TSX: TNT.UN

True North Commercial REIT

Q4 2022

MANAGEMENT'S DISCUSSION & ANALYSIS

MARCH 14, 2023

675 Cochrane Drive
GTA, ON

AT A GLANCE

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

$1.5 B
Total Assets

$546 M
Market Capitalization

4.4 YR
Weighted Average Lease Term

47
Properties

93%
Occupancy

80%
Revenues Generated from Goverment & Credit rated Tenants

As at December 31, 2022

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

Stable
Contractual
Cash flow

1595 16th Avenue
GTA, ON

101 McNabb Street
GTA, ON

High Quality
Tenant Base

Focus on
Urban Areas


1112 Fort Street
Victoria, BC

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

Information contained in forward-looking statements is based upon certain material assumptions applied in drawing a conclusion or making a forecast or projection, including management's perception of historical trends, current conditions and expected future developments, as well as other considerations believed to be appropriate in the circumstances. There can be no assurance regarding: (a) the ongoing effects of COVID-19 on the REIT's business, operations and performance, including the performance of its Units; (b) the REIT's ability to mitigate any impacts related to fluctuating interest rates, inflation and the after effects of COVID-19;

(c) the factors, risks and uncertainties expressed above in regards to the post COVID-19 environment on the commercial real estate industry and property occupancy levels; (d) credit, market, operational, and liquidity risks generally; (e) the availability of investment opportunities for growth in Canada and the timing and ability of the REIT to acquire or sell certain properties; (f) Starlight Group Property Holdings Inc., or any of its affiliates (“Starlight”), continuing as asset manager of the REIT in accordance with its current asset management agreement; and (g) other risks inherent to the REIT’s business and/or factors beyond its control which could have a material adverse effect on the REIT.

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

NON-IFRS FINANCIAL MEASURES

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

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

AFFO is an important performance measure to determine the sustainability of future distributions paid to holders of Units (“Unitholders”). In calculating AFFO, the REIT makes certain 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, non-cash Unit-based compensation expense and a deduction of a reserve for capital expenditures, tenant inducements, and leasing costs. The method applied by the REIT to calculate AFFO differs from the definition of AFFO as defined by Realpac. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance. Refer to “FFO and AFFO” for a reconciliation from FFO to AFFO.

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

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

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

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

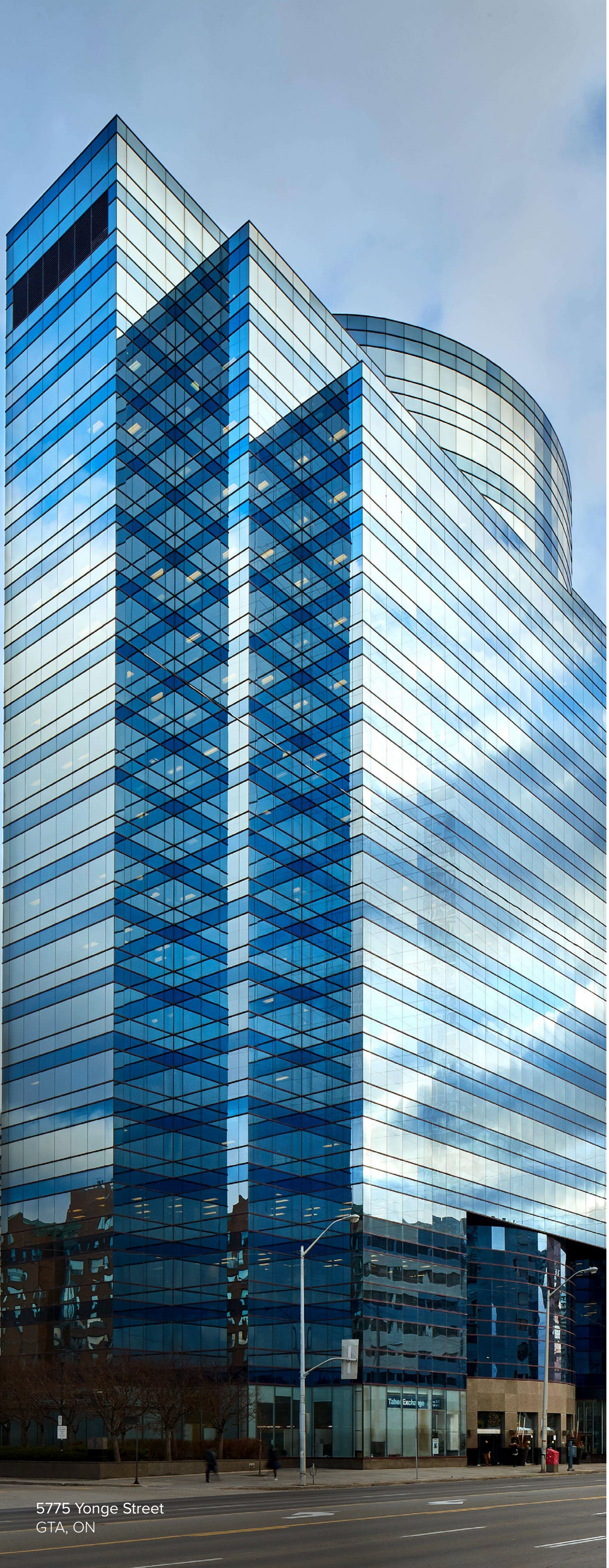
Indebtedness is defined in the REIT's third amended and restated declaration of trust dated as of May 11, 2021 ("DOT") and is a measure of the amount of leverage utilized by the REIT. GBV is defined in the DOT and is a measure of the value of the REIT's total assets. The Indebtedness to GBV ratio is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

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

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

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

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



5775 Yonge Street
GTA, ON

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BASIS OF PRESENTATION

The REIT's consolidated financial statements for the years ended ended December 31, 2022 and 2021 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 months and year ended December 31, 2022 ("Q4-2022") and ("YTD-2022"), respectively, three months and year ended December 31, 2021 ("Q4-2021") and ("YTD-2021"), respectively, three months ended September 30, 2022 ("Q3-2022"), three months ended June 30, 2021 ("Q2-2021"), and three months ended March 31, 2023 ("Q1-2023").

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 December 31, 2022, the REIT owned and operated a portfolio of 47 office properties across Canada consisting of approximately 5.0 million square feet of gross leasable area ("GLA").

The objectives of the REIT are to:

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

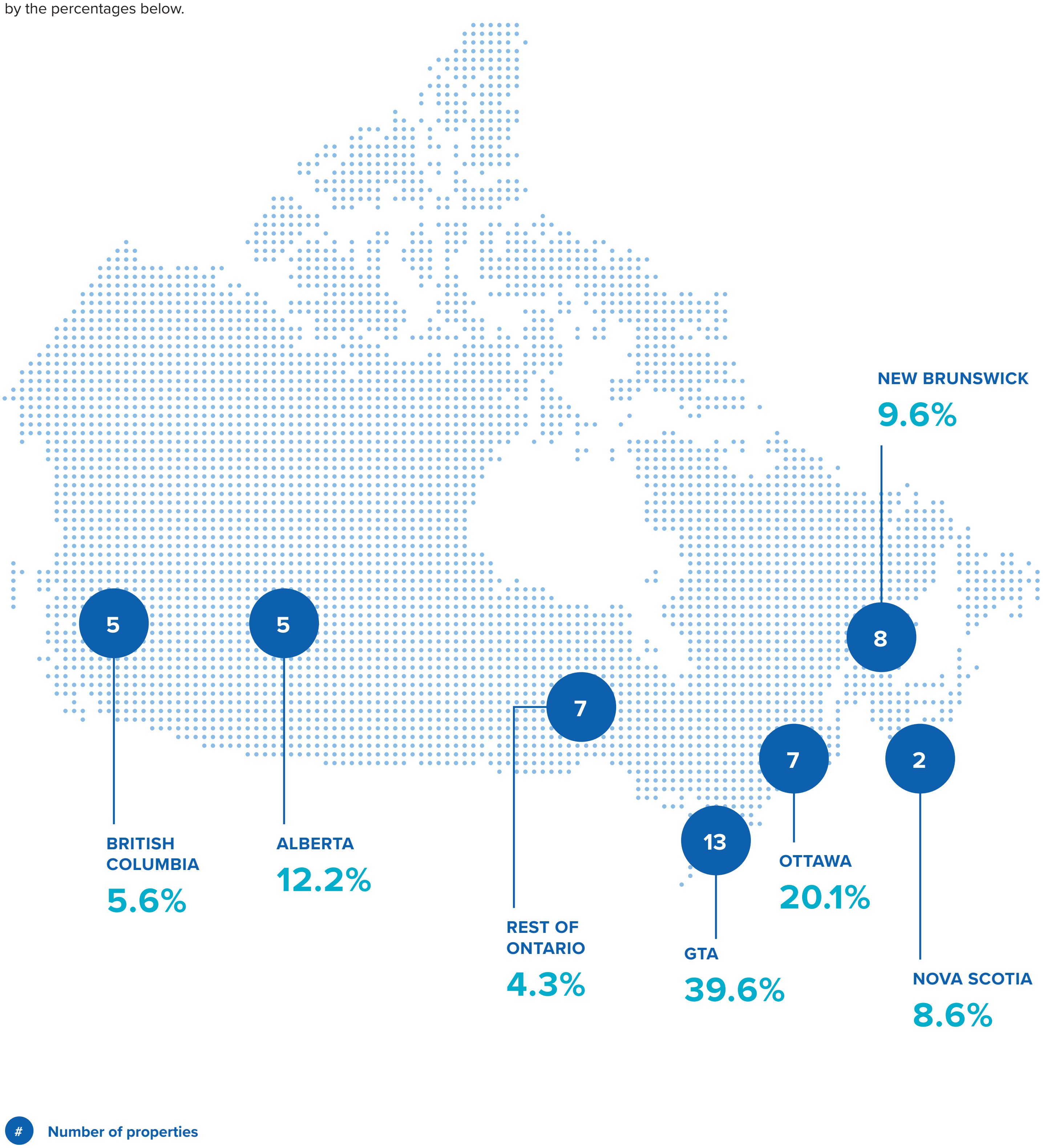
The REIT seeks to identify potential acquisitions using investment criteria that focus on the security of cash flow, capital appreciation, value enhancement through more efficient management of the assets being acquired and growth of FFO and AFFO per Unit.

PORTFOLIO OVERVIEW

As at December 31, 2022, the REIT's portfolio was comprised of 47 office properties totaling approximately 5.0 million square feet of GLA. See Appendix A for a detailed listing of the REIT's properties.

Current Portfolio & Geographic Diversification

GLA by province as at December 31, 2022 is denoted by the percentages below.



TENANT PROFILE

Top 20 tenants account for 68% of revenue. Approximately 80% of the REIT's portfolio revenue is generated by government and credit rated tenants.

39%
government tenants

+

41%
credit rated tenants

=

80%
total government and credit rated tenants

The REIT's top 20 tenants as at December 31, 2022:

TENANT	% OF GROSS REVENUE	GLA	REMAINING LEASE TERM(1)
Federal Government of Canada	17.5%	832,000	5.6 years
Province of Alberta	9.4%	395,100	4.0 years
Province of Ontario	6.0%	237,200	3.9 years
TD Insurance	5.8%	275,600	2.2 years
General Motors of Canada Company	3.5%	154,800	3.7 years
Province of British Columbia	3.0%	125,100	4.5 years
Province of New Brunswick	2.3%	170,100	0.6 years
Lumentum Ottawa Inc.	2.2%	148,100	5.1 years
LMI Technologies Inc.	2.1%	90,600	4.1 years
Intact Insurance Co.	2.1%	77,800	2.4 years
Staples Canada ULC	1.9%	122,000	10.8 years
General Dynamics Land Systems	1.7%	148,400	1.0 years
EMS Technologies Canada, Ltd.	1.7%	107,200	1.7 years
Ceridian Canada Ltd.	1.5%	49,800	3.2 years
Smucker Foods of Canada Corporation	1.4%	60,800	6.9 years
Paymentus (Canada) Corporation	1.3%	55,800	8.2 years
Stantec Consulting Ltd.	1.3%	55,200	6.5 years
ADP Canada Co.	1.2%	65,600	3.5 years
Prospera Credit Union	1.1%	52,300	1.7 years
Golder Associates Ltd.	0.9%	35,300	7.2years
Total	**67.9%**	**3,258,800**	**4.4 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
38%	**22%**	**17%**	**13%**	**10%**

LEASING ACTIVITY

As at December 31, 2022, the REIT's occupancy was 93% with a weighted average remaining lease term of 4.4 years. The REIT's occupancy decreased 2% compared to Q3-2022 due to tenants in the GTA portfolio who contractually downsized a portion of their space effective Q4-2022. The REIT has subsequently secured new tenants for approximately 47% of this space with rents commencing in 2023.

