# ADVENTUS REALTY TRUST

## Condensed Financial Statements

## For the nine months ended September 30, 2022

*Expressed in thousands of United States dollars*

**(in thousands of U.S. dollars)**

| | | September 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Investment properties (note 5) | **$** | **766,600** | $ | 811,575 |
| Goodwill (note 4) | | **10,392** | | 10,392 |
| | | **776,992** | | 821,967 |
| **Current assets** | | | | |
| Investment properties – held for disposal (note 6) | | **19,575** | | - |
| Prepaid expenses and other current assets | | **2,562** | | 1,257 |
| Accounts receivable (note 7) | | **582** | | 1,072 |
| Restricted cash | | **41,017** | | 41,196 |
| Cash and cash equivalents | | **19,206** | | 30,265 |
| | | **82,942** | | 73,790 |
| **TOTAL ASSETS** | **$** | **859,934** | $ | 895,757 |
| | | | | |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Mortgages payable (note 8) | **$** | **502,425** | $ | 523,187 |
| Convertible debentures (note 10) | | **12,234** | | 39,586 |
| Preferred units (note 12) | | **250** | | 250 |
| | | **514,909** | | 563,023 |
| **Current liabilities** | | | | |
| Mortgages payable – current portion (note 8) | | **3,507** | | 3,954 |
| Mortgages payable – maturing (note 8) | | **55,374** | | 35,670 |
| Convertible debentures (note 10) | | **36,387** | | - |
| Prepaid rent | | **4,371** | | 4,224 |
| Accounts payable and accrued liabilities | | **32,815** | | 32,662 |
| | | **132,454** | | 76,510 |
| **TOTAL LIABILITIES** | | **647,363** | | 639,533 |
| **UNITHOLDERS’ EQUITY (note 13)** | | **212,571** | | 256,224 |
| **TOTAL LIABILITIES AND UNITHOLDERS’ EQUITY** | **$** | **859,934** | $ | 895,757 |

**Commitments and contingencies (note 18)**
**Subsequent events (note 19)**

**Approved by the Trustee, Adventus Realty Services Inc.**

| | | | |
|---|---|---|---|
| *“Ronald Anderson”* | **Director** | *“Rodney Johnston”* | **Director** |
| Ronald Anderson | | Rodney B. Johnston | |

*The accompanying notes are an integral part of these condensed financial statements*

**(in thousands of U.S. dollars, except unit amounts)**

| | Units | | Unitholders' Equity |
|---|---|---|---|
| Balance, December 31, 2020 | 19,130,443 | $ | 311,427 |
| Units issued during the year for cash, net (note 13) | 4,925 | | 80 |
| Units redeemed during the year for cash, net (note 13) | (28,562) | | (442) |
| Units cancelled during the year (note 13) | (11,001) | | - |
| Units issued during the year under distribution reinvestment plan (note 13) | 10,816 | | 167 |
| Unit based compensation costs (note 11) | 22,080 | | 634 |
| Net loss and comprehensive loss | - | | (44,130) |
| Distributions to trust unitholders (note 13) | - | | (11,512) |
| **Balance, December 31, 2021** | **19,128,701** | **$** | **256,224** |
| | | | |
| Units issued during the period for cash, net (note 13) | 8,098 | | 109 |
| Units issued during the period under distribution reinvestment plan (note 13) | 21,907 | | 297 |
| Unit based compensation costs (note 11) | 32,652 | | 570 |
| Net loss and comprehensive loss | - | | (36,003) |
| Distributions to trust unitholders (note 13) | - | | (8,626) |
| **Balance, September 30, 2022** | **19,191,358** | | **212,571** |

**(in thousands of U.S. dollars)**

| | | For the period ended September 30, 2022 | | For the period ended September 30, 2021 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Rental | **$** | **72,285** | $ | 80,215 |
| Amortization of tenant incentives | | **(4,132)** | | (4,102) |
| Services | | **558** | | 601 |
| **TOTAL REVENUES** | | **68,711** | | 76,714 |
| | | | | |
| **OPERATING EXPENSES** | | | | |
| Insurance | | **(1,194)** | | (1,237) |
| Property taxes | | **(14,086)** | | (13,891) |
| Utilities | | **(4,992)** | | (5,222) |
| Property operating expenses | | **(18,610)** | | (18,163) |
| **TOTAL OPERATING EXPENSES** | | **(38,882)** | | (38,513) |
| **NET OPERATING INCOME** | | **29,829** | | 38,201 |
| | | | | |
| Interest expense (note 8) | | **(24,357)** | | (23,838) |
| General and administrative | | **(3,927)** | | (3,281) |
| **NET INCOME BEFORE OTHER ITEMS** | | **1,545** | | 11,082 |
| | | | | |
| Working capital provision on property held for disposal (note 6) | | **(1,756)** | | - |
| Foreign exchange gain (loss) and other expenses | | **2,079** | | (429) |
| Mortgage prepayment costs (note 8) | | **-** | | (24,896) |
| Fair value adjustments to investment properties (note 5) | | **(37,871)** | | (9,075) |
| **NET LOSS AND COMPREHENSIVE LOSS** | **$** | **(36,003)** | $ | (23,318) |

*The accompanying notes are an integral part of these condensed financial statements*

