

Consolidated Financial Statements  
(In Canadian dollars)

# **TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST**

Years ended December 31, 2022 and 2021



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## Independent Auditor's Report

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To the Unitholders of True North Commercial Real Estate Investment Trust

### Opinion

We have audited the consolidated financial statements of True North Commercial Real Estate Investment Trust and its subsidiaries (the "REIT"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

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

### Key Audit Matter

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

### *Fair Value of Investment Properties* (Refer to Note 6 of the Consolidated Financial Statements)

As at December 31, 2022, the fair value of the REIT's investment properties totaled \$1,425 million, which accounted for approximately 98% of the REIT's total assets.

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

### *How the Audit Matter was Addressed in the Audit*

Our audit included the following procedures, among others:

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



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

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

#### **Other Information**

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis for the year ended December 31, 2022.

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

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

We obtained Management's Discussion and Analysis for the year ended December 31, 2022 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

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

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



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

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

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

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

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

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

/s/ BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

*Toronto, Ontario  
March 14, 2023*

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

December 31, 2022 and 2021

	2022	2021
<b>Assets</b>		
Non-current assets:		
Investment properties (note 6)	\$ 1,340,583	\$ 1,403,579
Derivative instruments (note 12)	2,338	—
Other assets (note 5)	1,103	5,556
<b>Total non-current assets</b>	<b>1,344,024</b>	<b>1,409,135</b>
Current assets:		
Investment properties held for sale (note 6)	84,250	—
Tenant and other receivables (note 7)	7,318	3,688
Prepaid expenses and deposits	3,279	2,878
Derivative instruments (note 12)	1,943	—
Cash and cash equivalents	9,501	5,476
<b>Total current assets</b>	<b>106,291</b>	<b>12,042</b>
<b>Total assets</b>	<b>\$ 1,450,315</b>	<b>\$ 1,421,177</b>
<b>Liabilities and Unitholders' Equity</b>		
Non-current liabilities:		
Mortgages payable (note 8)	\$ 683,393	\$ 681,175
Derivative instruments (note 12)	—	324
Class B LP Units (note 9)	14,628	22,400
<b>Total non-current liabilities</b>	<b>698,021</b>	<b>703,899</b>
Current liabilities:		
Mortgages payable (note 8)	163,296	139,227
Credit Facility (note 10)	14,400	—
Tenant rental deposits and prepayments	8,259	8,110
Accounts payable and accrued liabilities (note 11)	44,201	29,033
Derivative instruments (note 12)	—	839
<b>Total current liabilities</b>	<b>230,156</b>	<b>177,209</b>
<b>Total liabilities</b>	<b>928,177</b>	<b>881,108</b>
Unitholders' equity (note 13)	522,138	540,069
<b>Total liabilities and unitholders' equity</b>	<b>\$ 1,450,315</b>	<b>\$ 1,421,177</b>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Trustees on March 14, 2023.

"Sandy Poklar" \_\_\_\_\_ Trustee

"Alon Ossip" \_\_\_\_\_ Trustee

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2022 and 2021

	2022	2021
Revenue (note 15)	\$ 143,575	\$ 138,523
Expenses:		
Property operating	36,882	35,940
Realty taxes	20,209	19,956
	86,484	82,627
Other income (expenses):		
General and administration expenses	(6,054)	(6,906)
Finance costs (note 16)	(30,334)	(28,665)
Transaction costs on sale of investment properties	—	(623)
Distributions on Class B LP Units (note 9)	(1,673)	(1,884)
Fair value adjustment of Class B LP Units (note 9)	4,590	(3,601)
Fair value adjustment of investment properties and investment properties held for sale (note 6)	(41,925)	6,219
Unrealized gain on change in fair value of derivative instruments (note 12)	5,444	3,837
Net income and comprehensive income	\$ 16,532	\$ 51,004

See accompanying notes to consolidated financial statements.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2022 and 2021

	Unit capital	Income and distributions	Total
	(note 13(c))		
Unitholders' equity, January 1, 2021	\$ 528,175	\$ (2,963)	\$ 525,212
Changes during the year:			
Units issued, net of costs	9,226	—	9,226
Net income and comprehensive income for the year	—	51,004	51,004
Distributions	—	(52,089)	(52,089)
Issue of units under DRIP (note 13(f))	6,716	—	6,716
Unitholders' equity, December 31, 2021	544,117	(4,048)	540,069
Changes during the year:			
Units issued, net of costs	12,623	—	12,623
Net income and comprehensive income for the year	—	16,532	16,532
Distributions	—	(53,623)	(53,623)
Issue of units under DRIP (note 13(f))	6,537	—	6,537
Unitholders' equity, December 31, 2022	\$ 563,277	\$ (41,139)	\$ 522,138