The following table summarizes the leasing activity for Q4-2022:

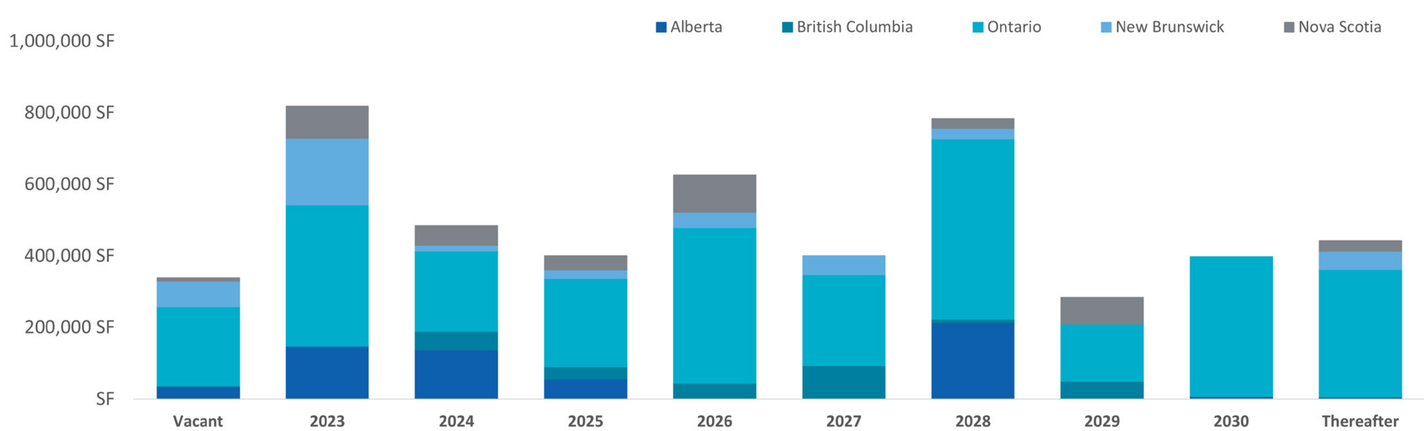
	New Lease Deals		Lease Renewals and Replacements		
	Leasable Area	Weighted Average Lease Term	Leasable Area	Weighted Average Lease Term	% Increase In Rents
Q4 2022	58,900 SF	7.8 YR	26,000 SF	3.9 YR	1.6%
YTD 2022	180,500 SF	9.1 YR	432,100 SF	4.4 YR	3.5%

During the quarter, the REIT completed 58,900 square feet of new lease deals with a weighted average lease term of 7.8 years which included 35,500 square feet leased to a credit rated tenant in the healthcare sector for a ten-year term in the GTA, Ontario. The REIT renewed and replaced 26,000 square feet with a weighted average lease term of 3.9 years and positive leasing spread of 1.6% over expiring rental rates.

The REIT concluded the year with 612,600 square feet of leasing transactions completed with a weighted average lease term of 5.8 years. This included 100,300 square feet of new lease deals and 367,700 square feet of lease renewals and replacements with credit rated and government tenancies with weighted average lease terms of 11.0 years and 4.6 years respectively. YTD-2022 renewal activity achieved a 3.5% increase in base rents over expiring rates.

LEASE ROLLOVER PROFILE

Lease maturities are based on the square footage of the REIT's leases. As at December 31, 2022, the lease rollover profile was as follows:



FOURTH QUARTER AND YEAR TO DATE HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

The REIT has continued to perform in -line with management expectations. Collections remained strong with approximately 99.5% of contractual rents collected for the three months and year ended December 31, 2022. Q4-2022 occupancy was 93% with an average remaining lease term of 4.4 years with 80% of revenue generated from government and credit rated tenants.

	Three months ended December 31		Years ended December 31		
	2022	2021	2022	2021	2020
Portfolio					
Number of properties			47	46	47
Portfolio GLA			4,975,200 sf	4,799,600 sf	4,798,300 sf
Occupancy			93 %	96 %	98%
Remaining weighted average lease term			4.4 years	4.4 years	4.7 years
Revenue from government and credit rated tenants			80 %	76 %	75%
Financial					
Revenue	$ 35,451	$ 35,461	$ 143,575	$ 138,523	$ 139,431
NOI [(1)]	20,629	20,451	86,484	82,627	83,742
Net income and comprehensive income	(21,905)	18,916	16,532	51,004	39,752
Same Property NOI [(1)]	22,373	22,083	93,360	88,405	87,977
FFO [(1)]	$ 12,665	$ 13,309	$ 56,300	$ 53,800	$ 53,207
FFO per Unit - basic [(1)]	0.13	0.15	0.61	0.59	0.60
FFO per Unit - diluted [(1)]	0.13	0.14	0.60	0.59	0.59
AFFO [(1)]	$ 12,734	$ 12,866	$ 55,982	$ 51,408	$ 51,089
AFFO per Unit - basic [(1)]	0.14	0.14	0.60	0.57	0.57
AFFO per Unit - diluted [(1)]	0.14	0.14	0.60	0.56	0.57
AFFO payout ratio - diluted [(1)]	110 %	106 %	99 %	106 %	104 %
Distributions declared	$ 13,996	$ 13,579	$ 55,296	$ 53,973	$ 53,139

The REIT's revenue remained relatively flat compared to Q4-2021 while NOI increased 1%. The main contributor was the increase in Same Property NOI of 1.3% driven by the REIT's Ontario portfolio due to termination income received from a tenant in one of the REIT's GTA properties that downsized a portion of their space effective December 2022, combined with additional NOI from the acquisitions in Q4-2021 and Q3-2022, offset by the disposition activity in Q2-2021, a decrease in occupancy from 96% to 93% and higher amortization of leasing costs and straight line rent adjustments.

The REIT's FFO and AFFO decreased $644 (YTD-2022 - increased $2,500) and $132 (YTD-2022 - increased $4,574), respectively in Q4-2022 over the comparable period. FFO and AFFO for both Q4-2022 and YTD-2022 benefited from higher NOI from acquisitions completed in Q4-2021 and Q3-2022 as well as positive contribution from Same Property NOI, partially offset by property dispositions in Q2-2021. Q4-2022 FFO and AFFO were negatively impacted by higher financing costs as a result of higher interest rates on refinancings and financing on acquisitions completed in Q3-2022 and Q4-2021 as well as higher interest expense on the REIT's Credit Facility.

Q4-2022 FFO basic and diluted per Unit were lower by $0.02 and $0.01, respectively compared to Q4-2021. Q4-2022 AFFO basic and diluted per Unit remained stable at $0.14. YTD-2022 FFO basic and diluted per Unit increased $0.02 and $0.01, respectively, to $0.61 and $0.60. YTD-2022 AFFO basic and diluted per Unit increased $0.03 and $0.04, respectively to $0.60.

Excluding lease termination fees, Q4-2022 FFO and AFFO basic and diluted per Unit would have been $0.12 and YTD-2022 FFO and AFFO basic and diluted per Unit would have been $0.52. Q4-2022 AFFO diluted payout ratio would have been 127% and YTD-2022 AFFO diluted payout ratio would have been 115%.

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

Acquisition Activity

On August 22, 2022, the REIT acquired a 174,000 square foot office property located at 400 Cumberland Street, Ottawa, Ontario (“Cumberland Property”) for approximately $40,500, plus closing costs. The purchase price was satisfied by a combination of $30,400 mortgage financing and the Credit Facility.

Disposition Activity

On April 11, 2022, the REIT entered into an agreement of purchase and sale to dispose of 32071 South Fraser Way, Abbotsford, BC ("Abbotsford Property") totaling 52,300 square feet for a price of approximately $24,000. Closing is expected to be on or about June 30, 2023.

On December 5, 2022, the REIT entered into an agreement of purchase and sale to dispose of 400 Carlingview Drive, Etobicoke, Ontario ("Carlingview Property") totaling 26,800 square feet for approximately $7,250 plus closing costs. The sale closed on March 10, 2023.

Subsequent to December 31, 2022, the REIT entered into an unconditional agreement of purchase and sale to dispose of 360 Laurier Avenue West, Ottawa, Ontario ("Laurier Property") totaling 107,100 square feet. The Laurier Property is being sold for approximately $17,500 with closing expected to be on or about June 15, 2023.

The disposition of the Carlingview and Laurier Properties are advantageous and strategic given the lead tenant at each property had provided notice that they would be vacating at the end of their current lease term. For these particular properties, the ability to extract their underlying value at this time is advantageous given the significant re-leasing costs and loss of income associated with replacing the upcoming vacancy.

KEY DEBT METRICS

	December 31, 2022	December 31, 2021
Indebtedness to GBV ratio [1]	59.3 %	57.7 %
Interest coverage ratio [1]	3.00 x	3.02 x
Indebtedness - weighted average fixed interest rate	3.54 %	3.31 %
Indebtedness - weighted average term to maturity	3.27 years	3.70 years

As at December 31, 2022, the REIT's mortgage portfolio carried a weighted average maturity of 3.27 years and a weighted average fixed interest rate of 3.54%. During the quarter, the REIT refinanced a total of $36,000 (YTD-2022 - $118,820) of mortgages with a weighted average fixed interest rate of 5.38% (YTD-2022 - 4.53%) for five year terms (YTD-2022 - one to seven year terms), providing the REIT with additional liquidity of approximately $8,800 (YTD-2022 - $29,400). Subsequent to year-end, the REIT refinanced $31,226 of mortgages providing the REIT with additional liquidity of approximately $5,800.

On August 19, 2022, the REIT renewed its Credit Facility for a further two years maturing December 1, 2024 which included an increase from $60,000 to $68,000, with the additional $8,000 expiring on June 30, 2023 to align with the sale of the Abbotsford Property.

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

Distribution reduction effective April 2023

Despite the REIT achieving strong operating metrics historically, the current capital market and economic conditions, together with the uncertainty of the duration and impact of macroeconomic factors, have resulted in management and the trustees of the REIT ("Trustees") to implement initiatives that will ensure the long-term viability of the REIT's cash flow and value for its Unitholders. As part of its process, the Trustees conducted a comprehensive review of the REIT's distribution policy and on March 14, 2023, the REIT announced a 50% reduction to its monthly cash dividend from $0.0495 per Unit to $0.02475 per Unit or $0.297 per Unit on an annualized basis. The new declared distribution will commence on April 17, 2023 to Unitholders of record on March 31, 2023. The distribution reduction is expected to provide the REIT with financial flexibility to continue advancing its short and long-term objectives while exploring strategic, value-creating opportunities, with maximizing Unitholder value being the principal objective. The reduction of the REIT's distribution will provide an additional $25,000 in cash annually that will be used primarily to improve our capital profile and deliver Unitholder value.

