurance that such measures will deter, mitigate or prevent any cyber-attacks.

The REIT has taken actions to mitigate the effects of COVID-19 on its operations, liquidity, financial condition and results, keeping in mind the interests of its employees, tenants and other stakeholders. As COVID-19 continues to impact the well-being of individuals and the global economy, the REIT has implemented appropriate cautionary measures to ensure it is conducting business in a safe and effective manner (including, without limitation, limiting visits to the REIT's corporate offices and ensuring proper protocols around sanitation and social distancing), and continues to diligently work with its service providers to remain operational through the pandemic. Examples of these measures are: increased security to ensure appropriate elevator capacity limits are enforced, and increased janitorial services for workplaces/tenancies. The REIT has an evolving response plan and a crisis management team that is in regular communication with our tenants. There can be no assurance that the response plan will mitigate any or all of the potential impact of COVID-19.

The REIT is actively focused on allowing its employees and tenants to safely return to the office in accordance with public health guidelines. Certain initiatives taken by the REIT include increased cleaning and sanitization of common touchpoints in populated or high-traffic areas, increased security measures, additional hand sanitization stations throughout its properties, installation of automatic wave sensors and clean air initiatives such as HVAC filtration upgrades. As occupancy rates and traffic patterns shift, the REIT has added directional signage for flow of traffic within its buildings in accordance with prescribed social distancing guidelines. The above initiatives resulted in additional property operating costs of $219 for the six months ended June 30, 2021, however the majority of these costs are recoverable from the tenants and included in recoveries revenue. The REIT continues to monitor this evolving situation and will take actions and implement any further measures as may be required by Federal, Provincial or local authorities, or that management considers to be in the best interests of its employees, tenants, suppliers or other stakeholders, as necessary. There can be no assurance that any actions taken will prevent the impact of COVID-19 on the REIT or its employees or tenants.

Further, public health crises, including the ongoing health crisis related to the COVID-19 pandemic, or relating to any other virus, flu, epidemic, pandemic or any other similar disease or illness (each, a “Health Crisis”) could adversely impact the REIT, including through: a general or acute decline in economic activity in regions in which the REIT’s investment properties are located; increased unemployment, supply shortages, mobility restrictions and other quarantine measures; increased government regulation, inability to access governmental programs or processes on a timely basis, efficacy of governmental relief efforts; and the quarantine or contamination of one or more of the REIT’s investment properties. Contagion in a property or market in which the REIT operates could negatively impact its occupancy, reputation or attractiveness of that market. Furthermore, increased government regulation relating to a Health Crisis could result in legislation or regulations that may restrict the REIT's ability to enforce material provisions under its leases, including in respect of the collection of rent or other payment obligations, among other potential adverse impacts. All of these occurrences may have a material adverse effect on the business, cash flows, financial condition and results of operations of the REIT, including, but not limited to: the ability to implement rent increases; rent collection and receivables; vacancy levels; mortgage renewals and refinancings; deferral of certain capital expenditures; valuation of investment properties; the REIT's ability to meet any applicable debt covenant restrictions; and the REIT's ability to raise capital and to maintain its distributions to Unitholders.

In addition, the overall severity and duration of COVID-19-related adverse impacts on the REIT’s business, financial condition, cash flows and/or results of operations for 2021 and beyond, cannot be fully estimated at this time, but may be material. Such impacts may include: (i) an inability for tenants to meet their payment obligations; (ii) reduction in staff and operational levels; (iii) increased costs resulting from the REIT’s efforts to mitigate the impact of COVID-19; (iv) deterioration of worldwide credit and financial markets that could limit the REIT’s ability to obtain external financing to fund operations and capital expenditures, result in losses on the REIT’s investments due to failures of financial institutions and other parties, and result in a higher rate of losses on the REIT’s accounts receivable due to credit defaults; and (v) impairments and/or write-downs of assets. In addition, the impact of COVID-19 on the economy may have an adverse effect on the trading price for the Units, including reduced trading prices and/or increased volatility resulting in swings in trading price unrelated to the REIT’s underlying business. The size of the impact will depend on future developments.