See accompanying notes to consolidated financial statements.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2022 and 2021

	2022	2021
Operating activities:		
Net income and comprehensive income for the year	\$ 16,532	\$ 51,004
Adjustments for financing activities included in income:		
Finance costs (note 16)	30,334	28,665
Unrealized loss on change in fair value of derivative instruments (note 12)	(5,444)	(3,837)
Distributions on Class B LP Units (note 9)	1,673	1,884
Fair value adjustment of Class B LP Units (note 9)	(4,590)	3,601
Adjustments for items not involving cash:		
Fair value adjustment of investment properties and investment properties held for sale (note 6)	41,925	(6,219)
Unit-based compensation expense	665	448
Fair value adjustment of unit-based compensation (note 13(f))	(580)	801
Straight line rental revenue	2,339	510
Amortization of leasing costs and tenant inducements	6,784	5,943
Transaction costs on sale of investment properties	—	623
Change in non-cash operating working capital (note 17)	13,633	(6,111)
Cash provided by operating activities	103,271	77,312
Investing activities:		
Net proceeds from sale of investment properties (note 6)	—	11,589
Acquisitions (note 4)	(41,147)	(22,360)
Additions to investment properties (note 6)	(31,653)	(20,967)
Cash used in investing activities	(72,800)	(31,738)
Financing activities:		
Proceeds from Credit Facility	39,700	33,400
Repayment of Credit Facility	(25,300)	(33,400)
Proceeds from mortgage financing, net of costs	147,958	123,723
Repayment of mortgages on sale of investment properties	—	(7,481)
Repayment of mortgage financing	(98,892)	(86,420)
Principal payments on mortgages	(24,251)	(23,241)
Payments received on instalment notes receivable	63	71
Proceeds from vendor take-back mortgage (note 5)	2,670	—
Finance costs paid	(28,808)	(27,380)
Cash distributions on Class B LP Units	(1,477)	(1,704)
Proceeds from issuance of Units, net of costs	9,045	3,230
Cash distributions to unitholders	(47,154)	(45,476)
Cash used in financing activities	(26,446)	(64,678)
Increase (decrease) in cash and cash equivalents	4,025	(19,104)
Cash and cash equivalents, beginning of year	5,476	24,580
Cash and cash equivalents, end of year	\$ 9,501	\$ 5,476
Supplemental cash flow information:		
Vendor take-back mortgages on dispositions (note 4)	\$ —	\$ 1,550
Units issued under DRIP – unitholders	6,316	6,495
Units issued under DRIP – Class B LP Units	221	221
Units issued in exchange for Class B LP Units (note 9)	3,182	5,534

See accompanying notes to consolidated financial statements.



# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2022 and 2021

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## Organization:

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

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

## 1. Basis of presentation

### (a) Statement of compliance:

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

### (b) Basis of presentation:

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

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

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

### (c) Critical judgments and estimates:

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any applicable future period.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2022 and 2021

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## 1. Basis of presentation (continued):

### (i) Critical judgments in applying accounting policies:

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

#### (a) Accounting for acquisitions:

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

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

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

#### (b) Income taxes:

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

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

### (ii) Key sources of estimation uncertainty:

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

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements  
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## 1. Basis of presentation (continued):

### (a) Valuation of investment properties:

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

## 2. Significant accounting policies:

### (a) Investment properties:

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

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

### (b) Investment properties held for sale:

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

### (c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, deposits in trust and refundable financing deposits.

### (d) Revenue recognition:

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for leases with its tenants as operating leases. Revenue recognition

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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## 2. Significant accounting policies (continued):

commences when the tenant has a right to use the leased asset. Generally, this occurs on the lease inception date or, where the REIT is required to make additions to the property in the form of tenant improvements or landlord work which enhance the value of the property, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease. Any tenant improvements or landlord work are recognized on a straight-line basis over the term of the lease as a reduction to rental revenue.