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

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

QUARTERLY INFORMATION

	Q4-22	Q3-22	Q2-22	Q1-22	Q4-21	Q3-21	Q2-21	Q1-21
Revenue	$35,451	$36,677	$35,120	$36,327	$35,461	$34,222	$33,896	$34,944
Property operating costs	(14,822)	(14,701)	(13,435)	(14,133)	(15,010)	(13,667)	(13,365)	(13,854)
NOI [(1)]	20,629	21,976	21,685	22,194	20,451	20,555	20,531	21,090
General and administration expenses	(1,874)	(1,294)	(1,261)	(1,625)	(1,663)	(1,409)	(1,930)	(1,904)
Finance costs	(8,109)	(7,725)	(7,253)	(7,247)	(7,239)	(7,121)	(7,131)	(7,174)
Transaction costs on sale of investment properties	—	—	—	—	—	—	(623)	—
Distributions on Class B LP Units	(375)	(400)	(449)	(449)	(449)	(462)	(469)	(504)
Fair value adjustment of Class B LP Units	(455)	1,629	2,661	755	(514)	514	(1,706)	(1,895)
Fair value adjustment of investment properties	(31,803)	(6,842)	(1,610)	(1,670)	7,361	3,372	(2,166)	(2,348)
Unrealized gain on change in fair value of derivative instruments	82	702	1,709	2,951	969	398	15	2,455
Net income and comprehensive income for the period	$(21,905)	$ 8,046	$15,482	$14,909	$ 18,916	$15,847	$ 6,521	$ 9,720
FFO per Unit - basic [(1)]	$ 0.13	$ 0.15	$ 0.16	$ 0.16	$ 0.15	$ 0.15	$ 0.15	$ 0.15
AFFO per Unit - basic [(1)]	$ 0.14	$ 0.15	$ 0.16	$ 0.16	$ 0.14	$ 0.14	$ 0.14	$ 0.14
AFFO per Unit - diluted [(1)]	$ 0.14	$ 0.15	$ 0.16	$ 0.16	$ 0.14	$ 0.14	$ 0.14	$ 0.14
AFFO payout ratio - basic [(1)]	110 %	97 %	96 %	94 %	105 %	104 %	105 %	105 %
AFFO payout ratio - diluted [(1)]	110 %	97 %	96 %	94 %	106 %	105 %	106 %	106 %
Number of investment properties	47	47	46	46	46	45	45	47
Occupancy rate	93 %	95 %	96 %	96 %	96 %	96 %	97 %	97 %

Q4-2022 revenue and NOI decreased 3% and 6%, respectively, compared to the previous quarter as a result of lower termination income and lower revenue for a tenant in the REIT's GTA portfolio that downsized a portion of their space effective Q4-2022. Additionally, recovery revenue was lower as a result of tax rebates received during the quarter for certain properties. NOI was also impacted by higher operating expenses from seasonal costs but lower recovery revenue as a result of higher vacancy at certain properties.

Excluding the impact of changes in the fair value of Unit-based compensation, general and administration expenses were higher in Q4-2022 compared to Q3-2022 as a result of annual property appraisal fees, interim fees for the annual audit, due diligence costs associated with a property acquisition the REIT is no longer pursuing and higher asset management fees associated with the Cumberland Property acquisition.

Finance costs increased during the quarter due to higher interest expense and higher amortization of deferred financing costs as a result of additional borrowings associated with the acquisition completed in Q3-2022 and mortgage refinancings completed in Q4-2022.

Distributions on Class B LP Units decreased in the quarter due to the exchange of 496,435 Class B LP Units to Units completed on August 16, 2022.

Portfolio occupancy declined 2% to 93% when compared to Q3-2022. Occupancy was negatively impacted due to tenants in the GTA portfolio who contractually downsized a portion of their space effective Q4-2022.

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

ANALYSIS OF FINANCIAL PERFORMANCE

	Three months ended December 31		Years ended December 31	
	2022	2021	2022	2021
Revenue	$ 35,451	$ 35,461	$ 143,575	$ 138,523
Expenses:				
Property operating costs	(9,834)	(10,016)	(36,882)	(35,940)
Realty taxes	(4,988)	(4,994)	(20,209)	(19,956)
NOI	$ 20,629	$ 20,451	$ 86,484	$ 82,627
Other income (expenses):				
General and administration expenses	(1,874)	(1,663)	(6,054)	(6,906)
Finance costs	(8,109)	(7,239)	(30,334)	(28,665)
Transaction costs on sale of investment properties	—	—	—	(623)
Distributions on Class B LP Units	(375)	(449)	(1,673)	(1,884)
Fair value adjustment of Class B LP Units	(455)	(514)	4,590	(3,601)
Fair value adjustment of investment properties	(31,803)	7,361	(41,925)	6,219
Unrealized gain on change in fair value of derivative instruments	82	969	5,444	3,837
Net (loss) income and comprehensive income	$ (21,905)	$ 18,916	$ 16,532	$ 51,004

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 NOI increased 1% while revenue remained flat, compared to Q4-2021. Revenue and NOI were higher YTD-2022 by 4% and 5%, respectively. The increase in revenue and NOI was a result of higher Same Property NOI of 1.3% (YTD-2022 - 5.6%) driven by the REIT's Ontario portfolio due to termination income received from one tenant at a GTA property that downsized a portion of their space effective December 2022, combined with additional NOI from the acquisitions in Q4-2021 and Q3-2022, offset by a decrease in occupancy from 96% to 93% and higher amortization of leasing costs and straight-line rent adjustments.

Property operating expenses were lower in Q4-2022 compared to Q4-2021 due to lower utilities as a result of lower occupancy at certain properties in the GTA combined with lower repairs and maintenance expense. This was partially offset by higher cleaning costs as a result of increased physical occupancy. Property operating expenses were higher YTD-2022 as a result of higher seasonal costs including snow removal. Realty tax expense increased YTD-2022 due to property acquisitions.

SAME PROPERTY ANALYSIS

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

	Three months ended December 31		Years ended December 31	
	2022	**2021**	**2022**	**2021**
Number of properties	45	45	45	45
Revenue	$ 33,751	$ 35,059	$ 139,942	$ 137,455
Expenses:				
Property operating	(9,430)	(9,923)	(36,044)	(35,688)
Realty taxes	(4,764)	(4,940)	(19,673)	(19,801)
	$ 19,557	$ 20,196	$ 84,225	$ 81,966
Add:				
Amortization of leasing costs and tenant inducements	2,012	1,652	6,784	5,929
Straight-line rent	804	235	2,351	510
Same Property NOI	$ 22,373	$ 22,083	$ 93,360	$ 88,405
Reconciliation to financial statements:				
Acquisitions and dispositions	1,070	255	2,247	675
Amortization of leasing costs and tenant inducements	(2,012)	(1,652)	(6,784)	(5,943)
Straight-line rent	(802)	(235)	(2,339)	(510)
NOI	$ 20,629	$ 20,451	$ 86,484	$ 82,627

Same Property Occupancy

	As at December 31	
	2022	**2021**
Alberta	94.4 %	96.5 %
British Columbia	98.7 %	100.0 %
New Brunswick	85.1 %	89.3 %
Nova Scotia	97.9 %	97.5 %
Ontario	92.7 %	95.9 %
Total	92.9 %	95.6 %

Same Property NOI

	Three months ended December 31			
	2022	**2021**	**Variance**	**Variance %**
Alberta	$ 3,567	$ 3,465	$ 102	2.9 %
British Columbia	1,268	1,250	18	1.4 %
New Brunswick	861	1,264	(403)	(31.9)%
Nova Scotia	1,648	1,828	(180)	(9.8)%
Ontario	15,029	14,276	753	5.3 %
	$ 22,373	$ 22,083	$ 290	1.3 %

Q4-2022 Same Property NOI increased 1.3% and 5.6% YTD-2022.

Same Property NOI in Alberta increased 2.9% mainly due to a termination payment received from a tenant at our Edmonton property, the surrendered space has been re-leased with rents starting Q1-2023. Same property occupancy in British Columbia decreased due to a lease expiry at the end of Q2-2022, however, NOI was positively impacted by contractual rent increases.

New Brunswick Same Property NOI experienced a decline due to lower occupancy as certain tenants downsized on renewal. A total of 34,000 square feet of new lease deals were completed in 2022 with revenue commencing in the first half of 2023. Same Property NOI in Nova Scotia was negatively impacted by a 14,600 square foot short term lease that ended in Q2-2022 and was subsequently re-leased with rent commencing in Q2-2023.

While occupancy has decreased in the REIT's Ontario portfolio, Same Property NOI increased by 5.3% mainly due to termination fees. Termination fees relate to a tenant in the GTA portfolio that downsized a portion of their space effective December 2022, of which approximately 60% has been contractually re-leased with rents commencing in the second half of 2023.

Excluding termination fees, Same Property NOI for the quarter decreased 4.7% and 2.7% YTD-2022.

GENERAL AND ADMINISTRATION EXPENSES

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

Excluding the changes in the fair value of Unit-based compensation, general and administration expenses increased 20% in Q4-2022 and 9% YTD-2022 as a result of due diligence costs associated with a property acquisition the REIT is no longer pursuing and costs associated with the Incentive Unit plan.

FINANCE COSTS

The REIT's finance costs for the three months and years ended December 31, 2022 and 2021 are summarized below. Finance costs exclude cash distributions and fair value adjustments on Class B LP Units.

	Three months ended December 31		Years ended December 31	
	2022	2021	2022	2021
Interest on mortgages payable	$ 7,531	$ 6,755	$ 28,311	$ 27,030
Other interest expense and standby fees	196	95	544	314
Amortization of mortgage premiums	(9)	(12)	(45)	(51)
Amortization of financing costs	391	401	1,524	1,372
	$ 8,109	$ 7,239	$ 30,334	$ 28,665

Higher mortgages payable balances due to refinancings and acquisitions completed in 2021 and 2022 have resulted in higher interest expense and amortization of financing costs. This was partially offset by the property dispositions completed in Q2-2021 where the associated borrowings were repaid.

Other interest expense and standby fees relate to costs incurred on the REIT's Credit Facility which was partially drawn throughout 2022 resulting in higher expenses compared to 2021.

DISTRIBUTIONS ON CLASS B LP UNITS

The REIT paid 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 $375 in Q4-2022 ($449 - Q4-2021) and $1,673 YTD-2022 ($1,884 - YTD-2021). The decrease in distributions was due to the conversion of 697,380, 135,953 and 496,435 Class B LP Units to Units on February 25, 2021, September 9, 2021 and August 16, 2022, respectively.

On March 14, 2023, the REIT announced a reduction of its monthly distribution to Unitholders from $0.0495 per Unit to $0.02475 per Unit or $0.297 per Unit on an annualized basis. The new declared distribution will commence on April 17, 2023 to Unitholders of record on March 31, 2023 as discussed in the "Fourth Quarter and Year to Date Highlights and Key Performance Indicators" section.

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 $455 in Q4-2022 was due to an increase in the trading price of the Units from $5.61 at September 30, 2022 to $5.79 at December 31, 2022. The fair value gain of $4,590 YTD-2022 was due to a decrease in the trading price of the Units from $7.41 at December 31, 2021 to $5.79 at December 31, 2022.

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.

In determining the fair value of its investment properties the REIT continuously revises rental growth, lease renewal assumptions along with capital spending on upcoming vacancies to reflect expected market conditions. Moreover, the future cash flows are expected to remain relatively stable as government and credit rated tenants comprise the majority of the REIT's tenant base. The acquisitions and dispositions outlined in the “Fourth Quarter and Year to Date Highlights and Key Performance Indicators" section are reflective of the overall strategy of the REIT and its alignment with securing long term government and credit rated leases. With rapidly changing market conditions it is not possible to forecast with certainty the after effects COVID-19 and rising interest rates will have on the valuation of the REIT’s investment properties. Consequently, there is a need to apply a higher degree of judgment as it pertains to the forward-looking assumptions that underlie the REIT’s valuation methodologies. The REIT however remains committed to owning high-quality properties which deliver long term value.