Even after the COVID-19 pandemic has subsided, the REIT may continue to experience adverse impacts to its business as a result of the pandemic’s global economic impact, including any related recession, as well as lingering impacts on the REIT’s suppliers, third-party service providers and/or tenants.

## USE OF ESTIMATES

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

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. In preparing the condensed consolidated interim financial statements, significant judgments made by management in applying accounting policies were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2020. The following estimates and significant judgments have been identified by management due to the recent events surrounding COVID-19.

### INVESTMENT PROPERTIES

Throughout Canada, investment activity during the COVID-19 pandemic has been limited and continues to be lower than historic levels. Any estimates are therefore subject to significant uncertainty and may materially and adversely vary from actual outcomes. In particular, there is increased estimation uncertainty in determining the fair value of the REIT’s investment properties and the recoverability of amounts receivable. Estimates and assumptions used in the condensed consolidated interim financial statements are based on information available to the REIT as at the end of the reporting period. The fair value of the REIT’s investment properties as at June 30, 2021 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 the majority 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.

## FINANCIAL INSTRUMENTS

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

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

| | Classification |
|---|---|
| **Financial assets:** | |
| Instalment notes receivable | Amortized cost |
| Deposits and other assets | Amortized cost |
| Tenant and other receivables | Amortized cost |
| Cash and cash equivalents | Amortized cost |
| | |
| **Financial liabilities:** | |
| Mortgages payable | Amortized cost |
| Derivative instruments | Fair value |
| Class B LP Units | Fair value |
| Credit Facility | Amortized cost |
| Tenant rental deposits and prepayments | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |

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

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

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

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

Class B LP Units are carried at fair value and the fair value of the Class B LP Units has been determined with reference to the trading price of the Units. The fair value adjustment for the three and six months ended June 30, 2021 resulted in an unrealized loss of $1,706 (Q2-2020 - $2,699) and $3,601 (YTD-2020 - gain of $6,671), respectively.

Derivative instruments, such as interest rate swaps, are valued using a valuation technique. The most frequently applied valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs including forward rates and interest rate curves. The REIT has entered into various interest rate swaps to limit its interest rate exposure from floating to fixed for the terms of certain mortgages. Total unrealized gain on change in the fair value of the derivative instruments for the three and six months ended June 30, 2021 was $15 (Q2-2020 - loss of $535) and $2,470 (YTD-2020 - loss of $5,629), respectively.

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

## SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

There were no changes to the accounting policies applied by the REIT during Q2-2021.

The REIT's critical judgments and estimates in applying accounting policies can be found in Section 1(c) on page 5 of the REIT's audited consolidated financial statements as at and for the year ended December 31, 2020.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

The CEO and CFO evaluated the effectiveness of the REIT's disclosure controls and procedures (as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") and concluded that the design and operation of the REIT's disclosure controls and procedures were effective for the three and six months ended June 30, 2021.

The CEO and CFO evaluated the design and effectiveness of the REIT's internal controls over financial reporting (as defined in NI 52-109) and concluded that the design and effectiveness of internal controls over financial reporting continue to be appropriate and were effective for the three and six months ended June 30, 2021.

## OUTLOOK

Despite the COVID-19 outbreak and the subsequent waves that have led to the implementation of various public health restrictions, the Canadian economy has remained resilient and is expected to improve as the country's vaccination rates continue to increase. The REIT's financial performance continues to show strong resilience as demonstrated through high rent collections, stable operating results and consistent tenant engagement. The REIT has successfully collected approximately 99.5% of contractual rent in the first half of 2021, which is reflective of the high-quality tenant base.

On July 14, 2021, the Bank of Canada (the “Bank”) opted to hold policy rates at the effective lower bound of 0.25%, which have been in place since March 2020. The Bank tapered the quantitative easing program, reducing the target pace of asset purchases to $2B per week from $3B previously. The Bank continues to signal that rates will be on hold at this lower level until the “economic slack is absorbed” and the 2% inflation target is sustainably achieved, which is expected in the latter half of 2022.