**(in thousands of U.S. dollars)**

| | For the period ended September 30, 2022 | For the period ended September 30, 2021 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **OPERATIONS** | | |
| Net loss and comprehensive loss | $ **(36,003)** | $ (23,318) |
| Items not involving cash: | | |
| Recognition of rental revenue on a straight-line basis | **(1,097)** | (1,627) |
| Amortization (note 5) | **4,132** | 4,102 |
| Interest expense | **24,357** | 23,838 |
| Mortgage prepayment costs (note 8) | **-** | 24,896 |
| Unit based compensation (note 11) | **570** | 611 |
| Fair value adjustments to investment properties (note 5) | **37,871** | 9,075 |
| Working capital provision on property held for disposal (note 6) | **1,756** | - |
| Foreign exchange gain on credit facilities | **(2,636)** | 589 |
| Change in restricted cash – free rent account | **1,699** | - |
| Change in non-cash working capital items | **(4,830)** | (10,674) |
| Direct leasing costs – renewals | **(6,328)** | (3,084) |
| | **19,491** | 24,408 |
| **INVESTING** | | |
| Payments for capital improvements | **(9,412)** | (3,703) |
| Other investment property expenditures | **(4,387)** | (2,401) |
| | **(13,799)** | (6,104) |
| **FINANCING** | | |
| Proceeds from issuance of units, net (note 13) | **109** | 80 |
| Redemption of units (note 13) | **-** | (202) |
| Distributions to trust unitholders (note 13) | **(8,327)** | (2,855) |
| Repayment of mortgages payable | **(2,714)** | (4,610) |
| Proceeds from refinance of mortgages payable (note 8) | **-** | 111,315 |
| Mortgage prepayment costs (note 8) | **-** | (23,983) |
| Drawdown on credit facilities, net (note 10) | **11,412** | 5,000 |
| Repayment of credit facilities, net (note 8) | **-** | (41,277) |
| Proceeds from issuance of convertible debentures, net (note 9) | **-** | 27,140 |
| Repayment of convertible debentures, net (note 9) | **-** | (29,368) |
| Net changes in restricted cash for direct leasing costs and capital expenditures | **4,709** | (9,602) |
| Interest paid | **(21,940)** | (21,399) |
| | **(16,751)** | 10,239 |
| **Change in cash and cash equivalents during the period** | **(11,059)** | 28,543 |
| **Cash and cash equivalents, beginning of period** | **30,265** | 9,451 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $ **19,206** | $ 37,994 |

*The accompanying notes are an integral part of these condensed financial statements*

## 1. NATURE OF BUSINESS

Adventus Realty Trust (the Realty Trust) is an unincorporated, open-ended investment trust formed pursuant to the Declaration of Trust dated December 13, 2011, as amended February 17, 2015, and April 30, 2018, under, and governed by, the laws of the Province of British Columbia and the federal laws in Canada applicable therein. The Realty Trust's head office is located at 1660 – 999 West Hastings Street, Vancouver, BC, V6C 2W2, Canada.

The principal business of the Realty Trust is to invest in Adventus Realty Canada Holdings Limited Partnership (the Canadian Investment LP). The principal business of the Canadian Investment LP is to invest the proceeds from the issuance of Canadian Investment LP units and promissory notes payable in the acquisition of units of Adventus Holdings LP (REIT 1). The principal business of REIT 1 is to invest the proceeds from the issuance of REIT 1 units in the acquisition of units of limited partnership structures which own commercial real estate.

On March 27, 2018, a special meeting of unitholders of the Realty Trust was held to pass a special resolution authorizing the management and Board of the Trustee of the Realty Trust to form a new trust, Adventus Opportunity Fund (the Opportunity Fund), initially with a smaller size and a similar investment policy to the Realty Trust. On August 1, 2019, the Realty Trust acquired all the outstanding units of the Opportunity Fund (see note 4) via a merger transaction pursuant to an approved plan of arrangement.

The Opportunity Fund is an unincorporated, open-ended investment trust formed pursuant to the Declaration of Trust dated April 30, 2018, under, and governed by, the laws of the Province of British Columbia and the federal laws in Canada applicable therein.

The principal business of the Opportunity Fund is to invest in units of Adventus US Opportunity LP (REIT 2). The principal business of REIT 2 is to invest the proceeds from the issuance of REIT 2 units in the acquisition of units of limited partnership structures which own commercial real estate.

As at September 30, 2022, REIT 1 has invested in twelve limited partnerships as follows:

i. Adventus US Realty #1 LP (Property 1 LP), through REIT 1, which holds title to the Elgin Complex;
ii. Adventus US Realty #2 LP (Property 2 LP), through REIT 1, which holds title to the Oak Brook Office Center;
iii. Adventus US Realty #4 LP (Property 4 LP), through REIT 1, which holds title to the Crossings Office Complex;
iv. Adventus US Realty #5 LP (Property 5 LP), through REIT 1, which holds title to the Cantera Meadows Property;
v. Adventus US Realty #6 LP (Property 6 LP), through REIT 1, which holds title to the Columbia Centre I & II Property;
vi. Adventus US Realty #7 LP (Property 7 LP), through REIT 1, which holds title to the Columbia Centre III Property;
vii. Adventus US Realty #8 LP (Property 8 LP), through REIT 1, which holds title to the Barrett Lakes Property Buildings;
viii. Adventus US Realty #9 LP (Property 9 LP), through REIT 1, which holds title to the Highland Landmark V Property;
ix. Adventus US Realty #10 LP (Property 10 LP), through REIT 1, which holds title to the Barrett Lakes Property Land;
x. Adventus US Realty #11 LP (Property 11 LP), through REIT 1, which holds title to the Parkwood Property;
xi. Adventus US Realty #12 LP (Property 12 LP), through REIT 1, which holds title to the Riverway Property;
xii. Adventus US Realty #13 LP (Property 13 LP), through REIT 1, which holds title to the Milton Park Property;

and REIT 2 has invested in two limited partnerships as follows:

i. Adventus AOF #1 LP (Property 14 LP), through REIT 2, which holds title to the Town Park Commons Property;
ii. Adventus AOF #2 LP (Property 15 LP), through REIT 2, which holds title to the 1600 Parkwood Property;

collectively, the "Property LPs".

The Trustee of the Realty Trust is Adventus Realty Services Inc., which was incorporated pursuant to the Canada Business Corporations Act on December 9, 2011.

On August 1, 2019, pursuant to the approved plan of arrangement, the Realty Trust also completed the internalization of management and acquisition of Adventus Capital Partners Ltd. (ACP Ltd.). ACP Ltd. was formed under the Canada Business Corporations Act on March 14, 2011 and commenced operations in January 2012. ACP Ltd. provides administrative, financial and property services to the Property LPs.

All the above entities are subsidiaries of the Realty Trust.