For the three months and year ended December 31, 2022, the REIT had a fair value loss of $31,803 and $41,925, respectively. The fair value loss was predominantly attributable to moderated leasing assumptions on certain properties together with increased capitalization rate expansion predominantly in the Alberta portfolio, which was partially offset by an increase in value of certain externally appraised properties and favourable leasing transactions completed during the last quarter of 2022.

The key valuation assumptions for the REIT’s investment properties as at December 31, 2022 and 2021 are as follows:

	2022	2021
Terminal and direct capitalization rates - range	4.25% to 9.50%	4.25% to 9.50%
Terminal and direct capitalization rate - weighted average	6.14%	6.25%
Discount rates - range	5.75% to 9.75%	5.75% to 9.75%
Discount rate - weighted average	6.96%	6.94%

The weighted average terminal and direct capitalization rate decreased as a result of lower overall capitalization rates at select properties based on independent external appraisals. This decrease was partially offset by capitalization rate increases in the Alberta portfolio.

UNREALIZED GAIN ON CHANGE IN FAIR VALUE OF DERIVATIVE INSTRUMENTS

The REIT enters interest rate swap agreements to effectively fix the interest rate on certain mortgages. These derivative instruments are measured at fair value on each reporting date and changes in the fair value are recognized as an unrealized gain or loss in the statements of income and comprehensive income. The notional principal amounts of the outstanding interest rate swap contracts at December 31, 2022 were $74,383 (December 31, 2021 - $76,540). Unrealized gain on change in the fair value of the derivative instruments totaled $82 in Q4-2022 ($969 in Q4-2021) and $5,444 YTD-2022 ($3,837 YTD-2021). There has been a sharp increase in interest rates in 2022 which continued in early 2023 as the Bank of Canada attempts to curb inflation. 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 (loss) represents the opportunity benefit (cost) of not maintaining floating rate debt and would only be realized in the event the swap were to be terminated.

FFO AND AFFO

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

	Three months ended December 31		Years ended December 31	
	2022	2021	2022	2021
Net (loss) income and comprehensive (loss) income	$ (21,905)	$ 18,916	$ 16,532	$ 51,004
Add (deduct):				
Fair value adjustment of Unit-based compensation	7	108	(580)	801
Fair value adjustment of investment properties	31,803	(7,361)	41,925	(6,219)
Fair value adjustment of Class B LP Units	455	514	(4,590)	3,601
Transaction costs on sale of investment property	—	—	—	623
Distributions on Class B LP Units	375	449	1,673	1,884
Unrealized gain on change in fair value of derivative instruments	(82)	(969)	(5,444)	(3,837)
Amortization of leasing costs and tenant inducements	2,012	1,652	6,784	5,943
FFO	$ 12,665	$ 13,309	$ 56,300	$ 53,800
Add (deduct):				
Unit-based compensation expense	124	115	665	448
Amortization of financing costs	391	401	1,524	1,372
Amortization of mortgage discounts	(9)	(12)	(45)	(51)
Installment note receipts	15	25	62	105
Straight-line rent	802	235	2,339	510
Capital reserve (1)	(1,254)	(1,207)	(4,863)	(4,776)
AFFO	$ 12,734	$ 12,866	$ 55,982	$ 51,408
FFO per Unit:				
Basic	$ 0.13	$ 0.15	$ 0.61	$ 0.59
Diluted	$ 0.13	$ 0.14	$ 0.60	$ 0.59
AFFO per Unit:				
Basic	$ 0.14	$ 0.14	$ 0.60	$ 0.57
Diluted	$ 0.14	$ 0.14	$ 0.60	$ 0.56
AFFO payout ratio:				
Basic	110 %	105 %	99 %	105 %
Diluted	110 %	106 %	99 %	106 %
Distributions declared (2)	$ 13,996	$ 13,579	$ 55,296	$ 53,973
Weighted average Units outstanding (000s):				
Basic	94,202	91,312	93,007	90,799
Add:				
Unit options and Incentive Units	20	622	76	753
Diluted	94,222	91,934	93,083	91,552

Notes:
(1) Based on an estimate of $1.00 (2021 - $1.00) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

(2) Refer to "Fourth Quarter and Year to Date Highlights and Key Performance Indicators" section for changes to the distribution made subsequent to December 31, 2022.

The REIT's FFO and AFFO decreased $644, or 5% and $132, or 1%, respectively in Q4-2022 and increased $2,500 or 5% and $4,574 or 9%, respectively compared to YTD-2021. FFO and AFFO for the quarter were lower due to higher financing costs attributed to Credit Facility draw downs combined with higher interest rates on refinancings and financing of the Q3-2022 acquisition. This was partially offset by higher Same Property NOI and NOI from the acquisition completed in Q3-2022.

YTD-2022 FFO and AFFO benefited from higher NOI from acquisitions completed in Q4-2021 and Q3-2022 as well as a positive contribution from Same Property NOI, partially offset by property dispositions in Q2-2021 and higher finance costs.

Q4-2022 FFO basic and diluted per Unit decreased $0.02 and $0.01, respectively to $0.13. AFFO basic and diluted per Unit remained stable at $0.14. YTD-2022 FFO basic and diluted per Unit increased $0.02 and $0.01 to $0.61 and 0.60, respectively. YTD-2022 AFFO basic and diluted per Unit increased $0.03 and $0.04, respectively to $0.60.

Excluding lease termination fees, Q4-2022 FFO and AFFO basic and diluted per Unit would have been $0.12 and YTD-2022 FFO and AFFO basic and diluted per Unit would have been $0.52. Q4-2022 AFFO diluted payout ratio would be 127% and YTD-2022 AFFO diluted payout ratio would have been 115%.

DISTRIBUTIONS

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

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

On March 14, 2023, the REIT announced a reduction of its monthly distribution to Unitholders from $0.0495 per Unit to $0.02475 per Unit or $0.297 per Unit on an annualized basis. The new declared distribution will commence on April 17, 2023 to Unitholders of record on March 31, 2023 and will provide an additional $25,000 annually that will be used primarily to improve our capital profile and deliver Unitholder value as discussed in the "Fourth Quarter and Year to Date Highlights and Key Performance Indicators" section.

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 December 31	Years ended December 31		
	2022	**2022**	**2021**	**2020**
Distributions declared	$ 13,996	$ 55,296	$ 53,973	$ 53,139
Less: DRIP and change in distributions payable	(1,561)	(6,665)	(6,793)	(9,014)
Cash distributions paid	$ 12,435	$ 48,631	$ 47,180	$ 44,125

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 December 31	Years ended December 31		
	2022	**2022**	**2021**	**2020**
Net (loss) income and comprehensive (loss) income	$ (21,905)	$ 16,532	$ 51,004	$ 39,752
Cash flow provided by operating activities	37,042	103,271	77,312	91,384
Less: Finance costs paid	(7,742)	(28,808)	(27,380)	(27,418)
Adjusted cash provided by operating activities	29,300	74,463	49,932	63,966
Declared basis:				
Excess (shortfall) of net income and comprehensive income over distributions	(35,901)	(38,764)	(2,969)	(13,387)
Excess (shortfall) of adjusted cash flow provided by operating activities over distributions	15,304	19,167	(4,041)	10,827
Cash basis:				
Excess (shortfall) of net income and comprehensive income over distributions	(34,340)	(32,099)	3,824	(4,373)
Excess of adjusted cash flow provided by operating activities over distributions	16,865	25,832	2,752	19,841

Net income and comprehensive income was lower than declared distributions and cash distributions during Q4-2022 and YTD-2022. The shortfall was primarily due to the fair value adjustment on investment properties which is a non-cash adjustment and included in income and comprehensive income. Adjusted cash flow provided by operating activities was higher than declared distributions for Q4-2022 by $15,304 and $19,167 YTD-2022. In Q4-2022, adjusted cash flow provided by operating activities was higher than cash distributions by $16,865 and $25,832 for YTD-2022. The excess was primarily driven by non-cash working capital due to higher tenant inducement accruals at the end of Q4-2022.

RECONCILIATION OF ADJUSTED CASH FLOW PROVIDED BY OPERATING ACTIVITIES TO AFFO

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

	Three months ended December 31		Years ended December 31	
	2022	**2021**	**2022**	**2021**
Adjusted cash flow provided by operating activities	$ 29,300	$ 12,589	$ 74,463	$ 49,932
Change in finance costs payable	15	7	(47)	36
Instalment note receipts	15	25	62	105
Capital reserve	(1,254)	(1,207)	(4,863)	(4,776)
Change in non-cash operating working capital	(15,342)	1,452	(13,633)	6,111
AFFO	$ 12,734	$ 12,866	$ 55,982	$ 51,408

Q4-2022 AFFO was less than distributions declared by $1,262 (YTD-2022 higher by 686) but exceeded distributions paid by $299 (YTD-2022 - $7,351). The REIT expects to be able to fund distributions from AFFO on a go forward basis, see outlined in the "Fourth Quarter and Year to Date Highlights and Key Performance Indicators" for changes to the REIT's distributions.

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 are taken into account when estimating the REIT’s capital reserve. The REIT reviews its capital reserve estimate on an annual basis and makes appropriate adjustments.

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

LIQUIDITY AND CAPITAL INVESTMENT

LIQUIDITY

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

The contractual maturities and repayment obligations of the REIT's financial liabilities, excluding Class B LP Units as at December 31, 2022 were as follows:

	2023	2024	2025	2026	2027+	Total
Mortgages payable	$ 164,521	$ 104,637	$ 211,082	$ 157,737	$ 212,457	$ 850,434
Mortgages interest payable	26,878	22,968	14,974	12,794	13,843	91,457
Tenant rental deposits and prepayments	8,259	—	—	—	—	8,259
Accounts payable and accrued liabilities	44,201	—	—	—	—	44,201
	$ 243,859	$ 127,605	$ 226,056	$ 170,531	$ 226,300	$ 994,351

As at December 31, 2022, the REIT had access to approximately $63,101 of Available Funds. In 2022 the REIT refinanced a total of $118,820 of mortgages with a weighted average fixed interest rate of 4.53% for one to seven year terms providing the REIT with additional liquidity of approximately $29,400.

The Available Funds are as follows:

	December 31, 2022	December 31, 2021
Cash	$ 9,501	$ 5,476
Undrawn Credit Facility	53,600	60,000
Available Funds [(1)]	$ 63,101	$ 65,476

On March 14, 2023, the REIT announced a reduction of its monthly distribution to Unitholders from $0.0495 per Unit to $0.02475 per Unit to provide the REIT with additional retained cash flow of approximately $25,000 per annum as discussed in the "Fourth Quarter and Year to Date Highlights and Key Performance Indicators" section.

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

CAPITAL INVESTMENT

The REIT's properties require ongoing capital and leasing expenditures. Leasing expenditures include tenant inducements, leasing commissions and leasehold improvements incurred in connection with the leasing of vacant space and the renewal or replacement of current tenants. The REIT plans to continue to invest capital in its properties in 2023 and beyond. Future expenditures are expected to be funded through cash flow generated by operations, the Credit Facility and cash on hand. For the years ended December 31, 2022 and 2021, the REIT invested $31,653 and $20,967 respectively, in capital and leasing expenditures.

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

ASSET PROFILE

INVESTMENT PROPERTIES

The following table summarizes changes in the REIT's investment properties for the years ended December 31, 2022 and 2021:

Balance at December 31, 2020	$ 1,372,184
Acquisitions	22,347
Additions	20,967
Dispositions	(13,750)
Amortization of leasing costs, tenant inducements and straight-line rent	(4,388)
Fair value adjustment	6,219
Balance at December 31, 2021	$ 1,403,579
Acquisitions	38,845
Additions	31,653
Amortization of leasing costs, tenant inducements and straight-line rent	(7,319)
Fair value adjustment	(41,925)
Investment properties held for sale	(84,250)
Balance at December 31, 2022	$ 1,340,583

As at December 31, 2022 the REIT had four investment properties, located in British Columbia and Ontario having a total fair value of $84,250, classified as investment properties held for sale. As at December 31, 2021 there were no investment properties classified as held for sale.