The unemployment rate was 7.8% in June 2021, down from 9.4% from January 2021. Real gross domestic product grew 1.4% in the first quarter of 2021, driven by rising household spending and a sharp increase in housing investment. The gradual reopening of the economy is expected to accelerate recovery as spending and employment increase.

The Canadian office sector is steadily improving as reopening plans are translating to increased office activity. Although national vacancy rose from 14.6% in Q1-2021 to 15.3% in Q2-2021, this represents the smallest quarter-over-quarter increase since the beginning of the pandemic. As tenants prepare to return to the office in the coming months, the increased volume of leasing tours and renewal discussions reflects the optimism in the market.

Similarly, leasing momentum has picked up across the REIT’s portfolio, reflective of the improved outlook in the REIT’s active markets. While overall Toronto office vacancy increased by 90bps from the prior quarter to 13.3% at Q2-2021, overall levels appear to be stabilizing, with subleasing inventory down 2.9% from the prior quarter. Toronto's suburban office vacancy increased 100 basis points from 16.2% in Q1-2021 to 17.2% in Q2-2021, which is well above the REIT's Toronto suburban office vacancy at 3.1%. Despite high suburban office vacancy rates, average net rents for Class A space is up 3.1% year-over-year and the absence of new suburban supply provides an encouraging outlook for the remainder of 2021. Ottawa’s office vacancy increased 20 bps to 9.8%, its lowest quarterly increase since the onset of the pandemic.

Leasing activity has been very strong in the REIT’s Halifax portfolio, with same property occupancy rising 510 bps due to new and renewal leasing deals completed in Q2-2021. The REIT’s Halifax portfolio has outperformed the market, which remains stable with overall vacancy at 15.8% for the third quarter in a row, benefiting from a 6.3% decline in subleasing inventory from the prior quarter.

Though the trend of working from home has been accelerated by the pandemic, a physical work environment enhances office culture, opportunities for collaboration, and employee productivity and well-being. According to a recent Colliers' survey, 58% of companies anticipate a hybrid model of work, 40% of employers will expect employees to be in the office full-time and only 2% said their workforce will be entirely remote. As vaccination rates continue to rise and public health restrictions are eased in Canada, management continues to have a positive outlook on the long-term demand for office space.

The REIT's properties which are backed by a predominately government and credit rated tenant base has proven to be resilient, exemplified through strong performance in occupancy and average rent collections of over 99% during the pandemic. Management is confident the strategic and operational decisions made over the past year will help ensure the REIT's continued success and provide value to our Unitholders.

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

Dated: August 4, 2021
Toronto, Ontario, Canada

## APPENDIX A - PROPERTY LISTING AT JUNE 30, 2021

| | Property Name | City | Occupancy | Remaining Lease Term [1] | GLA |
|---|---|---|---|---|---|
| | ***Alberta*** | | | | |
| 1 | 855 8th Avenue SW | Calgary | 79 % | 0.4 years | 75,700 |
| 2 | 4500 & 4520 - 16th Avenue NW | Calgary | 98 % | 3.5 years | 77,600 |
| 3 | 1020 68th Avenue NE | Calgary | 100 % | 2.5 years | 148,400 |
| 4 | 3699 63rd Avenue NE | Calgary | 100 % | 7.4 years | 209,400 |
| 5 | 13140 St. Albert Trail | Edmonton | 97 % | 3.1 years | 95,200 |
| | *Total Alberta* | | | | *606,300* |
| | ***British Columbia*** | | | | |
| 6 | 810 Blanshard Street | Victoria | 100 % | 3.6 years | 34,400 |
| 7 | 727 Fisgard Street | Victoria | 100 % | 7.8 years | 50,100 |
| 8 | 9200 Glenlyon Parkway | Burnaby | 100 % | 5.6 years | 90,600 |
| 9 | 32071 South Fraser Way | Abbotsford | 100 % | 3.3 years | 52,300 |
| | *Total British Columbia* | | | | *227,400* |
| | ***New Brunswick*** | | | | |
| 10 | 500 Beaverbrook Court | Fredericton | 96 % | 1.5 years | 55,600 |
| 11 | 295 Belliveau Avenue | Shediac | 100 % | 0.6 years | 42,100 |
| 12 | 410 King George Highway | Miramichi | 74 % | 2.1 years | 72,700 |
| 13 | 551 King Street | Fredericton | 100 % | 1.2 years | 85,300 |
| 14 | 495 Prospect Street | Fredericton | 88 % | 2.8 years | 85,100 |
| 15 | 845 Prospect Street | Fredericton | 100 % | 3.7 years | 39,000 |
| 16 | 414-422 York Street | Fredericton | 90 % | 2.7 years | 33,500 |
| 17 | 440-470 York Street | Fredericton | 89 % | 1.6 years | 60,100 |
| | *Total New Brunswick* | | | | *473,400* |
| | ***Nova Scotia*** | | | | |
| 18 | 36 & 38 Solutions Drive | Halifax | 100 % | 3.1 years | 129,200 |
| 19 | 120, 130, 134 & 140 Eileen Stubbs Avenue | Halifax | 96 % | 3.9 years | 297,300 |
| | *Total Nova Scotia* | | | | *426,500* |