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

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

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

### (e) Class B LP Units:

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

### (f) Unit capital:

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

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2022 and 2021

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## 2. Significant accounting policies (continued):

- (f) Unit-based compensation plans:

### *Incentive Unit Plan*

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

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

### *(i) Deferred Units*

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

### *(ii) Restricted Units*

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

### *Unit Option Plan*

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

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## 2. Significant accounting policies (continued):

(g) Income taxes:

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

(h) Financial instruments:

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

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

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

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

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Notes to Consolidated Financial Statements  
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## 2. Significant accounting policies (continued):

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

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

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

### (i) Future accounting policy changes:

(i) Amendment to IAS 1 Presentation of Financial Statements - Classification of Liabilities as Current or Noncurrent:

The amendments affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendment is effective for annual periods beginning on or after January 1, 2024 with early application permitted. The REIT is currently evaluating the impact of this amendment on future periods and does not anticipate a material impact to the REIT as a result of the amendments to IAS 1.

(ii) Amendments to IAS 1 Presentation of Financial Statements —Disclosure of Accounting Policies

The amendments replace all instances of the term "significant accounting policies" with "material accounting policy information". The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted. The REIT is currently evaluating the impact of this amendment on future periods and does not anticipate a material impact to the REIT as a result of the amendments to IAS 1.

(iii) Amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates:

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in

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## 2. Significant accounting policies (continued):

financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted. The REIT is currently evaluating the impact of this amendment on future periods and does not anticipate a material impact to the REIT as a result of the amendments to IFRS 8.

## 3. Current economic conditions:

Throughout 2022 and continuing into the first quarter of 2023, inflation concerns contributed to a significant increase in interest rates with the Bank of Canada raising its target overnight rate from 0.25% as at December 31, 2021 to 4.50% as at March 14, 2023. 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. However, it remains to be seen how these fiscal interventions will impact debt and equity markets as well as the general economy. Rising interest rates may put downward pressure on the fair value of investment properties. The REIT continues to monitor the post pandemic economic environment and the after effects of COVID-19, which ultimately is a factor that impacts the value of the underlying real estate. The future cash flows of an investment property are based upon rental income from current leases and assumptions about occupancy rates, market rents from future leases and the cash outflows arising from current and future leases.

The REIT continues to revise its estimates concerning rental growth and lease renewal assumptions to reflect expected market conditions, and currently, future cash flows are predicted to remain relatively stable as government and credit rated tenants comprise the majority of the REIT's tenant base. However given the continued uncertainty surrounding the post pandemic economic environment, resulting in a shift to certain companies allowing employees to continue to work from home, combined with rising interest rates and the potential negative impact these may have on certain sectors of the real estate industry and its tenants, it is not possible to predict how the fair value of the REIT's investment properties may be impacted in the longer term. Significant changes in rental income, occupancy rates, tenant inducements and market rents could negatively impact future valuations of the REIT's investment properties. The fair value of the REIT's investment properties as at December 31, 2022 is based upon available market data.

The REIT's assessment of expected credit losses is subjective and is based upon forward looking assessments of collectability. As a result, any expected credit loss is uncertain and the assumptions upon which it is based may change due to the ongoing uncertainty caused by the after effects of COVID-19 as well as shifting economic conditions.



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## 4. Acquisitions and dispositions:

The REIT acquired 400 Cumberland Street, Ottawa, Ontario on August 22, 2022. The REIT acquired 1112 Fort Street, Victoria, British Columbia on October 13, 2021. The acquisitions were accounted for as an asset acquisition. The fair value of consideration was allocated to the identifiable assets acquired and liabilities assumed based on their fair values at the date of acquisition.

Year end December 31, 2022:

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

Year end December 31, 2021:

		1112 Fort Street
Acquisition date		October 13, 2021
Net assets acquired:		
Investment properties (including acquisition costs of \$347)	\$	22,347
Prepaid expenses and deposits		65
Tenant rental deposits		(1)
Accounts payable and accrued liabilities		(51)
	\$	22,360
Consideration:		
Cash on hand	\$	8,168
Mortgage financing, net of financing costs of \$108		14,192
	\$	22,360

The REIT did not dispose of any investment properties during the year ended December 31, 2022. On April 12, 2021 and June 1, 2021 the REIT completed the sale of 529 Exmouth Street, Sarnia, Ontario and 5900 Explorer Drive, Mississauga, Ontario for a sale price of \$1,850 and \$11,900, respectively. The proceeds from these dispositions net of costs were \$1,682 and \$11,445, respectively. The sale of 529 Exmouth Street included an interest-only vendor take-back mortgage of \$1,550 which was repaid on November 10, 2022.