ADDITIONS

Additions to investment properties for the year ended December 31, 2022 were $31,653, consisting of the following:

- Capital expenditures of $8,674 mainly for elevator, humidifier and HVAC replacements, tenant amenities and garage upgrades; and
- Tenant inducements and leasing costs of $22,979 which include costs to renew existing and secure new tenants.

PREPAID EXPENSES AND DEPOSITS

At December 31, 2022, the REIT had $3,279 in prepaid expenses and deposits, compared to $2,878 at December 31, 2021. The increase was due to higher prepaid realty taxes in 2022 and higher prepaid interest on the Credit Facility.

DEBT

MORTGAGES PAYABLE

The following table sets out, as at December 31, 2022, scheduled principal repayments and amounts maturing over each of the next five fiscal years:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Percentage of total mortgages payable	Weighted average interest rate of maturing debt	Scheduled interest payments
2023	$ 22,810	$ 141,711	$ 164,521	19.3 %	3.89 %	$ 26,878
2024	21,189	83,448	104,637	12.3 %	3.49 %	22,968
2025	13,904	197,178	211,082	24.8 %	3.14 %	14,974
2026	12,251	145,486	157,737	18.5 %	3.20 %	12,794
2027	6,966	78,910	85,876	10.1 %	5.13 %	7,551
Thereafter	8,747	117,834	126,581	15.0 %	3.25 %	6,292
	$ 85,867	$ 764,567	$ 850,434	100.0 %	3.54 %	$ 91,457
Unamortized mark to market mortgage adjustments			161			
Unamortized financing costs			(3,906)			
			$ 846,689			

Mortgages payable have a weighted average fixed interest rate of 3.54% (December 31, 2021 – 3.31%) and a weighted average term to maturity of 3.27 years (December 31, 2021 – 3.70 years).

The mortgages payable associated with investment properties held for sale as at December 31, 2022 was $58,330.

CREDIT FACILITY

The REIT has a $68,000 floating rate revolving Credit Facility with a Canadian chartered bank which is comprised of two tranches: (i) up to $38,000 secured by first and second charges on certain investment properties, bearing interest on cash advances at 95 basis points per annum above the prime rate or 195 basis points per annum over the floating banker's acceptance rate; and (ii) $30,000 unsecured, bearing interest on cash advances at 190 basis points per annum above the prime rate or 290 basis points per annum over the floating banker's acceptance rate.

On August 19, 2022, the REIT renewed its Credit Facility for a further two years maturing December 1, 2024 which included an increase to $68,000 from $60,000, with the additional $8,000 expiring on June 30, 2023 to align with the expected sale of the Abbotsford Property.

As at December 31, 2022, the REIT had drawn $14,400 on the Credit Facility (December 31, 2021 - $nil).

INDEBTEDNESS TO GBV

As at December 31, 2022, the REIT's overall leverage, as represented by Indebtedness to GBV, a non-IFRS financial measure, was 59.3% compared to 57.7% at December 31, 2021. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT's Indebtedness to GBV ratio as at December 31, 2022, 2021 and 2020. Refer to "Non-IFRS Financial Measures".

	December 31, 2022	December 31, 2021	December 31, 2020
Total assets	$ 1,450,315	$ 1,421,177	$ 1,404,882
Deferred financing costs	7,070	7,171	6,300
GBV	$ 1,457,385	$ 1,428,348	$ 1,411,182
Mortgages payable	846,689	820,402	812,489
Credit Facility	14,400	—	—
Unamortized financing costs and mark to market mortgage adjustments	3,745	3,977	3,860
Indebtedness	$ 864,834	$ 824,379	$ 816,349
Indebtedness to GBV	**59.3 %**	**57.7 %**	**57.8 %**

The increase in Indebtedness to GBV from December 31, 2021 is driven mainly by higher mortgages payable from refinancing proceeds in 2022, $14,400 drawn on the Credit Facility as at December 31, 2022 and the fair value loss on investment properties, partially offset by the acquisition of the Cumberland Property in Q3-2022.

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

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

As at December 31, 2022, 1.7% (December 31, 2021 - 0%) of the REIT's debt was at floating rates not hedged with interest rate swaps.

ADJUSTED EBITDA AND INTEREST COVERAGE RATIO

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

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

	Years ended December 31	
	2022	**2021**
Net income and comprehensive income	$ 16,532	$ 51,004
Add (deduct):		
Interest expense	28,855	27,344
Fair value adjustment of Unit-based compensation	(580)	801
Transaction costs on sale of investment property	—	623
Fair value adjustment of investment properties	41,925	(6,219)
Fair value adjustment of Class B LP Units	(4,590)	3,601
Distributions on Class B LP Units	1,673	1,884
Unrealized gain on change in fair value of derivative instruments	(5,444)	(3,837)
Amortization of leasing costs, tenant inducements, mortgage premium and financing costs	8,263	7,264
Adjusted EBITDA	$ 86,634	$ 82,465

	Years ended December 31 2022		Years ended December 31 2021
Adjusted EBITDA	$ 86,634	$	82,465
Interest expense	28,855		27,344
Interest coverage ratio	3.00 x		3.02 x

Interest coverage ratio in 2022 decreased slightly compared to 2021 due to higher interest from additional borrowings associated with the Q4-2021 and Q3-2022 acquisitions and refinancings completed in 2021 and 2022. This was offset by higher EBITDA from Same Property NOI.

CLASS B LP UNITS

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

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

As at December 31, 2022, there were 2,526,414 Class B LP Units issued and outstanding valued at $14,628 compared to $22,400 as at December 31, 2021. The change in value is due to a decrease in the Unit price from $7.41 at December 31, 2021 to $5.79 at December 31, 2022 and the conversion of 496,435 Class B LP Units to units on August 16, 2022.

There have been no further changes in the Class B LP Units outstanding as of March 14, 2023.

UNITHOLDERS' EQUITY

OUTSTANDING UNITS

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

The following table summarizes changes in the Unit capital of the REIT for the year ended December 31, 2022:

	Units		Amount
Balance, December 31, 2021	88,718,265	$	544,117
Issue of Units:			
DRIP	1,030,273		6,537
Options exercised	61,986		398
Exchange of Class B LP Units	496,435		3,182
ATM Program	1,450,800		9,460
Incentive Units redeemed	55,314		368
Issuance costs	—		(785)
Balance, December 31, 2022	91,813,073	$	563,277

The number of Units outstanding as of March 14, 2023 is as follows:

Balance, December 31, 2022	91,813,073
Issue of Units:	
Incentive Units Redeemed	1,492
DRIP	175,439
Balance, March 14, 2023	91,990,004

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 together with the Deferred Units, the "Incentive Units").

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

Deferred Units

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

The following table summarizes the changes in Deferred Units:

	Deferred Units		Amount
Balance, January 1, 2021	50,974	$	321
Granted and reinvested	26,839		198
Fair value adjustments	—		57
Balance, December 31, 2021	77,813	$	576
Granted and reinvested	31,090		194
Redeemed	(61,676)		(390)
Fair value adjustments	—		(107)
Balance, December 31, 2022	47,227	$	273

The number of Deferred Units outstanding as at March 14, 2023 is as follows:

Balance, December 31, 2022	47,227
Redeemed	(3,600)
Granted and reinvested	743
Balance, March 14, 2023	44,370

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, January 1, 2021	44,252		71
Granted and reinvested	46,125		250
Fair value adjustments	—		72
Balance, December 31, 2021	90,377		393
Granted and reinvested	104,642		471
Redeemed	(101,775)		(436)
Fair value adjustments	—		(97)
Balance, December 31, 2022	93,244	$	331

The number of Restricted Units outstanding as at March 14, 2023 is as follows:

Balance, December 31, 2022	93,244
Reinvested	1,524
Balance, March 14, 2023	94,768

UNIT OPTION PLAN

The REIT's Unit option plan has been suspended and no further options will be granted. As at December 31, 2022, all Unit options have vested and are eligible to be exercised prior to the applicable expiry dates.

Options outstanding as at December 31, 2022 consist of the following:

Exercise price [1]	Unit Options Outstanding	Unit Options exercisable	Expiry Date
$6.43	126,667	126,667	March 9, 2023
$6.66	164,001	164,001	September 20, 2023
	290,668	290,668	

[1] In actual dollars.

The number of Options outstanding as at March 14, 2023 is as follows:

Balance, December 31, 2022	290,668
Options cancelled	(131,667)
Balance, March 14, 2023	159,001

SHORT FORM BASE SHELF PROSPECTUS

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

AT-THE-MARKET EQUITY PROGRAM

On April 21, 2022 the REIT filed a prospectus supplement to establish an at-the-market equity program ("ATM Program") that allows the REIT to issue up to $50 million of Units to the public, at the REIT's discretion, and expires coterminous with the base shelf prospectus.

During the year ended December 31, 2022, the REIT issued 1,450,800 Units for gross proceeds of $9,460 ($9,271 net of commissions) through the ATM Program. The average issuance price by month was as follows:

- 220,900 Units for an average issuance price of $7.3491 in the month of January 2022;
- 112,600 Units for an average issuance price of $6.3458 in the month of July 2022;
- 1,117,300 Units for an average issuance price of $6.3742 in the month of August 2022.

The REIT intends to use the net proceeds from the ATM Program for general trust purposes.

COMMITMENTS AND CONTINGENCIES

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

The REIT entered into unconditional agreements of purchase and sale during the year ended December 31, 2022 to dispose of the following investment properties held for sale:

Property	Sale Price	Expected Closing Date
32071 South Fraser Way, Abbotsford, British Columbia	$ 24,000	June 30, 2023
400 Carlingview Drive, Etobicoke, Ontario	$ 7,250	March 10, 2023

As at December 31, 2022, the REIT had entered into commitments for building renovations, capital upgrades and landlord work at certain properties totaling $476 (December 31, 2021 - $2,147).

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

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

ARRANGEMENTS WITH STARLIGHT

Pursuant to the asset management agreement (“Asset Management Agreement”), Starlight provides advisory, asset management and administrative services to the REIT. The REIT is administered and operated by the REIT’s CEO and President 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 December 31		Years ended December 31	
	2022	**2021**	**2022**	**2021**
Asset management fees	$ 1,206	$ 1,157	$ 4,677	$ 4,549
Acquisition fees	—	220	405	220
Other expenses	38	26	133	181
Total	$ 1,244	$ 1,403	$ 5,215	$ 4,950

At December 31, 2022, $417 (December 31, 2021 - $420) was included in accounts payable and accrued liabilities. No incentive fees were earned or capital expenditure fees were charged for the years ended December 31, 2022 and 2021.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the securities of the REIT and in the activities of the REIT. Risks and uncertainties are disclosed below and in the REIT's AIF. The AIF is available on SEDAR at www.sedar.com. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

RISKS RELATED TO THE REAL ESTATE INDUSTRY

REAL PROPERTY OWNERSHIP AND TENANT RISKS

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of such properties. The properties generate revenue through rental payments made by the tenants thereof. The ability to rent vacant space in properties will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics and working patterns, competition from other available properties, and various other factors.

If a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be re-leased on economically favourable terms, the properties may not generate revenues sufficient to meet operating expenses, including debt service payments and capital expenditures.

LEASE RENEWALS AND RENTAL INCREASES

Lease expiries at the Properties including those of significant tenants occur from time to time over the short and long-term. No assurance can be provided that the REIT will be able to renew any or all of the leases upon their expiration, or re-lease space without an interruption in the rental revenue, at or above current rental rates, or without having to offer substantial rent abatements, tenant improvement allowances, early termination rights or below-market renewal options. The difficulty, delay and cost of renewing or failure to renew leases, re-lease space or achieve rental rate stability or increases may materially and adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

FLUCTUATIONS IN CAPITALIZATION RATES

As interest rates fluctuate in the lending market, capitalization rates affecting the underlying value of real estate generally fluctuate as well. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates. In addition, the REIT is subject to certain financial and non-financial covenants through the mortgages payable and Credit Facility that include maintaining certain leverage ratios. Changes in market capitalization rates could impact the REIT's property valuations which in turn could impact financial covenants.