[1] Weighted by annualized gross revenue.

| | Property Name | City | Occupancy | Remaining Lease Term [1] | GLA |
|---|---|---|---|---|---|
| | ***Ontario*** | | | | |
| 20 | 1595 16th Avenue | Richmond Hill | 97 % | 8.3 years | 123,000 |
| 21 | 251 Arvin Avenue | Hamilton | 100 % | 3.0 years | 6,900 |
| 22 | 61 Bill Leathem Drive | Ottawa | 100 % | 1.6 years | 148,100 |
| 23 | 777 Brock Road | Pickering | 100 % | 1.7 years | 98,900 |
| 24 | 400 Carlingview Drive | Etobicoke | 100 % | 6.7 years | 26,800 |
| 25 | 6865 Century Avenue | Mississauga | 100 % | 2.0 years | 63,800 |
| 26 | 6925 Century Avenue | Mississauga | 100 % | 5.5 years | 252,500 |
| 27 | 675 Cochrane Drive | Markham | 97 % | 3.7 years | 369,300 |
| 28 | 1161 Crawford Drive | Peterborough | 100 % | 5.8 years | 32,500 |
| 29 | 520 Exmouth Street | Sarnia | 100 % | 5.4 years | 34,700 |
| 30 | 3115 Harvester Road | Burlington | 66 % | 1.8 years | 78,800 |
| 31 | 135 Hunter Street East | Hamilton | 100 % | 2.1 years | 24,400 |
| 32 | 340 Laurier Avenue West | Ottawa | 100 % | 8.5 years | 279,800 |
| 33 | 360 Laurier Avenue West | Ottawa | 100 % | 3.0 years | 107,100 |
| 34 | 400 Maple Grove Road | Ottawa | 100 % | 3.2 years | 107,200 |
| 35 | 101 McNabb Street | Markham | 100 % | 5.2 years | 315,400 |
| 36 | 78-90 Meg Drive | London | 100 % | 3.9 years | 11,300 |
| 37 | 301 & 303 Moodie Drive | Ottawa | 97 % | 4.4 years | 148,600 |
| 38 | 8 Oakes Avenue | Kirkland Lake | 100 % | 10.8 years | 41,000 |
| 39 | 5160 Orbitor Drive | Mississauga | 100 % | 8.8 years | 31,400 |
| 40 | 231 Shearson Crescent | Cambridge | 100 % | 3.5 years | 60,700 |
| 41 | 6 Staples Avenue | Richmond Hill | 100 % | 12.3 years | 122,000 |
| 42 | 2300 St. Laurent Boulevard | Ottawa | 100 % | 3.7 years | 37,500 |
| 43 | 3650 Victoria Park Avenue | Toronto | 95 % | 2.3 years | 154,400 |
| 44 | 80 Whitehall Drive | Markham | 100 % | 8.4 years | 60,800 |
| 45 | 5775 Yonge Street | Toronto | 96 % | 4.3 years | 274,200 |
| | *Total Ontario* | | | | *3,011,100* |
| | **Average/Total Portfolio** | | 97 % | 4.7 years | 4,744,700 |

[1] Weighted by annualized gross revenue.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