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## 5. Other assets:

	December 31, 2022	December 31, 2021
Mortgage loans receivable	\$ —	\$ 4,395
Instalment notes receivable	128	182
Deposits	975	979
	<b>\$ 1,103</b>	<b>\$ 5,556</b>

Mortgage loans receivable consists of vendor take-back mortgages on investment property dispositions. During the year ended December 31, 2022, vendor take-back mortgages of \$2,670 were repaid in advance of their maturity dates. The remaining mortgage loan receivable was classified as a current asset in tenant and other receivables as at December 31, 2022 (note 7).

## 6. Investment properties and investment properties held for sale:

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

	Investment properties	
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 rents		(4,388)
Fair value adjustment		6,219
Balance, December 31, 2021		<b>1,403,579</b>
Acquisitions		38,845
Additions		31,653
Amortization of leasing costs, tenant inducements and straight-line rents		(7,319)
Fair value adjustment		(41,925)
Investment properties held for sale		(84,250)
Balance, December 31, 2022	<b>\$</b>	<b>1,340,583</b>

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.

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

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## 6. Investment properties and investment properties held for sale (continued):

	2022	2021
Terminal and direct capitalization rate - 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%

Investment properties are independently appraised at the time of acquisition. In addition, the REIT engages independent valuation firms to appraise its investment properties such that the majority of the portfolio will be independently appraised at least once over a three-year period. When an independent appraisal is obtained, the reasonableness of the assumptions are assessed and adjustments made to the internal valuations as required. During the year ended December 31, 2022, there were 21 (December 31, 2021 - 17) properties externally appraised representing a total fair value of \$747,910 (December 31, 2021 - \$542,402).

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

	2022
Weighted average terminal, direct capitalization and discount rate:	
25-basis points increase	\$ (53,155)
25-basis points decrease	57,768

## 7. Tenant and other receivables:

	2022	2021
Tenant receivables	\$ 1,655	\$ 2,214
Mortgage loan receivable	1,725	—
Instalment notes receivable	54	63
Other receivables	3,884	1,411
	\$ 7,318	\$ 3,688

For the year ended December 31, 2022, the REIT recognized \$230 in property operating expenses related to bad debt provisions (December 31, 2021 - \$163).

Mortgage loan receivable consists of vendor take-back mortgage on an investment property disposition. This mortgage bears interest at 3.45% per annum and matures on November 1, 2023.

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## 8. Mortgages payable:

As at December 31, 2022, the REIT had \$850,434 (December 31, 2021 – \$824,379) of principal balances of mortgages outstanding. The mortgages carry 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). All interest rates are fixed for the term of the respective mortgages except for two (December 31, 2021 – two) of the REIT's mortgages that have utilized interest rate swaps to fix their floating interest rates (note 12). The mortgages are secured by first and second charges on the respective properties.

As at December 31, 2022, mortgages are repayable as follows and includes mortgages payable associated with investment properties held for sale (note 6):

	Scheduled principal payments <sup>(1)</sup>	Debt maturing during the period <sup>(1)</sup>	Total mortgages payable <sup>(1)</sup>	Scheduled interest payments <sup>(1)</sup>
2023	\$ 22,810	\$ 141,711	\$ 164,521	\$ 26,878
2024	21,189	83,448	104,637	22,968
2025	13,904	197,178	211,082	14,974
2026	12,251	145,486	157,737	12,794
2027	6,966	78,910	85,876	7,551
Thereafter	8,747	117,834	126,581	6,292
Face value	<u>\$ 85,867</u>	<u>\$ 764,567</u>	<u>\$ 850,434</u>	<u>\$ 91,457</u>
Unamortized mark to market mortgage adjustments			161	
Unamortized financing costs			(3,906)	
<b>Total mortgages payable</b>			<b>\$ 846,689</b>	

<sup>(1)</sup> Includes mortgages payable associated with investment properties held for sale (note 6).