PROPERTY VALUATIONS

The REIT conducts a valuation assessment of the properties on a quarterly basis. As property values fluctuate over time in response to market factors, or as underlying assumptions and inputs to the valuation model change, the fair value of the REIT's portfolio could change materially. The REIT is responsible for the reasonableness of the assumptions and for the accuracy of the inputs into the property valuation model. Errors in the inputs to the valuation model or unreasonable assumptions may result in an inaccurate valuation of the properties. The REIT uses the market information obtained from external appraisals for its properties commissioned during the annual reporting period to assess whether changes to market-related assumptions are required for the balance of the portfolio. The REIT is responsible for monitoring the value of its portfolio going forward and evaluating the impact of any changes in property values over time. Any changes in the value of the properties may impact Unitholder value.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the above-mentioned valuations.

CURRENT AND FUTURE ECONOMIC ENVIRONMENT

Concerns about the uncertainty over whether the economy will be adversely affected by inflation, deflation or stagflation, volatile energy costs, geopolitical issues, supply chain issues, health events such as pandemics, and the availability and cost of credit could contribute to increased market volatility and weakened business and consumer confidence. This difficult operating environment could adversely affect the REIT's ability to generate revenues, thereby reducing its operating income and earnings. It could also have an adverse impact on the ability of the REIT to maintain occupancy rates which could harm the REIT's financial condition. In weak economic environments, the REIT's tenants may be unable to meet their rental payments and other obligations due to the REIT, which could have a material and adverse effect on the REIT. In addition, fluctuation in interest rates or other financial market volatility may adversely affect the REIT's ability to refinance existing indebtedness on maturity or on terms that are as favourable as the terms of existing indebtedness, which may impact negatively on the REIT's performance, may restrict the availability of financing for future prospective purchasers of the REIT's investments and could potentially reduce the value of such investments, or may adversely affect the ability of the REIT to complete acquisitions on financially desirable terms.

Increased inflation could have a more pronounced negative impact on any variable rate debt the REIT is subject to or incurs in the future and on its results of operations. Similarly, during periods of high inflation, annual rent increases may be less than the rate of inflation on a continual basis. Substantial inflationary pressures and increased costs may have an adverse impact on the REIT's tenants if increases in their operating expenses exceed increases in revenue. This may adversely affect the tenants' ability to pay rent, which could negatively affect the REIT's financial condition. The REIT is also subject to the risk that if the real estate market ceases to attract the same level of capital investment in the future that it attracts at the time of its real estate purchases, the value of the REIT's investments may not appreciate or may depreciate. Changing work patterns to include flexible hybrid work models have caused tenants to re-assess their space requirements which may result in tenants downsizing. Accordingly, the REIT's operations and financial condition could be materially and adversely affected to the extent that an economic slowdown or downturn occurs, is prolonged or becomes more severe.

ENVIRONMENTAL AND CLIMATE CHANGE

The REIT is committed to developing and implementing environmental, social, and governance (ESG) best practices across its portfolio to drive value and returns for Unitholders and tenants. It is one of the REIT's commitments to invest and operate sustainably, with an aim to improve efficiency, reduce operating costs, and future-proof the REIT's buildings by driving innovation and new technologies. As part of this commitment the REIT has included a plan to ensure the risks and opportunities posed by climate change and the expected transition to a lower-carbon economy are appropriately understood, benchmarked, and then acted upon.

Environmental

The REIT is subject to various requirements (including federal, provincial and municipal laws, as applicable,) relating to environmental matters. Such requirements provide that the REIT could be, or could become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under the properties, including lead-based paint, asbestos, polychlorinated biphenyls, petroleum-based fuels, mercury, volatile organic compounds, underground storage tanks, pesticides and other miscellaneous materials. Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such materials.

Additional liability may be incurred by the REIT with respect to the release of such substances from the REIT's properties to properties owned by third parties, including properties adjacent to the REIT's properties or with respect to the exposure of persons to regulated substances. The failure to remove or otherwise address such substances may materially adversely affect the REIT's ability to sell a property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against the REIT.

It is the REIT's operating policy to obtain or be entitled to rely on an environmental site assessment prior to acquiring a property. Where an environmental site assessment warrants further investigation, it is the REIT's operating policy to conduct further environmental assessments (see "Declaration of Trust and Description of Voting Units - Investment Guidelines" and "Operating Policies - Operating Policies" in the AIF). Although such environmental assessments provide the REIT with some level of assurance about the condition of the properties, the REIT may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which the REIT may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. Environmental laws and other requirements can change and the REIT may become subject to more stringent environmental laws and other requirements in the future. Compliance with more stringent environmental requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

Physical & transitional climate change

Natural disasters and severe weather such as floods, blizzards and rising temperatures may result in damage to the properties. The extent of the REIT's casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. The REIT is also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of the REIT's buildings. In addition, climate change, to the extent it causes changes in weather patterns, could have effects on the REIT's business by increasing the cost of property insurance, and/or energy at the properties. As a result, the consequences of natural disasters, severe weather and climate change could increase the REIT's costs and reduce the REIT's cash flow.

COMPETITION

The real estate business is competitive. Numerous developers, managers and owners of properties compete with the REIT in seeking tenants. The existence of competing developers, managers and owners and competition for the REIT's tenants could have an impact on the REIT's ability to lease space in the properties and on the rents charged.

The REIT is subject to competition for suitable real property investments with individuals, corporations and institutions (both Canadian and foreign) and other real estate investment trusts which are presently seeking, or which may seek in the future, real property investments similar to those targeted by the REIT. A number of these investors may have greater financial resources than those of the REIT, or operate without the investment or operating restrictions of the REIT. An increase in the availability of the investment funds, and an increase in interest in real property investments, may tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

The REIT seeks to locate and complete property purchases that are accretive to AFFO per Unit. There is a risk that continuing increased competition for real property acquisitions may increase purchase prices to levels that are not accretive to AFFO per Unit.

ILLIQUIDITY OF REAL ESTATE INVESTMENTS

Real estate investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for, and the perceived desirability of, such investments. Such illiquidity may limit the REIT's ability to promptly adjust its portfolio in response to changing economic or other conditions. If the REIT were required to quickly liquidate its properties, the proceeds might be significantly less than the aggregate carrying value of its properties or less than what could be expected to be realized under normal circumstances. In addition, by concentrating on commercial rental properties, the REIT is exposed to the adverse effects on that segment of the real estate market.

INTEREST RATES

When concluding financing agreements or extending such agreements, the REIT depends on its ability to agree on terms and interest payments that will not impair its profits.. In addition to existing variable rate portions of financing agreements, the REIT may enter into future financing agreements with variable interest rates. An increase in interest rates could result in a significant increase in the amount paid by the REIT to service debt, and could materially adversely affect the trading price of the Units. Increases in interest rates generally cause a decrease in demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a material adverse effect on the REIT's ability to sell any of its properties. In addition, increasing interest rates may put competitive pressure on the levels of distributions made by the REIT to Unitholders, increasing the level of competition for capital secured by the REIT, which could have a material adverse effect on the trading price of the Units.

The REIT may be subject to higher interest rates in the future, given the current economic climate. The REIT may also be unable to renew its maturing debt either with an existing or a new lender, and if it is able to renew its maturing debt, significantly lower loan-to-value ratios may be used. The REIT will seek to manage this risk by negotiating fixed interest rates where possible. As required by the DOT, at no time will 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).

The Credit Facility and mortgages payable also contain covenants that require it to maintain certain financial ratios on a consolidated basis. The REIT analyzes its interest rate risk and the impact of rising and falling interest rates on operating results and financial condition on a regular basis.

UNINSURED LOSSES

The DOT requires that the REIT obtain and maintain at all times insurance coverage in respect of its potential liabilities and the accidental loss of value of its assets from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or under-insured loss occur, the REIT could lose its investment in, and anticipated profits and cash flows from, the affected property, but the REIT would continue to be obliged to repay any recourse mortgage indebtedness on such property. There can be no assurance that a claim in excess of the insurance coverage or claims not covered by insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against the REIT not covered by, or in excess of, the insurance coverage could have a material adverse effect on the REIT’s business, financial condition or results of operations and distributions.

RISKS RELATED TO INSURANCE RENEWALS

Certain events could make it more difficult and expensive to obtain directors and officers, cyber, property and casualty insurance, including coverage for terrorism. The REIT’s current insurance policies expire annually and the REIT may encounter difficulty in obtaining or renewing directors and officers, cyber, property or casualty insurance on its properties at the same levels of coverage and under similar terms. Such insurance may be more limited and, for catastrophic risks (for example, earthquake, hurricane, flood and terrorism), may not be generally available to fully cover potential losses. Even if the REIT is able to renew its policies at levels and with limitations consistent with its current policies, the REIT cannot be sure that it will be able to obtain such insurance at premium rates that are commercially reasonable. If the REIT were unable to obtain adequate insurance on the properties for certain risks, it could cause the REIT to be in default under specific covenants on certain of its indebtedness or other contractual commitments it has that require the REIT to maintain adequate insurance on its properties to protect against the risk of loss. If this were to occur or if the REIT were unable to obtain adequate insurance and the properties experience damage that would otherwise have been covered by insurance, it could adversely affect the REIT’s financial condition and the operations of the properties.

CREDIT RISK AND TENANT CONCENTRATION

The REIT is exposed to risk as tenants may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties with strong tenant covenants in place. The REIT’s portfolio includes over 200 tenant leases with a weighted-average term to maturity of approximately 4.4 years. Approximately 80% of the REIT’s annualized gross revenue are government and other credit rated tenants.

RISKS RELATED TO REIT AND ITS BUSINESS

THE POST-COVID-19 IMPACT AND OTHER PUBLIC HEALTH CRISES

There remains uncertainty regarding the post pandemic economic environment and it continues to be difficult to reliably predict the impact on the REIT's business and operations, and to accurately assess the length, impact and severity the pandemic will have in the future on the REIT’s operations, financial condition or results, and Unit price in both the short and long-term.

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 any public health crisis or remedy its impact, among others. The ability and level of success of jurisdictions around the world in restarting and maintaining economies is uncertain. 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 post pandemic environment 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 the Unit price, both of which could materially adversely affect the REIT's operations and financial performance.

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; tenant downsizing or terminations as a result of work-from-home policies, 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.

ACQUISITIONS

The REIT's strategy includes growth through identifying suitable acquisition opportunities, pursuing such opportunities, completing acquisitions and effectively operating and leasing such properties. There can be no assurance as to the pace of growth through property acquisitions or that the REIT will be able to acquire assets on an accretive basis.

Acquisitions of properties by the REIT are subject to the normal commercial risks and satisfaction of closing conditions that may include, among other things, lender approval, regulatory approval, receipt of estoppel certificates and obtaining title insurance. Such acquisitions may not be completed or, if completed, may not be on terms that are exactly the same as initially negotiated.

There may be an undisclosed or unknown liability relating to the acquired property, and the REIT may not be indemnified for some or all of these liabilities. Following an acquisition, the REIT may discover that it has acquired undisclosed liabilities, which may be material. The due diligence procedures by management are designed to address this risk. The REIT performs what it believes to be an appropriate level of investigation in connection with its acquisition of properties and seeks through contract to ensure that risks lie with the appropriate party.

ACCESS TO CAPITAL AND FINANCING

The real estate industry is highly capital intensive. The REIT requires access to capital to maintain the properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There can be no assurance the REIT will have access to sufficient capital or access to capital on terms favourable to the REIT for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. Further, the REIT may not be able to borrow funds due to the limitations set forth in the DOT.