## 2. BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

These condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These condensed financial statements were approved by the Trustee for issue on December 7, 2022.

### *a. Basis of consolidation*

These consolidated financial statements include the accounts of the Realty Trust and its subsidiaries. Subsidiaries are all entities (including structured entities) that the Realty Trust controls by having the power to govern the financial and operating policies of the entity and has exposure, or rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Realty Trust and are de-consolidated from the date that control ceases. Intercompany balances and transactions with subsidiaries have been eliminated upon consolidation. Certain amounts in the prior year financial statements have been reclassified to conform to the presentation of the current year financial statements.

Certain information and footnote disclosures required by IFRS for complete annual financial statements have been omitted and, therefore these interim unaudited condensed financial statements should be read in conjunction with the Realty Trust's audited consolidated financial statements for the year ended December 31, 2021. For further information and discussion, readers are directed to read the Realty Trust's Report to Unitholders for the period ended September 30, 2022. In the opinion of management, these unaudited interim condensed financial statements reflect all adjustments, consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Realty Trust's consolidated financial position, results of operations and cash flows for the period presented.

### *b. Functional and presentation currency*

Items in the financial statements of each of the Realty Trust's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency).

These condensed financial statements are presented in U.S. dollars, which is also the Realty Trust's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statement of income and comprehensive income.

***c. Business acquisitions***

These condensed financial statements include the operations of an acquired business after the completion of the acquisition. Acquired businesses are accounted for using the acquisition method of accounting, which requires, among other things, that most assets are acquired and liabilities assumed to be recognized at their estimated fair values as of the acquisition date. Goodwill arising on acquisition is recognized as an asset and represents the excess of acquisition cost over the fair value of the Realty Trust's share of the identifiable net assets of the acquiree at the date of the acquisition. Transaction costs are expensed as incurred.

***d. Impact of COVID-19***

On March 11, 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic. The pandemic has created significant uncertainty in the general economy, including the real estate market, and has had, and may continue to have, a material impact on the Realty Trust's financial position, operating results, cash flows and ability to meet its financial obligations. There has been a fundamental shift in the way that many people work as a result of the pandemic, including working from home, reduced office attendance and a re-thinking of the office space altogether, which continues to have a significant effect upon the commercial office real estate market and has created uncertainty in leasing plans for many tenants. This has also given rise to an additional level of caution and uncertainty in the financial markets.

COVID-19 created an environment where debt and equity markets were operating more conservatively as a result of the increased economic uncertainty. Following the World Health Organization declaration, the pandemic had a material negative effect on the Realty Trust's ability to raise necessary funds to pursue its business objectives. Debt financing/refinancing proceeds are a key component of the cash inflows required to fund the Realty Trust's business operations and to provide cash distributions to its Unitholders. Debt markets did reopen after a period of restriction at the beginning of the pandemic, and the Realty Trust successfully closed a major portfolio refinancing on July 1, 2021, raising gross proceeds of $350.0 million (see note 8). The continuation of COVID-19, increases in interest rates and ongoing economic uncertainty continue to affect the commercial real estate capital markets and have had, and continue to have, a negative impact on the Realty Trust's ability to raise capital.

The impact of COVID-19 on the general economy may have an impact on tenants' ability to meet their lease agreement obligations. To date the Realty Trust has not experienced a material increase in bad debt expenses (see note 16a). As government and other subsidies currently available to tenants begin to fall away, there is a risk the Realty Trust may experience an increase in bad debts in the future. The Realty Trust will continue its ongoing monitoring of all tenant collections and credit worthiness, in order to identify and address any bad debt concerns in the future.

At the corporate office level, the Realty Trust has continued to follow all locally required COVID-19 protocols. Its operations have been minimally affected, given the nature of the work and its ability to be carried out effectively, and collaboratively, through virtual methods as necessary.

Portions of our financial results incorporate assumptions and estimates from management that are subject to heightened uncertainty due to COVID-19. This includes, but is not limited to, credit risk on tenant receivables (see note 16a) and changes to capitalization and discount rates, potentially affecting the fair value of investment properties (see note 5). Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Realty Trust reviews changes to International Financial Reporting Standards on an ongoing basis. As at September 30, 2022, the Realty Trust has assessed there are no approved upcoming changes which would have a material impact on the Realty Trust's consolidated financial statements or note disclosures.

**(tabular amounts in thousands of U.S. dollars, except unit and per unit amounts)**

## 4. GOODWILL

On August 1, 2019, pursuant to the approved plan of arrangement, the Realty Trust completed the internalization of management and acquisition of ACP Ltd. For accounting purposes, the acquisition by the Realty Trust represented the acquisition of a business, with assets and liabilities being recorded on August 1, 2019 based on estimates of fair value. The acquisition of ACP Ltd. provides a simplified investment structure expected to increase the Realty Trust's ability to raise capital, and reduces certain overhead costs and other reporting requirements. The Realty Trust also acquired the management contracts related to investment properties held by ACP Ltd. As a result of the acquisition of ACP Ltd., the Realty Trust recorded goodwill totaling $10.4 million.

## 5. INVESTMENT PROPERTIES

| | | **September 30, 2022** | | December 31, 2021 |
|---|---|---|---|---|
| Opening balance | **$** | **811,575** | $ | 835,400 |
| Dispositions | | **-** | | (15,651) |
| Property 2 LP held for disposal (note 6) | | **(19,575)** | | - |
| Recognition of rental revenue on a straight-line basis | | **1,097** | | 2,085 |
| Leasing commissions and tenant incentives incurred | | **9,730** | | 10,881 |
| Tenant incentives amortized | | **(4,132)** | | (5,988) |
| Capital improvements made to investment properties | | **5,776** | | 9,922 |
| Change in fair value of investment properties | | **(12,471)** | | (25,074) |
| | **$** | **792,000** | $ | 811,575 |
| Provision for global macro economic uncertainty | | **(25,400)** | | - |
| Ending balance | **$** | **766,600** | $ | 811,575 |

Investment properties are initially recorded at cost including acquisition costs. Acquisition costs include transfer taxes, professional fees for legal services, appraisal fees and any other related acquisition costs.