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

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## 8. Mortgages payable (continued):

As at December 31, 2021, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2022	\$ 23,817	\$ 116,697	\$ 140,514	\$ 26,107
2023	19,709	96,852	116,561	20,581
2024	18,372	79,399	97,771	17,480
2025	11,238	189,469	200,707	9,998
2026	9,523	145,486	155,009	7,998
Thereafter	12,262	101,555	113,817	8,954
Face value	<u>\$ 94,921</u>	<u>\$ 729,458</u>	<u>\$ 824,379</u>	<u>\$ 91,118</u>
Unamortized mark to market mortgage adjustments			206	
Unamortized financing costs			(4,183)	
<b>Total mortgages payable</b>			<b>\$ 820,402</b>	

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

	2022 <sup>(1)</sup>	2021
<b>Current:</b>		
Mortgages payable	\$ 164,521	\$ 140,514
Unamortized mark to market mortgage adjustments	34	45
Unamortized financing cost	(1,259)	(1,332)
	<u>163,296</u>	<u>139,227</u>
<b>Non-current:</b>		
Mortgages payable	685,913	683,865
Unamortized mark to market mortgage adjustments	127	161
Unamortized financing cost	(2,647)	(2,851)
	<u>683,393</u>	<u>681,175</u>
	<u>\$ 846,689</u>	<u>\$ 820,402</u>

<sup>(1)</sup> Includes mortgages payable associated with investment properties held for sale (note 6).

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## 9. Class B LP Units:

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

The following table summarizes the changes in Class B LP Units for the years ended December 31, 2022 and 2021:

	Class B LP Units	Amount
Outstanding, January 1, 2021	3,856,182	\$ 24,333
Class B LP Units exchanged to Units	(833,333)	(5,534)
Fair value adjustment	—	3,601
Outstanding, December 31, 2021	3,022,849	22,400
Class B LP Units exchanged to Units	(496,435)	(3,182)
Fair value adjustment	—	(4,590)
Outstanding, December 31, 2022	2,526,414	\$ 14,628

During the years ended December 31, 2022 and 2021, distributions on Class B LP Units were \$1,673 and \$1,884, respectively, and have been recorded as an expense in the consolidated statements of income and comprehensive income.

## 10. Credit Facility:

The REIT has a \$68,000 floating rate revolving credit facility ("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 the Credit Facility for a further two years maturing December 1, 2024 which included the increase to \$68,000 from \$60,000, with the additional \$8,000 expiring on June 30, 2023 to align with the expected sale of 32071 South Fraser Way, Abbotsford, British Columbia.

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

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## 11. Accounts payable and accrued liabilities:

	2022	2021
Accounts payable and accrued liabilities	\$ 36,974	\$ 21,206
Finance costs payable	1,925	1,878
Class B LP distributions payable	125	150
Distributions payable	4,545	4,392
Unit-based compensation liability (note 13(d))	632	1,407
	<b>\$ 44,201</b>	<b>\$ 29,033</b>

## 12. Derivative instruments:

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

The combined notional principal amount of the outstanding interest rate swap contracts as at December 31, 2022 was \$74,383 (December 31, 2021 – \$76,540). Total unrealized gain on change in the fair value of the derivative instruments for the year ended December 31, 2022 was \$5,444 (December 31, 2021 - \$3,837).

## 13. Unitholders' equity:

### (a) Units:

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

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

- (i) 90% of the "market price" of the Units on the Exchange (as defined in the DOT) or market on which the Units are listed or quoted for trading during the ten consecutive trading days ending immediately prior to the date on which the Units were surrendered for redemption; and
- (ii) 100% of the "closing market price" on the Exchange (as defined in the DOT) or market on which the Units are listed or quoted for trading on the redemption date.

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## 13. Unitholders' equity (continued):

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

### (b) Special Voting Units:

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

### (c) Units outstanding:

The following table summarizes the changes in Units for the years ended December 31, 2022 and 2021:

	Units	
Balance, December 31, 2020	86,346,019	\$ 528,175
Issue of Units:		
DRIP	955,380	6,716
Options exercised	122,633	895
Exchange of Class B LP Units (note 9)	833,333	5,534
ATM Program	460,900	3,377
Issuance costs	—	(580)
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 (note 9)	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

For the year ended December 31, 2022, the REIT issued 1,450,800 (December 2021 - 460,900) Units for cash of \$9,460 (December 31, 2021 - \$3,377), through the at-the-market equity program ("ATM Program").