In addition, financial markets have experienced a sharp increase in volatility during recent years. The underlying market conditions may continue or become worse and unexpected volatility and illiquidity in financial markets may inhibit the REIT's access to long-term financing in the Canadian capital market. As a result, it is possible that financing which the REIT may require in order to grow and expand its operations, upon the expiry of the term of financing, or upon refinancing of any particular property, may not be available or, if it is available, may not be available on favourable terms to the REIT.

The REIT is subject to the risks associated with debt financing, including the risk the mortgages and banking facilities secured by the properties will not be able to be refinanced or the terms of such refinancing will not be as favourable as the terms of existing indebtedness due to, for instance, higher interest rates. To the extent the REIT utilizes variable rate debt, such debt will result in fluctuations in the REIT's cost of borrowing as interest rates change.

As at December 31, 2022, $14,400 (December 31, 2021 - $nil) of the REIT's debt was at floating rates.

The REIT has approximately $141,711 of mortgages that will be coming due during 2023. Of this amount, $15,914 relates to mortgages on properties expected to be disposed of in 2023 (see "Fourth Quarter Highlights and Year-to-Date Key Performance Indicators- Disposition Activity"). Subsequent to December 31, 2022, the REIT refinanced two mortgages set to mature in 2023 totaling $31,226. The REIT anticipates refinancing the remaining mortgages with new and/or existing lenders and is in discussions with its current lenders and does not currently anticipate the REIT will encounter any material issues in regards to refinancing any of these mortgages. Regardless, there can be no assurance that the REIT will have access to sufficient capital or access to capital on terms favourable for the refinancing of these mortgages. If the REIT is unable to refinance the mortgages, this could have a material adverse impact on the REIT and its Unitholders.

REGULATION

The REIT is subject to laws and regulations governing the ownership and leasing of real property, employment standards, environmental matters, taxes and other matters. It is possible that future changes in applicable federal, provincial, state, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting the REIT (including with retroactive effect). Any changes in the laws to which the REIT is subject could materially adversely affect the rights and title to the properties. It is not possible to predict whether there will be any further changes in the regulatory regimes to which the REIT is subject or the effect of any such change on its investments.

POTENTIAL CONFLICTS OF INTEREST WITH TRUSTEES

Certain of our Trustees and officers are also Trustees, directors and/or officers of other entities, or are otherwise engaged, and may continue to be engaged, in activities that may put them in conflict with the REIT's business strategy. Consequently, these positions could create, or appear to create, conflicts of interest with respect to matters involving the REIT. Pursuant to the DOT, all decisions to be made by the Trustees which involve the REIT are required to be made in accordance with the Trustee's duties and obligations to act honestly and in good faith with a view to the best interests of the REIT and the Unitholders. In addition, the Trustees and officers of the REIT are required to declare their interest in, and such Trustees are required to refrain from voting on, any matter in which they may have a conflict of interest. However, there can be no assurance that the provisions in the DOT will adequately address potential conflicts of interest or that such actual or potential conflicts of interest will be resolved in the REIT's favour.

Starlight acts as the asset manager for the REIT and also provides management services to other public and private companies. As asset manager for other entities and on its own behalf, Starlight may pursue other business opportunities, including but not limited to, real estate and development business opportunities outside of the REIT. These multiple responsibilities to public entities and other businesses could create competition for the time and efforts of Starlight which may materially adversely affect the REIT's cash flows, operating results and financial condition.

LITIGATION

In the normal course of the REIT's operations, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the REIT. Even if the REIT prevails in any such legal proceeding, the proceedings could be costly and time-consuming and would divert the attention of management and key personnel from the REIT's business operations.

TAXATION MATTERS

Management of the REIT believes the REIT currently qualifies as a mutual fund trust and a real estate investment trust for income tax purposes. If the REIT were not to so qualify, the consequences could be material and adverse.

The *Income Tax Act* (Canada) (“Tax Act”) contains rules, relating to public specified investment flow-through trusts or partnerships ("SIFT") which tax certain publicly traded or listed trusts in a manner similar to corporations and taxes certain distributions from such trusts or partnerships as taxable dividends from a taxable Canadian corporation.

The rules in the Tax Act applicable to SIFTs are not applicable to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue.

Unless the REIT qualifies for the exclusion from the definition of a SIFT in the Tax Act (“REIT Exception”), the SIFT Rules could impact the level of cash distributions which would otherwise be made by the REIT and the taxation of such distributions to Unitholders.

If the REIT were to no longer qualify for the REIT Exception, it would not be able to flow through its taxable income to Unitholders and the REIT would therefore be subject to tax. The REIT Exception is applied on an annual basis. As such, it will not be possible to determine if the REIT will satisfy the conditions of the REIT Exception for 2023 or any subsequent year until the end of the particular year. Management of the REIT has determined that the REIT is not subject to the SIFT tax as it meets the REIT Exception for 2022.

SIGNIFICANT OWNERSHIP BY STARLIGHT

As of the date hereof, Daniel Drimmer and his affiliates hold an approximate 8.5% effective interest in the REIT through ownership of Units, Class B LP Units, Options and Restricted Units. For so long as Starlight maintains a significant effective interest in the REIT, Starlight benefits from certain contractual rights regarding the REIT and Starlight has the ability to exercise influence with respect to the affairs of the REIT and significantly affect the outcome of Unitholder votes, including the ability to prevent certain fundamental transactions, and may discourage transactions involving a change of control of the REIT, including transactions in which an investor might otherwise receive a premium for its Units over the then current market price. The Units may also be less liquid and worth less than they would if Starlight did not have the ability to influence matters affecting the REIT.

Pursuant to the exchange agreement, each Class B LP Unit is exchangeable at the option of the holder for one Unit of the REIT (subject to customary anti-dilution adjustments). See “Material Contracts - Exchange Agreement” in the AIF. If Daniel Drimmer and his affiliates exchange LP Units for Units and sells Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also produce such effect.

FINANCIAL REPORTING AND OTHER PUBLIC COMPANY REQUIREMENTS

The REIT is subject to reporting and other obligations under applicable Canadian securities laws and rules of the stock exchange on which the Units are listed, including National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings of the Canadian Securities Administrators* ("NI 52-109"). These reporting and other obligations place significant demands on the REIT’s management, administrative, operational and accounting resources, including those provided pursuant to the Asset Management Agreement. The REIT is partially reliant on Starlight, pursuant to the Asset Management Agreement, for certain financial reporting and internal control functions. Effective internal controls over financial reporting, particularly those related to revenue recognition, are necessary for the REIT to produce reliable financial reports and to maintain its qualification as a real estate investment trust and are important in helping to prevent financial fraud. Any failure of the REIT, or its service provider, to maintain effective internal controls could cause the REIT to fail to meet its reporting obligations or result in material misstatements in its financial statements. If the REIT cannot provide reliable financial reports or prevent fraud, not only could its real estate investment trust qualification be jeopardized, but also its access to capital could be impaired, and it could be exposed to civil litigation or investigations by regulatory authorities. Further, the REIT's reputation, financial condition and operating results could be materially harmed which could also cause investors to lose confidence in the REIT's reported financial information, which could result in a reduction in the trading price of the Units. The REIT's internal controls over financial reporting, disclosure controls and procedures and its operating internal controls may not prevent or detect financial misstatements or loss of assets because of inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. An internal control system, no matter how well-designed, implemented or audited, can provide only reasonable, not absolute, assurance with respect to financial statement and disclosure accuracy and safeguarding of assets, and that the control system's objectives will be met.

DEPENDENCE ON THE ASSET MANAGER

The REIT is dependent upon Starlight for operational and administrative services relating to the REIT's business. Should Starlight terminate the Asset Management Agreement, the REIT may be required to engage the services of an external asset manager or internalize its management function at a significant cost. The REIT may be unable to engage an asset manager on acceptable terms, in which case the REIT's operations and cash available for distribution may be adversely affected.

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 financial statements for external purposes in accordance with IFRS.

Because of the inherent limitations in all control systems, 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 the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors.

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.

CYBER-SECURITY

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the REIT's information. More specifically, a cyber-incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information. The REIT's primary risks that could directly result from the occurrence of a cyber-incident include financial loss, operational interruption, damage to its reputation and business relationships with its tenants and Unitholders. The REIT has implemented processes, procedures and controls to help mitigate these risks, including installing firewalls and antivirus programs on its networks, servers and computers, but these measures, as well as its increased awareness of a risk of a cyber-incident, do not guarantee that its financial results will not be negatively impacted by such an incident. As cyber threats evolve and become more difficult to detect and successfully defend against, one or more cyber threats might defeat the REIT's security measures. Moreover, employee error or malfeasance, faulty password management or other irregularities may result in a breach of the REIT's security measures, which could result in a breach of confidential information.

If the REIT does not allocate and effectively manage the resources necessary to build and sustain a reliable information technology ("IT") infrastructure, fails to timely identify or appropriately respond to cybersecurity incidents, or the REIT's' information systems are damaged, destroyed, shut down, interrupted or cease to function properly, the REIT's business could be disrupted and the REIT could, among other things, be subject to: the loss of or failure to attract new tenants; the loss of revenue; the loss or unauthorized access to confidential information or other assets; the loss of or damage to trade secrets; damage to its reputation; litigation; regulatory enforcement actions; violation of privacy, security or other laws and regulations; and remediation costs.

The REIT has secured cyber liability insurance coverage, however there can be no guarantee that such coverage will respond or be sufficient to all cyber-security threats incurred by the REIT. A cyber-security incident may result in increased premiums and deductibles for cyber liability coverage.

BUSINESS CONTINUITY AND DISASTER RECOVERY

The REIT's ability to continue critical operations and processes could be negatively impacted by a weather disaster, prolonged information technology failure, terrorist activity, power failures or other national or international catastrophes. Ineffective contingency planning, business interruptions, crises or potential disasters could adversely affect the reputation, operations and financial performance of the REIT. The REIT has a business continuity plan in place, however there can be no assurance it will mitigate all losses.

RISKS RELATED TO THE UNITS

VOLATILE MARKET PRICE FOR THE REIT'S SECURITIES

The market price for the REIT's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the REIT's control, including the following: (a) actual or anticipated fluctuations in the REIT's financial performance and future prospects; (b) recommendations by securities research analysts; (c) changes in the economic performance or market valuations of other issuers that investors deem comparable to the REIT; (d) addition or departure of the REIT's officers; (e) release or expiration of lock-up or other transfer restrictions on outstanding Units or Class B LP Units; (f) sales or perceived sales of additional Units; (g) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the REIT or its competitors; (h) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the REIT's industry or target markets; (i) liquidity of the REIT's securities; (j) prevailing interest rates; (k) the market price of other real estate securities; (l) a decrease in the amount of distributions declared and paid by the REIT; and (m) general economic conditions.

Financial markets have, in recent years, experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such issuers. Accordingly, the market price of the REIT's securities may decline even if the REIT's financial performance, underlying asset values, or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the REIT's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the REIT's securities by those institutions. There can be no assurance that continuing fluctuations in price and volume will not occur.

RETURN ON INVESTMENT ON UNITS NOT GUARANTEED

The Units are equity securities of the REIT and are not traditional fixed income securities. A fundamental characteristic that distinguishes the Units from traditional fixed income securities is that the REIT does not have a fixed obligation to make payments to holders of Units and does not promise to return the initial purchase price of a Unit on a certain date in the future. The REIT has the ability to reduce or suspend distributions to holders of Units if circumstances warrant. The ability of the REIT to make cash distributions to holders of Units, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT and its subsidiaries, and will be subject to various factors including financial performance, obligations under the Credit

Facility, fluctuations in working capital and capital expenditure requirements. There can be no assurance regarding the amount of income to be generated by the properties. The market value of the Units will deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, unlike interest payments or an interest-bearing debt security, the REIT's cash distributions to holders of Units are composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax returns to holders of Units. Therefore, the rate of return over a defined period for a holder of Units may not be comparable to the rate of return on a fixed income security that provides a "return on capital" over the same period.