On August 20, 2021, the Realty Trust entered into a Purchase and Sale agreement to dispose of its Deerfield Property for gross proceeds of $10.8 million. The transaction was completed on October 21, 2021, resulting in $3.8 million in net cash proceeds after prorations, transaction costs, and repayment of $6.8 million outstanding principal due on the mortgage. A loss of $5.5 million on disposition of the investment property was recognized during the period ended December 31, 2021.

The balance of investment properties includes $20.8 million (December 31, 2021 - $19.7 million) of straight-line rent adjustments.

Subsequent to initial recognition, investment properties are remeasured at fair value on a recurring basis and categorized as Level 3 in the fair value hierarchy. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Therefore, the fair value of a recently acquired investment property would normally be the purchase price. Any subsequent valuations performed on an investment property, after the acquisition date, would be the new basis for the fair value recorded on the investment property. Gains or losses arising from changes in fair values are included in the consolidated statement of income and comprehensive income in the year in which they arise. Management and the independent valuators have used their market knowledge and judgment in determining fair value.

The significant unobservable inputs in the Level 3 valuations are as follows:

- Capitalization rate – based on location, size and quality of the properties and taking into account market data at the valuation date.

- Stabilized net operating income – based on the location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties, adjusted for estimated vacancy rates based on current and expected future market conditions after expiry of any current lease and expected maintenance costs.
- COVID-19, together with the rapid increase in interest rates during the past year, each have a material impact on general economic and real estate market conditions, and have influenced some of the assumptions used in determining fair value.

Current global economic uncertainty has impacted assumptions used in determining investment property fair value.

Fair values are most sensitive to changes in capitalization and discount rates and stabilized or forecasted net operating income, among other inputs as described above. Generally, an increase in net operating income will result in an increase in the fair value of investment properties and an increase in capitalization and discount rates will result in a decrease in the fair value of investment properties. We remain cautious as capitalization and discount rates are changing in the markets where our assets are located but we are unable to ascertain the changes with any degree of certainty.

Stabilized net operating income is a valuation concept used to determine property value. It is an estimate of income based on the property achieving a certain level of occupancy and reaching certain conditions which are expected to continue over the economic life of the property. Stabilized net operating income on which appraised values are determined will generally be different from the net operating income disclosed by the Realty Trust in a particular reporting period.

The capitalization rates and discount rates in our markets are moving currently but there are not enough transactions to determine any of these values with certainty. We have held discussions with several appraisal firms in both of our markets to anticipate changes to these key rates, which have a material effect upon the valuation of our assets, in order to determine the current period provision. The concerns surrounding global uncertainties have caused the Realty Trust to report the investment property values at September 30, 2022 with a provision of $25.4 million being recorded against the independent appraisals obtained as of December 31, 2021. The Realty Trust will be obtaining updated appraisals for the year ending 2022 and it is possible that additional provisions could be required as a result of the year-end appraisal process.

## 6. INVESTMENT PROPERTIES – HELD FOR DISPOSAL

In February 2022, the Realty Trust notified its loan servicer of Property 2 LP (see note 8) of a change in circumstances at the property and requested the loan be transferred to the special loan servicer to negotiate the disposal of the property. As at September 30, 2022, the carrying value of Property 2 LP of $19.6 million has been reclassified from investment properties to investment properties – held for disposal. Working capital accounts which are being managed by the special servicer, and controlled by the receiver (see note 18), have been provided as at September 30, 2022 in the net amount of $1.8 million.

**(tabular amounts in thousands of U.S. dollars, except unit and per unit amounts)**

## 7. ACCOUNTS RECEIVABLE

As at September 30, 2022, the aging of tenant receivables was:

| | | **September 30, 2022** | | December 31, 2021 |
|---|---|---|---|---|
| Tenant receivables | | | | |
| Current | **$** | **248** | $ | 722 |
| Aged between 61-90 days | | **21** | | 8 |
| Aged greater than 90 days | | **313** | | 342 |
| Total | **$** | **582** | $ | 1,072 |

As at September 30, 2022, $nil (December 31, 2021 - $17,616) was written off as a default loss, with an expected credit loss of $nil (December 31, 2021 - $nil) against outstanding receivables. Subsequent to period end, the Realty Trust collected $nil of the tenant receivables which were outstanding greater than 90 days as at September 30, 2022.
In the following table, revenue is disaggregated by base rental revenue, recoverable costs related to the provision of services, and other income:

| | | **Nine months ended September 30, 2022** | | Nine months ended September 30, 2021 |
|---|---|---|---|---|
| Rental revenue | **$** | **50,272** | **$** | 56,799 |
| Reimbursable expense income | | **22,013** | | 23,416 |
| Other income and amortization of tenant incentives | | **(3,574)** | | (3,501) |
| Total revenues | **$** | **68,711** | **$** | 76,714 |

## 8. MORTGAGES PAYABLE

A summary of mortgages payable is as follows:

| | | **September 30, 2022** | | December 31, 2021 |
|---|---|---|---|---|
| Principal amount of mortgages | **$** | **567,119** | $ | 569,833 |
| Less unamortized mortgage transaction costs | | **(5,813)** | | (7,022) |
| Balance | | **561,306** | | 562,811 |
| Less mortgages payable – current portion | | **(3,507)** | | (3,954) |
| Less mortgages payable – maturing within one year | | **(55,374)** | | (35,670) |
| Non-current portion of mortgages payable | **$** | **502,425** | $ | 523,187 |

Mortgages payable comprised thirteen mortgages which are recorded at amortized cost. The mortgages are secured by fixed charges against the associated investment properties. The weighted-average interest rate as at September 30, 2022 is 5.81% (December 31, 2021 – 4.16%).