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## 13. Unitholders' equity (continued):

(d) Unit-based compensation plan:

(i) Incentive Unit Plan:

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

### *Deferred Units*

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

The following table summarizes the changes in Deferred Units for the years ended December 31, 2022 and 2021:

	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

### *Restricted Units*

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

The following table summarizes the changes in Restricted Units for the years ended December 31, 2022 and 2021:

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## 13. Unitholders' equity (continued):

	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 and expired	(101,775)	(436)
Fair value adjustments	—	(97)
Balance, December 31, 2022	93,244	\$ 331

On March 21, 2022, the REIT issued 96,029 Restricted Units to eligible participants and 57,044 Restricted Units were redeemed for 24,619 Units at a price of \$7.0459 per Unit.

On June 30, 2022, 5,331 Restricted Units were redeemed for 2,417 Units at a price of \$6.3235 per Unit.

### (ii) Unit Options:

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

The following table summarizes the changes in Unit options outstanding:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2020	1,135,173	\$ 6.41	1.92	922,992
Options cancelled or exercised	(633,837)	6.35		
Outstanding, December 31, 2021	501,336	6.48	1.23	501,336
Options cancelled or exercised	(210,668)	6.36	—	—
Outstanding, December 31, 2022	290,668	6.56	0.49	290,668

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

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## 13. Unitholders' equity (continued):

Exercise price	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	

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

	2022	2021
Average expected Unit option holding period	0.44 years	1.4 years
Average expected volatility rate	25.19 %	23.17 %
Average dividend yield	10.26 %	8.47 %
Average risk-free interest rate	4.02 %	0.87 %

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

The REIT's unit-based compensation expense recognized in general and administrative expense for the years ended December 31, 2022 and 2021 was:

	2022	2021
Unit Options	\$ (376)	\$ 676
Restricted Units	374	322
Deferred Units	87	255
Unit-based compensation expense	\$ 85	\$ 1,253
Fair value remeasurement included in the above expense:		
Unit Options	\$ (376)	\$ 672
Restricted Units	(97)	72
Deferred Units	(107)	57
	\$ (580)	\$ 801

As at December 31, 2022 the carrying value of the Unit-based compensation liability was \$632 (December 31, 2021 - \$1,407) (note 11).

### (e) Distributions:

Under the DOT, the total amount of income of the REIT to be distributed to unitholders for each calendar month is at the discretion of the Trustees, however, the total income distributed shall not be

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## 13. Unitholders' equity (continued):

less than the amount necessary to ensure the REIT will not be liable to pay income tax under the Tax Act for any year.

Throughout 2022, the REIT paid a monthly distribution of \$0.0495 per Unit or \$0.594 per Unit on an annualized basis. For the years ended December 31, 2022 and 2021, the REIT declared distributions of \$53,623 and \$52,089, respectively.

### (f) Dividend reinvestment plan ("DRIP")

Pursuant to the DRIP, unitholders can 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.

For the years ended December 31, 2022 and 2021, the REIT issued 1,030,273 and 955,380 Units under the DRIP for a stated value of \$6,537 and \$6,716, respectively.

### (g) Short form base shelf prospectus:

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

On April 21, 2022 the REIT filed a prospectus supplement to establish the 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.

For the year ended December 31, 2022, the REIT issued 1,450,800 Units for cash of \$9,460 (for the year ended December 31, 2021, 460,900 units for \$3,377) through the ATM Program.

## 14. Transactions with related parties:

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

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## 14. Transactions with related parties (continued):

- (a) Pursuant to an asset management agreement (the "Asset Management Agreement"), the affiliate of Starlight is to perform asset management services for a base annual management fee calculated and payable on a monthly basis in arrears on the first day of each month equal to 0.35% of the sum of: (i) the historical purchase price of the properties; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties.
- (b) Pursuant to the Asset Management Agreement, the affiliate of Starlight is entitled to receive an acquisition fee in respect of properties announced to be acquired, directly or indirectly, by the REIT as a result of such properties having been presented to the REIT by Starlight and calculated as follows:
  - (i) 1.0% of the purchase price of a property, on the first \$100,000 of properties acquired in each fiscal year;
  - (ii) 0.75% of the purchase price of a property, on the next \$100,000 of properties acquired in each fiscal year; and
  - (iii) 0.50% of the purchase price on properties in excess of \$200,000 of properties acquired in each fiscal year.
- (c) An annual incentive fee is payable by the REIT equal to 15% of the REIT's funds from operations ("FFO") per Unit in excess of FFO per Unit for fiscal 2013 plus 50% of the annual increase in the weighted average consumer price index (or other similar metric, as determined by the Trustees) of the jurisdictions in which the properties are located.
- (d) Pursuant to the Asset Management Agreement, the affiliate of Starlight is entitled to a capital expenditure fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of \$1,000, excluding work done on behalf of tenants or any maintenance capital expenditures.
- (e) The REIT reimburses Starlight for all reasonable out-of-pocket expenses in connection with the performance of the services described in the Asset Management Agreement, including capital expenditures, or such other services which the REIT and Starlight agree in writing are to be provided from time to time.