CASH DISTRIBUTION ARE NOT GUARANTEED: NON-CASH DISTRIBUTIONS

Distributions on the Units are established by the Board of Trustees and are subject to change at their discretion. While the REIT's distribution policy has been established pursuant to the Declaration of Trust and may only be changed with the approval of a majority of Unitholders, the actual amount of distributions paid in respect of the Units will depend upon numerous factors, all of which are susceptible to a number of risks and other factors beyond the control of the REIT. The market value of the Units may deteriorate if the REIT is unable to meet its distribution targets, and that deterioration could be significant. See "Distributions".

DILUTION OF UNITS

The number of Units (including Class B LP Units, issuable by True North Commercial LP, which are exchangeable for Units on a one for one basis) that the REIT is authorized to issue is unlimited. The REIT may, in its sole discretion, issue additional Units, Class B LP Units or convertible securities exchangeable into Units from time to time subject to the rules of any applicable stock exchange on which the Units are then listed. The issuance of any additional Units or Class B LP Units may have a dilutive effect on the interests of holders of Units.

UNITHOLDER LIABILITY

The DOT provides that no holders of Units will be subject to any liability whatsoever to any person in connection with a holding of Units. In addition, legislation has been enacted in the Province of Ontario and certain other provinces that is intended to provide holders of Units in those provinces with limited liability. However, there remains a risk, which is considered by the REIT to be remote in the circumstances, that a holder of Units could be held personally liable for the obligations of the REIT to the extent that claims are not satisfied out of the assets of the REIT. The affairs of the REIT are conducted in a manner to seek to minimize such risk wherever possible.

NATURE OF INVESTMENT IN UNITS

The Units represent a fractional interest in the REIT and do not represent a direct investment in the REIT's assets and should not be viewed by investors as direct securities of the REIT's assets. A holder of a Unit does not hold a share of a body corporate. Holders of Units, in such capacity, do not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions against the REIT. The rights of holders of Units are based primarily on the DOT. There is no statute governing the affairs of the REIT equivalent to the *Canada Business Corporations Act*, which sets out the rights and entitlements of shareholders of corporations in various circumstances. As well, the REIT may not be a recognized entity under certain existing insolvency legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditors' Arrangement Act* (Canada) and thus the treatment of holders of Units upon an insolvency is uncertain.

USE OF ESTIMATES

The preparation of the REIT's annual audited consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, 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. Critical accounting estimates and assumptions are discussed in the REIT's audited consolidated financial statements for the year ended December 31, 2022, and the notes contained therein.

FINANCIAL INSTRUMENTS

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

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

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

Transaction costs 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 annual audited consolidated 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 year ended December 31, 2022 was a gain of $4,590 (YTD-2021 - fair value loss of $3,601).

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 year ended December 31, 2022 was $5,444 (YTD-2021 - $3,837).

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 2022. Future accounting policies that may impact the REIT are discussed in the REIT's audited consolidated financial statements for the year ended December 31, 2022 and the notes contained therein.

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.

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 annual audited consolidated 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 NI 52-109) and concluded that the design and operation of the REIT’s disclosure controls and procedures were effective for the three months and year ended December 31, 2022.

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 months and year ended December 31, 2022.

OUTLOOK

Although office vacancy saw a slight increase in the fourth quarter of 2022 across Canada, many companies have implemented hybrid work models which maintains the need for some degree of office space utilization. The federal government, who makes up 24% of the REIT's tenant base, announced a return-to-the-workplace model of at least three days per week starting in 2023. A key focus for many employers when evaluating their office space remains on high quality buildings with a large number of amenities or optimal locations that provide their employees with greater flexibility through shorter commute times. The majority of the REIT's properties are in near urban spaces with accessibility to transit, ample parking with numerous amenities. Management expects to continue to support the REIT's tenants through various initiatives so their employees find benefit in being back in the office environment.

On March 14, 2023, the REIT announced a 50% reduction to its monthly cash dividend from $0.0495 per Unit to $0.02475 per Unit or $0.297 per Unit on an annualized basis. The new declared distribution will commence on April 17, 2023 to Unitholders of record on March 31, 2023. The distribution reduction is expected to provide the REIT with financial flexibility to continue advancing its short and long-term objectives while exploring strategic, value-creating opportunities, with maximizing Unitholder value being the principal objective. The reduction of the REIT’s distribution will provide an additional $25,000 annually that will be used primarily to improve our capital profile and deliver Unitholder value.

On January 25, 2023, the Bank of Canada increased its policy rate by 25 basis points to 4.50% marking the eighth time the Bank of Canada raised the cost of borrowing in the last twelve months, hiking the benchmark rate a total of 4.25% in an effort to curb inflation. It is expected that the Bank of Canada will hold the policy rate at its current level while it assesses the impact of its increases to date. Although inflation in Canada remains high, it has declined from its recent peak with lower energy prices, improvements in global supply chains and the effects of higher interest rates working through the economy. Inflation is expected to decline as a result of the interest rate increases implemented to date and return to the 2% target in 2024. The REIT continues to actively monitor the current interest rate environment and any associated impact this may have on the REIT's financial performance.

National office vacancy increased 70 basis points in the fourth quarter of 2022 to 17.1% after holding steady for the last two quarters. Sublet levels were on the rise, with downtown centres accounting for majority of the increase in the last quarter of 2022. The vacancy delta between downtown and suburban markets continued to grow as the preference for suburban space persists. As with previous quarters, downtown tenants continue to seek high quality spaces with a variety of amenities to ensure their employees are engaged and returning to the office. However, this is not necessarily the main factor for companies that operate in suburban areas where employees are provided greater flexibility through shorter commute times. Although vacancy rates have increased across most of the major Canadian office markets, overall annual net absorption is at its highest level since the onset of COVID-19. Additionally, the REIT's portfolio occupancy of 93% remains well above the overall market, reflective of the REIT’s near urban geographical focus and stable roster of predominately government and credit-rated tenants.

The GTA downtown office vacancy increased 180 basis points to 13.6% in Q4-2022 as tenants relocated as a result of the supply of new office properties available, while the GTA suburban office vacancy increased 30 basis points to 19.3% in Q4-2022. The REIT’s GTA suburban office portfolio experienced positive traction with 62,000 square feet of new leases and renewals and replacements completed in Q4-2022.

The Ottawa market continues to experience signs of a slowdown as vacancy rose by 1.1% to 11.1%, as the public sector awaits a blanket mandate on the new hybrid work model. The REIT’s Ottawa portfolio continues to outperform the market with occupancy at 98.8%. The Halifax office market saw some traction with drop in vacancy of 60 basis points during the quarter to 15.2%, which is still well above the REIT’s Halifax portfolio vacancy of 2.1%. Calgary downtown office activity continued to improve, with vacancy down 30 basis points to 32.6%. However, this was offset by higher vacancy in the suburban market resulting in overall market vacancy increasing 30 basis points to 30.0%. The REIT's Calgary portfolio occupancy remained strong at 94.9%.

The REIT remains optimistic about the long-term demand for office space and in particular, a physical work environment that emphasizes collaboration to support and develop employees, as well as enrich company culture. Management is focused on actively managing the REIT's existing portfolio, as well as the addition of accretive property acquisitions to preserve and improve cash flow.

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

Dated: March 14, 2023

Toronto, Ontario, Canada

APPENDIX A - PROPERTY LISTING AT DECEMBER 31, 2022

	Property Name	City	Occupancy	Remaining Lease Term [1]	GLA
	Alberta				
1	855 8th Avenue SW	Calgary	68 %	2.3 years	75,700
2	4500 & 4520 - 16th Avenue NW	Calgary	97 %	2.0 years	77,600
3	1020 68th Avenue NE	Calgary	100 %	1.0 years	148,400
4	3699 63rd Avenue NE	Calgary	100 %	5.9 years	209,400
5	13140 St. Albert Trail	Edmonton	92 %	2.3 years	95,200
	Total Alberta		*94 %*	*3.6 years*	*606,300*
	British Columbia				
6	810 Blanshard Street	Victoria	100 %	2.1 years	34,400
7	727 Fisgard Street	Victoria	94 %	6.8 years	50,100
8	1112 Fort Street	Victoria	100 %	3.7 years	52,000
9	9200 Glenlyon Parkway	Burnaby	100 %	4.1 years	90,600
10	32071 South Fraser Way	Abbotsford	100 %	1.7 years	52,300
	Total British Columbia		*99 %*	*3.8 years*	*279,400*
	New Brunswick				
11	500 Beaverbrook Court	Fredericton	93 %	1.0 years	55,600
12	295 Belliveau Avenue	Shediac	100 %	4.1 years	42,100
13	410 King George Highway	Miramichi	75 %	8.4 years	73,200
14	551 King Street	Fredericton	97 %	1.0 years	85,300
15	495 Prospect Street	Fredericton	80 %	4.4 years	87,100
16	845 Prospect Street	Fredericton	50 %	5.2 years	39,000
17	414-422 York Street	Fredericton	91 %	1.5 years	32,800
18	440-470 York Street	Fredericton	90 %	0.4 years	60,100
	Total New Brunswick		*85 %*	*3.3 years*	*475,200*

[1] Weighted by annualized gross revenue.

	Property Name	City	Occupancy	Remaining Lease Term [1]	GLA
	Nova Scotia				
19	36 & 38 Solutions Drive	Halifax	97 %	2.6 years	130,800
20	120, 130, 134 & 140 Eileen Stubbs Avenue	Halifax	98 %	4.4 years	297,300
	Total Nova Scotia		*98 %*	*3.8 years*	*428,100*
	Ontario				
21	1595 16th Avenue	Richmond Hill	92 %	7.4 years	123,100
22	251 Arvin Avenue	Hamilton	100 %	1.5 years	6,900
23	61 Bill Leathem Drive	Ottawa	100 %	5.1 years	148,100
24	777 Brock Road	Pickering	100 %	5.2 years	98,900
25	400 Carlingview Drive	Etobicoke	100 %	0.2 years	26,800
26	6865 Century Avenue	Mississauga	100 %	0.8 years	63,800
27	6925 Century Avenue	Mississauga	81 %	6.1 years	253,500
28	675 Cochrane Drive	Markham	82 %	4.3 years	369,300
29	1161 Crawford Drive	Peterborough	100 %	4.2 years	32,500
30	400 Cumberland Street	Ottawa	98 %	6.0 years	174,400
31	520 Exmouth Street	Sarnia	100 %	3.9 years	34,700
32	3115 Harvester Road	Burlington	76 %	5.4 years	78,800
33	135 Hunter Street East	Hamilton	100 %	5.6 years	24,400
34	340 Laurier Avenue West	Ottawa	100 %	7.1 years	279,800
35	360 Laurier Avenue West	Ottawa	100 %	0.4 years	107,100
36	400 Maple Grove Road	Ottawa	100 %	1.7 years	107,200
37	101 McNabb Street	Markham	100 %	3.7 years	315,400
38	78 Meg Drive	London	100 %	2.4 years	11,300
39	301 & 303 Moodie Drive	Ottawa	94 %	3.5 years	148,200
40	8 Oakes Avenue	Kirkland Lake	100 %	9.3 years	41,000
41	5160 Orbitor Drive	Mississauga	100 %	7.2 years	31,400
42	231 Shearson Crescent	Cambridge	100 %	2.9 years	60,700
43	6 Staples Avenue	Richmond Hill	100 %	10.8 years	122,000
44	2300 St. Laurent Boulevard	Ottawa	100 %	3.2 years	37,500
45	3650 Victoria Park Avenue	Toronto	91 %	0.8 years	154,400
46	80 Whitehall Drive	Markham	100 %	6.9 years	60,800
47	5775 Yonge Street	Toronto	80 %	4.1 years	274,200
	Total Ontario		*93 %*	*4.7 years*	*3,186,200*
	Average/Total Portfolio		93 %	4.4 years	4,975,200

[1] Weighted by annualized gross revenue.

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