**(tabular amounts in thousands of U.S. dollars, except unit and per unit amounts)**

The following table summarizes the key provisions of each mortgage:

| Mortgage | Property | Stated interest rate | Effective interest rate | Principal & interest payments (monthly) | Maturity date | Outstanding at September 30, 2022 |
|---|---|---|---|---|---|---|
| #1 | Elgin | 5.128% | 5.252% | $ 123 | Aug 1, 2028 | $ 19,396 |
| #2 | Oak Brook | 4.380% | 4.544% | 120 | Apr 1, 2023 | 19,704 |
| #3 | Deerfield | - | - | - | - | - |
| #4 | Crossings | LIBOR+3.7% | 6.332% | 122 | Jul 9, 2023 | 28,000 |
| #5 | Cantera | LIBOR+3.7% | 6.332% | 102 | Jul 9, 2023 | 23,500 |
| #6 | Columbia Centre I & II | LIBOR+3.7% | 6.332% | 212 | Jul 9, 2023 | 48,900 |
| #7 | Columbia Centre III | 4.220% | 4.354% | 143 | Nov 1, 2024 | 26,108 |
| #8 | Barrett Lakes | LIBOR+3.7% | 6.332% | 273 | Jul 9, 2023 | 63,000 |
| #9 | Highland Landmark V | LIBOR+3.6% | 5.702% | 147 | Nov 9, 2022 | 35,670 |
| #10 | 1000 Parkwood | LIBOR+3.7% | 6.332% | 164 | Jul 9, 2023 | 37,700 |
| #11 | Riverway | 4.960% | 5.004% | 684 | Dec 1, 2026 | 116,241 |
| #12 | Milton Park | LIBOR+3.7% | 6.332% | 261 | Jul 9, 2023 | 60,100 |
| #13 | Town Park Commons | LIBOR+3.7% | 6.332% | 273 | Jul 9, 2023 | 62,900 |
| #14 | 1600 Parkwood | LIBOR+3.7% | 6.332% | 112 | Jul 9, 2023 | 25,900 |
| **Total** | | | | **$ 2,736** | | **$ 567,119** |

Following the financial crisis, the reform and replacement of benchmark interest rates such as other inter-bank offered rates (‘IBORs’) has become a priority for global regulators. There remains some uncertainty around the timing and precise nature of these changes. The Realty Trust currently has a number of mortgages which reference LIBOR (London Inter-Bank Offered Rate) and extend beyond 2021, disclosed in the table above. For all mortgages whose maturity dates extend beyond the expected LIBOR replacement date, the Realty Trust has fallback provisions in the mortgage agreements addressing the transition plan. While the Realty Trust is still evaluating the possible impact of such changes, at this time it does not anticipate any material changes in terms and conditions of its LIBOR-based mortgages.

On April 9, 2021, Property 15 LP extended and refinanced Mortgage #14 for additional gross proceeds of $6.0 million. The extended mortgage totaled $20.0 million with maturity January 5, 2024. The terms of Mortgage #14 required interest payments at a variable rate and principal payments in fixed rate instalments commencing 2022. Financing fees incurred were deferred and amortized over the loan term.

On July 1, 2021, the Realty Trust completed a major portfolio refinancing of eight existing properties (Mortgages #4, #5, #6, #8, #10, #12, #13, and #14), for gross proceeds of $350.0 million and secured a new non-recourse first mortgage with respect thereto. The refinancing loan has an initial maturity date of July 9, 2023, and includes three, one-year extension options. To exercise such extension options, the Realty Trust must, prior to each exercise date, comply with certain conditions precedent, including the provision of a replacement interest rate hedge agreement (see note 16b regarding associated risks). The loan is interest-only at a variable rate of 30-day LIBOR plus 3.735% and is cross-collateralized by three Chicago and five Atlanta properties. The Realty Trust received net proceeds of approximately $78.2 million after repayment of existing mortgages of $237.1 million, payment of transaction and defeasance costs of $31.4 million, and after net reserve contributions of $3.3 million. Transaction costs incurred on the mortgage refinancing ($7.6 million) were capitalized and are being amortized over the term of the respective mortgage using the effective interest rate. Mortgage prepayment costs ($24.0 million), and unamortized mortgage transaction costs associated with the refinanced properties’ settled mortgages ($0.9 million), were expensed on closing.

On October 21, 2021, the Realty Trust closed on the disposition of Property 3 LP (see note 5) and used a portion of the gross proceeds to repay Mortgage #3 in full ($6.8 million). Transaction costs incurred on the settlement were expensed as incurred.

In February 2022, the Realty Trust notified its loan servicer on one non-recourse loan (Mortgage #2) of a change in circumstances at the property and requested the loan be transferred to the special loan servicer to negotiate the disposal of the property. The loan is currently under cash management and the lender may use those funds collected from property operations to continue making required loan payments. The loan resides in Property 2 LP, is non-recourse and does not trigger any cross-default provisions within any other loan agreements. Effective August 2, 2022, the special loan servicer assigned to Mortgage #2 transferred Property 2 LP into receivership, with the assigned receiver having full control over property operations. Property 2 LP currently retains title of the property.

**(tabular amounts in thousands of U.S. dollars, except unit and per unit amounts)**

Subsequent to period end, Highland Landmark V extended and refinanced Mortgage #9 for one year at $33.4 million after paydown of $2.25 million on closing (see note 19).

Scheduled principal repayments to be made over the next five years and thereafter, assuming the Realty Trust is entitled to and does exercise its right to fully extend repayment dates as applicable, excluding amortization of transaction costs, are as follows:

| | | |
|---|---|---|
| 2022 | $ | 3,463 |
| 2023 | | 56,237 |
| 2024 | | 3,707 |
| 2025 | | 27,983 |
| 2026 | | 458,492 |
| Thereafter | | 17,237 |
| | **$** | **567,119** |

The interest on mortgages payable incurred and charged to the consolidated statement of income and comprehensive income is recorded as follows:

| | | **Nine months ended September 30, 2022** | | Nine months ended September 30, 2021 |
|---|---|---|---|---|
| Interest on mortgages payable | **$** | **20,275** | $ | 16,921 |
| Interest on credit facilities and convertible debentures | | **2,450** | | 4,564 |
| Amortization of debt issuance costs | | **1,632** | | 2,353 |
| Interest expense | **$** | **24,357** | $ | 23,838 |