The following table presents the expenses incurred for the years ended December 31, 2022 and 2021:

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## 14. Transactions with related parties (continued):

	2022	2021
Asset management fees	\$ 4,677	\$ 4,549
Acquisition fees	405	220
Other expenses	133	181

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

### (f) Key management compensation:

Key management compensation consists of salaries, bonuses, other short-term benefits and Trustee compensation. Key management compensation for the year ended December 31, 2022 was \$1,572 (December 31, 2021 - \$1,458) which includes compensation paid by Starlight (pursuant to the Asset Management Agreement) to key REIT management personnel for the years ended December 31, 2022 and 2021 of \$984 and \$961, respectively. Also included is \$539 (December 31, 2021 - \$428) of Deferred Units and Restricted Units granted to Trustees and officers of the REIT.

## 15. Revenue:

The components of the REIT's revenues for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Base rent	\$ 76,264	\$ 78,313
Property operating and realty tax recoveries	55,747	56,115
Parking and other	11,564	4,095
	\$ 143,575	\$ 138,523

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

Within one year <sup>(1)</sup>	\$ 73,486
Later than one year and not longer than five years <sup>(1)</sup>	234,954
Thereafter <sup>(1)</sup>	90,399
	\$ 398,839

<sup>(1)</sup> Excludes future rent associated with investment properties held for sale (note 6).

For the year ended December 31, 2022, the Federal Government of Canada provides 24% (December 31, 2021 - 21%) of the REIT's rental revenue.

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## 16. Finance costs:

The following table presents the financing costs incurred for the years ended December 31, 2022 and 2021.

	2022	2021
Interest on mortgages payable	\$ 28,311	\$ 27,030
Other interest expense and standby fees	544	314
Amortization of mortgage premiums	(45)	(51)
Amortization of financing costs	1,524	1,372
	<b>\$ 30,334</b>	<b>\$ 28,665</b>

## 17. Change in non-cash operating working capital:

The change in non-cash operating working capital for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Deposits	\$ 4	\$ 26
Tenant and other receivables	1,056	(1,196)
Prepaid expenses and deposits	(78)	(1,290)
Tenant rental deposits and prepayments	142	514
Accounts payable and accrued liabilities	12,509	(4,165)
	<b>\$ 13,633</b>	<b>\$ (6,111)</b>

## 18. Commitments and contingencies:

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 (note 6):

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 has entered into commitments for building renovations totaling \$476 (December 31, 2021 - \$2,147).

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## 19. Segmented disclosure:

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

## 20. Capital management:

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

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

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

The REIT was in compliance with all financial covenants as at December 31, 2022 and 2021.

The following table presents the REIT's capital at December 31, 2022 and 2021:

	2022	2021
Unitholders' equity	\$ 522,138	\$ 540,069
Class B LP Units	14,628	22,400
Credit Facility	14,400	—
Mortgages payable	846,689	820,402
	<u>\$ 1,397,855</u>	<u>\$ 1,382,871</u>

## 21. Risk management and fair values:

### (a) Risk management:

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

#### (i) Interest rate risk:



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## 21. Risk management and fair values (continued):

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

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

As at December 31, 2022 and December 31, 2021, the REIT's interest-bearing financial instruments were:

	Carrying value	
	2022	2021
Fixed-rate instruments:		
Mortgages payable	\$ 850,434	\$ 824,379
Variable-rate instruments:		
Credit Facility	\$ 14,400	\$ —

The REIT is exposed to interest rate risk on its floating-rate debt on certain of its properties which is mitigated by entering into interest rate swaps (note 12). The REIT is also exposed to interest rate risk on its Credit Facility which fluctuates based on prime or floating bankers' acceptance rates. An increase (decrease) of 100 basis points in interest rates at December 31, 2022 for the REIT's variable-rate financial instruments would have no material impact on net income and comprehensive income.

### (ii) Credit risk:

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

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

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits, and geographically diversifying its portfolio. The REIT monitors outstanding receivables on a monthly basis to ensure a reasonable allowance is provided for all uncollectible amounts. With the exception of the tenants for which a bad debt provision was recorded (note 7) the REIT reviewed all outstanding receivables and assessed the risk of uncollectability to be low.

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## 21. Risk management and fair values (continued):

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

	2022	2021
0 to 30 days	\$ 545	\$ 280
31 to 90 days	210	677
Over 90 days	269	206
<b>Total</b>	<b>\$ 1,024</b>	<b>\$ 1,163</b>

### (iii) Liquidity Risk:

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

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

	Total	2023	2024	2025	2026	2027	Thereafter
Mortgages payable <sup>(1)</sup> (note 8)	\$ 850,434	\$ 164,521	\$ 104,637	\$ 211,082	\$ 157,737	\$ 85,876	\$ 126,581
Mortgage interest payable	91,457	26,878	22,968	14,974	12,794	7,551	6,292
Tenant rental deposits and prepayments	8,259	8,259	—	—	—	—	—
Credit Facility	14,400	—	14,400	—	—	—	—
Accounts payable and accrued liabilities (note 11)	44,201	44,201	—	—	—	—	—
	<b>\$1,008,751</b>	<b>\$ 243,859</b>	<b>\$ 142,005</b>	<b>\$ 226,056</b>	<b>\$ 170,531</b>	<b>\$ 93,427</b>	<b>\$ 132,873</b>

<sup>(1)</sup> Includes mortgages payable associated with investment properties held for sale (note 6).

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

### (b) Fair values:

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

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

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## 21. Risk management and fair values (continued):

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

The tables below present the fair value hierarchy of the REIT's assets and liabilities as at December 31, 2022 and 2021:

2022	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investment properties	\$ —	\$ —	\$ 1,340,583	\$ 1,340,583
Investment properties held for sale	—	—	84,250	84,250
Instalment notes receivable	—	293	—	293
Derivative instruments	—	4,281	—	4,281
	\$ —	\$ 4,574	\$ 1,424,833	\$ 1,429,407
<b>Liabilities:</b>				
Mortgages payable <sup>(1)</sup>	\$ —	\$ 806,900	\$ —	\$ 806,900
Class B LP Units	14,628	—	—	14,628
	\$ 14,628	\$ 806,900	\$ —	\$ 821,528

<sup>(1)</sup> Includes mortgages payable associated with investment properties held for sale (note 6).

2021	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investment properties	\$ —	\$ —	\$ 1,403,579	\$ 1,403,579
Instalment notes receivable	—	392	—	392
	\$ —	\$ 392	\$ 1,403,579	\$ 1,403,971
<b>Liabilities:</b>				
Mortgages payable	\$ —	\$ 824,200	\$ —	\$ 824,200
Class B LP Units	22,400	—	—	22,400
Derivative Instruments, net	—	1,163	—	1,163
	\$ 22,400	\$ 825,363	\$ —	\$ 847,763

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## 21. Risk management and fair values (continued):

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

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

The REIT determines the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and the direct capitalization method, both of which are generally accepted appraisal methodologies. The key valuation assumptions of the REIT's investment properties is described in note 6.

(ii) Installment notes receivable:

The fair value of installment notes receivable is estimated based on the present value of future receipts, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying installment note, plus an estimated credit spread at the reporting date for a comparable financial instrument. The estimated fair value of installment notes receivable at December 31, 2022 was approximately \$293 (December 31, 2021 - \$392).

(iii) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at December 31, 2022 was approximately \$806,900 (December 31, 2021 - \$824,200).

(iv) Class B LP Units:

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

(v) Derivative instruments:

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

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## **22. Subsequent Events:**

Subsequent to December 31, 2022, the REIT entered into an unconditional agreement of purchase and sale to dispose of 360 Laurier Avenue West located in Ottawa, Ontario for a sale price of \$17,500. Closing is expected on or about June 15, 2023. On March 10, 2023, the REIT disposed of 400 Carlingview located in Etobicoke, Ontario for a sale price of \$7,250. As of December 31, 2022 these properties were classified as investment properties held for sale (note 6).

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.