Mortgage prepayment costs incurred and charged to the consolidated statement of income and comprehensive income is recorded as follows:

| | | **Nine months ended September 30, 2022** | | Nine months ended September 30, 2021 |
|---|---|---|---|---|
| Mortgage prepayment and other related costs | **$** | **-** | $ | 23,983 |
| Amortization of remaining balance of debt issuance costs | | **-** | | 913 |
| Total mortgage prepayment costs | **$** | **-** | $ | 24,896 |

## 9. CREDIT FACILITIES

During the year ended December 31, 2021:

- the Realty Trust issued 12% unsecured promissory notes for gross proceeds of $2.0 million and subsequently repaid the full value of these promissory notes; and
- REIT 1 entered into a 9% short term loan for gross proceeds of $5.0 million (excluding transaction costs of $0.2 million), and subsequently repaid the full amount of this loan.

During the year ended December 31, 2020, an existing holder of both debt and equity in the Realty Trust, entered into a new 9% unsecured debt financing arrangement with a Canadian subsidiary of the Realty Trust. Gross loan proceeds of $34.5 million (CAD $23.0 million and USD $17.2 million) were received on July 14, 2020, net of transaction costs, less repayment in full of existing unsecured convertible debentures maturing in December 2020 ($7.0 million), interest reserved ($2.2 million), and, as a condition of the financing arrangement, the Canadian subsidiary of the Realty Trust also purchased equity units in the Realty Trust held by the lender ($10.9 million) which are now held in treasury. In July 2021, the Realty Trust used a portion of the proceeds from the portfolio refinancing to fully repay the credit facility (CAD $23.0 million and USD $17.2 million).

## 10. CONVERTIBLE DEBENTURES

The Realty Trust has issued convertible subordinated debentures (collectively "Convertible Debentures") in tranches as follows:

| | Original Principal | Interest Rate | Conversion Price | Maturity Date | Redemption Option | Outstanding at September 30, 2022 | | Outstanding at December 31, 2021 |
|---|---|---|---|---|---|---|---|---|
| $ | 5,500 | 9.0% | 15.79 | Dec 2023 | Jan 2022 | **5,500** | | 5,500 |
| | 7,222 | 8.0% | 16.75 | Dec 2023 | Jan 2022 | **7,222** | | 7,222 |
| | 35,000(1) | 7.0% | 15.00 | Jul 2023 | (2) | **25,471** | | 27,384 |
| | 15,000(1) | 7.0% | 15.00 | Jul 2023 | (2) | **10,916** | | - |
| Principal amount of convertible debentures | | | | | | **49,109** | $ | 40,106 |
| Less unamortized transaction costs | | | | | | **(488)** | | (520) |
| Balance | | | | | | **48,621** | $ | 39,586 |
| | | | | | | | | |
| Less current portion of convertible debentures | | | | | | **(36,387)** | | - |
| Non-current portion of convertible debentures | | | | | | **12,234** | $ | 39,586 |

(1) *amount in thousands of Canadian dollars*
(2) *repayable at any time subject to payment of a minimum of twelve months' interest.*

On July 22, 2021, the Realty Trust drew an initial advance of CAD $35.0 million from a non-revolving convertible debenture facility of up to CAD $50.0 million. The convertible debenture facility bears interest at 7% on all drawn amounts, is convertible into common units of the Realty Trust at USD $15.00 per unit and matures on July 22, 2023. The convertible debenture facility is guaranteed by the Realty Trust and its Canadian subsidiaries, and each has granted general security agreements, unlimited guarantees and postponement of claims and other typical non-mortgage security for a facility loan of this type in favour of the lender. The drawn portion of the facility is repayable at any time subject to payment of a minimum of twelve months' interest. The maturity date may be extended by mutual agreement of the lender and the Realty Trust. On August 17, 2022, the Realty Trust drew the remaining facility of CAD $15.0 million.

In July 2021, the Realty Trust used net proceeds from the major portfolio refinancing (see note 8) and new 7% convertible debenture facility for repayment of the 8% and 9.15% CAD denominated convertible debentures (totaling CAD $35.0 million), and repayment of the USD denominated 8% convertible debentures (totaling $1.2 million).

At September 30, 2022, $49.1 million of the principal value of the Convertible Debentures was outstanding, excluding deferred transaction costs (December 31, 2021 – $40.1 million); the conversion feature of the convertible debentures has a nominal value.

**(tabular amounts in thousands of U.S. dollars, except unit and per unit amounts)**

## 11. UNIT BASED COMPENSATION

On October 19, 2019, the Board of Trustees approved a long-term incentive plan which provides for the issuance of equity incentive awards (Plan Units), such as performance fund units and restricted fund units. Plan Units are granted at the discretion of the Board to any Director of the Trustee, employee, or consultant of the Realty Trust or affiliate.

A summary of the status of Plan Units as at September 30, 2022 and the changes during the respective period are as follows:

| | Restricted Fund Units | Performance Fund Units |
|---|---|---|
| Outstanding, beginning of period | 176,500 | 141,601 |
| Granted | - | - |
| Issued, gross | (56,000) | - |
| Forfeited | - | - |
| Outstanding, end of period | 120,500 | 141,601 |

Restricted fund units vest evenly over a three year period of service, with units issued at the end of each vesting period. During the year ended December 31, 2021, a total of 62,000 restricted fund units were granted with a first vesting date of March 31, 2022, and a total of 62,000 restricted fund units were granted with a first vesting date of March 31, 2023. During the year ended December 31, 2021, 3,000 units were forfeited, and 36,434 gross restricted fund units vested (22,080 units issued after tax). During the period ended September 30, 2022, no restricted fund units were granted, no restricted fund units were forfeited, and 56,000 restricted fund units vested (32,652 issued after tax).

Performance fund units are issued subject to the satisfaction of applicable performance goals. The performance goals are determined at the discretion of the Board of the Trustee on each grant date. Units are issued upon achievement of set performance goals. To the extent the specified performance goals are not achieved during such period, the rights to those Plan Units terminate. During the year ended December 31, 2021, a total of 74,000 performance fund units were granted subject to a three year performance period, 4,500 units were forfeited, and no units were issued. There were no performance fund units granted, issued, or forfeited during the period ended September 30, 2022.

During the period ended September 30, 2022, unit-based compensation expense of $0.9 million (September 30, 2021 - $0.8 million) was included in general and administrative expenses in the consolidated statement of income and comprehensive income in relation to Plan Units outstanding.

## 12. PREFERRED UNITS

In order to maintain REIT status for US taxation purposes, REIT 1 must maintain a minimum of at least 100 direct shareholders. REIT 1 has issued 125 preferred units to meet this requirement in the face amount of $1,000 per unit. Each unitholder is entitled to cumulative dividends of 12.5% per annum of the face amount, payable semi-annually.

In January 2013, 125 preferred units were issued by Adventus Holdings LP for gross subscription proceeds of $125,000. During the period ended September 30, 2022, Adventus Holdings LP paid dividends to preferred unitholders of $7,813 (September 30, 2021 - $7,813).

Adventus Holdings LP, at its option, may redeem some or all of the preferred units for a redemption price equal to $1,000 per unit plus all accrued and unpaid distributions on the date of redemption. No preferred units were redeemed by Adventus Holdings LP during the year ended December 31, 2021 or period ended September 30, 2022.

In order to maintain REIT status for US taxation purposes, REIT 2 must maintain a minimum of at least 100 direct shareholders. REIT 2 has issued 125 preferred units to meet this requirement in the face amount of $1,000 per unit. Each unitholder is entitled to cumulative dividends of 12% per annum of the face amount, payable semi-annually.

In November 2018, 125 preferred units were issued by Adventus US Opportunity LP for gross subscription proceeds of $125,000. During the period ended September 30, 2022, Adventus US Opportunity LP paid dividends to preferred unitholders of $7,500 (September 30, 2021 - $7,500).

## 13. UNITHOLDERS' EQUITY

Unitholders' equity includes the initial capital contribution to the Realty Trust made by Adventus Capital Partners Ltd. (ACP Ltd.), a related party by virtue of being the ultimate parent of the Trustee.

The Realty Trust is authorized to issue an unlimited number of redeemable common units of beneficial interest. Each common unit entitles the common unitholder to the same rights and obligations as any other common unitholder and no common unitholder is entitled to any privilege, priority or preference in relation to any other common unitholder.

Each common unitholder is entitled to participate equally with respect to any and all distributions of net income and net realized capital gains. On termination, the common unitholders of record are entitled to receive all of the assets of the Realty Trust remaining after payment of all debts, liabilities and liquidation expenses of the Realty Trust.

On September 23, 2016, a resolution was passed at a special meeting of common unitholders of the Realty Trust authorizing the creation of a new class of preferred units. The preferred units may be issued in one or more series, and the Trustee may fix the number of preferred units which is to comprise each series and the designation, rights, restrictions and conditions attaching to each series. The number of preferred units that is authorized and that may be issued is limited to the extent that the aggregate subscription price received for all preferred units that are issued shall not exceed $25.0 million. As of September 30, 2022, there are no Realty Trust preferred units issued or outstanding.

During the period ended September 30, 2022, the Realty Trust issued 8,098 common units for gross proceeds of $0.1 million.

During the year ended December 31, 2021, the Realty Trust issued 4,925 common units for gross proceeds of $0.1 million, redeemed 28,562 common units for proceeds of $0.4 million, and 11,001 units owned by the Realty Trust were cancelled and eliminated on consolidation.

On May 20, 2015, the Realty Trust implemented a distribution reinvestment plan (the "DRIP"), which allows unitholders to direct cash distributions paid on their existing Units to be reinvested in additional Units directly from the Trust. The units are issued at 95% of the Average Market Price of the Units. The Average Market Price is regularly reviewed and set by the Trustee. During the period ended September 30, 2022, the Realty Trust issued 21,907 units (year ended December 31, 2021 – 10,816) under the DRIP.

Distributions are declared and paid by the Realty Trust subject to the approval of the Trustee. During the period ended September 30, 2022, the Realty Trust declared distributions of $8.6 million, of which $nil was included in accounts payable and accrued liabilities as at September 30, 2022. During the year ended December 31, 2021, the Realty Trust declared distributions of $11.5 million, of which $nil was included in accounts payable and accrued liabilities at December 31, 2021. Subsequent to period end, the Realty Trust announced the suspension of distributions until further notice (see note 19).

## 14. CAPITAL MANAGEMENT

The Realty Trust defines capital as the aggregate of unitholders' equity, non-controlling interest, mortgages payable, credit facilities, convertible debentures and preferred units. The Realty Trust's objectives in managing capital are to maintain a level of capital that funds its business strategies and builds long-term unitholders' value. The Realty Trust's capital structure is approved by the Trustee through its periodic reviews.

**(tabular amounts in thousands of U.S. dollars, except unit and per unit amounts)**

The capital structure consists of the following components:

| | | **September 30, 2022** | | December 31, 2021 |
|---|---|---|---|---|
| Capital | | | | |
| Mortgages payable | **$** | **561,306** | **$** | 562,811 |
| Convertible debentures | | **48,621** | | 39,586 |
| Preferred units | | **250** | | 250 |
| Unitholders' equity | | **212,571** | | 256,224 |
| Total capital | **$** | **822,748** | $ | 858,871 |

During the period ended September 30, 2022, the total capital of the Realty Trust decreased due to repayment of existing mortgages payable, and payment of monthly trust distributions.

## 15. FAIR VALUE MEASUREMENT

Financial assets and liabilities accounted for or disclosed at fair value on a recurring basis are classified within a fair value hierarchy that reflects the significance of the inputs used in determining fair value. There are three levels of fair value hierarchy.

Level 1 – Quoted prices in active markets for identical assets
Instruments that have unadjusted quoted prices available in an active market for identical assets or liabilities.

Level 2 – Significant other observable inputs
Instruments that do not have quoted prices in active markets but for which market observable inputs are used as the inputs in the determination of fair value.

Level 3 – Unobservable inputs
Instruments that have a significant input into the fair value measurement that is derived from management's best estimates, and unobservable market information.

For certain of the Realty Trust's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and credit facilities, the carrying amounts approximate their fair values due to the short term nature of these instruments.

**Investment properties** – Investment properties are measured on a recurring basis on the balance at fair value in the consolidated statement of financial position and categorized as Level 3 according to the significance of the inputs used in making the measurements (see note 5).

**Mortgages payable –** The disclosure of fair value of mortgage payables is measured using discounted cash flow analyses, based on rates currently available for mortgages with similar terms and remaining maturities and the current credit worthiness of the Realty Trust.

**Preferred units –** The preferred units carrying amount approximates their fair value which is equivalent to the defined redemption price at which the units may be redeemed at the option of Adventus Holdings LP.

**Convertible debentures –** the debt component of the convertible debenture is measured on a recurring basis on the balance at fair value of similar debt instruments without a conversion feature.

**(tabular amounts in thousands of U.S. dollars, except unit and per unit amounts)**

The following tables includes the estimated fair value, carrying value, and categorization using the fair value hierarchy of those assets and liabilities that are measured at their estimated fair value on a recurring basis:

| | | **September 30, 2022** | |
|---|---|---|---|
| | **Fair value hierarchy level** | **Carrying amount Asset / (Liability)** | **Fair value Asset / (Liability)** |
| Investment properties | Level 3 | $ 786,175 | $ 786,175 |
| Mortgages payable | Level 3 | (567,119) | (542,256) |
| Convertible debentures | Level 3 | (48,621) | (48,621) |
| Preferred units | Level 2 | (250) | (250) |

| | | December 31, 2021 | |
|---|---|---|---|
| | **Fair value hierarchy level** | **Carrying amount Asset / (Liability)** | **Fair value Asset / (Liability)** |
| Investment properties | Level 3 | $ 811,575 | $ 811,575 |
| Mortgages payable | Level 3 | (569,833) | (572,922) |
| Convertible debentures | Level 3 | (39,586) | (39,586) |
| Preferred units | Level 2 | (250) | (250) |

## 16. FINANCIAL RISK MANAGEMENT

The Trustee of the Realty Trust has the overall responsibility for the establishment and oversight of the Realty Trust's risk management framework. The Realty Trust's risk management policies are established to identify and analyze the risks faced by the Realty Trust, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Realty Trust's activities.

In the normal course of business, the Realty Trust 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:

### *a. Credit risk*

Credit risk is the risk of financial loss to the Realty Trust if a tenant or counterparty to a financial asset fails to meet its contractual obligations, and arises principally from the Realty Trust's accounts receivable, cash and cash equivalents, and restricted cash.

Credit risk associated with cash and cash equivalents, and restricted cash is minimized by ensuring that cash is held by high-quality financial institutions.

Exposure to credit risk on tenant receivables is influenced mainly by the individual characteristics of each tenant. The Realty Trust minimizes the risk by checking tenants' credit histories, requesting security deposits and initiating a prompt collection process.

Credit risk associated with tenant receivables can also be influenced by external economic factors. The COVID-19 pandemic has created significant uncertainty in the general economy, and could have an impact on tenants' ability to meet their lease agreement obligations. The Realty Trust is constantly monitoring collections against tenants' lease obligations. As of September 30, 2022, a de minimis amount (less than 1%) of tenant rents have been considered uncollectible and concessions have been provided. All tenants that were granted rent deferrals are in the process of paying back those deferrals. Given the current overall assessment of the tenants across all Property LP's, and in consideration of historical credit worthiness, the Realty Trust has not recorded a general COVID-19 related provision against future credit losses. While rent collections to date during the COVID-19 pandemic have been encouraging, there is sustained credit risk in the future, and therefore, the Realty Trust continues its comprehensive review of tenant rents to evaluate how changes in market conditions could adversely impact it.

***b. Interest rate risk***

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The majority of the mortgages held by subsidiaries of the Realty Trust are variable interest rate mortgages and are therefore subject to interest rate risk. The Realty Trust has entered into interest rate cap agreements including in respect of the Realty Trust's $350 million refinancing loan, however such interest rate cap expires on July 9, 2023 after which it must be replaced as a condition precedent to the Realty Trust exercising its options to extend the loan. Given the very high interest rate environment at present, a replacement interest rate cap may be cost prohibitive and/or may not be available on acceptable terms. While the current interest rate cap mitigates against substantial interest rate increases in respect of this substantial mortgage facility, the Realty Trust remains exposed to rate increases up to the interest rate cap, and may be exposed to further interest rate increases following the maturity dates of the Realty Trust's respective variable rate mortgages. The Realty Trust has also entered into fixed interest rate mortgages, credit facilities, and convertible debentures, and accordingly does not face material interest rate risk on those respective financial instruments.

***c. Liquidity risk***

Liquidity risk is the risk that the Realty Trust will not be able to meet its financial obligations as they fall due. Real estate property 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 tend to limit the Realty Trust's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Realty Trust were required to liquidate a real estate property investment, the proceeds to the Realty Trust might be significantly less than the aggregate carrying value of such property. The current market for suburban commercial office real estate is very challenged with only a small number of transactions occurring relative to prior periods and generally at opportunistic prices.

The Realty Trust also requires liquidity to fund leasing costs associated with both new leases and renewal leases. As of September 30, 2023, the Realty Trust had approximately $24.6 million of reserves held by lenders that could be used to fund leasing costs. However, due to constraints on our liquidity we have severely constrained our leasing activity except in most situations where we have reserves held by our lenders to fund leasing costs at the respective properties.

The Realty Trust's approach to managing liquidity is to endeavor to ensure that it will have sufficient cash available to meet its liabilities when due. As at September 30, 2022, the Realty Trust had current assets of $82.9 million and current liabilities of $132.4 million, which includes a $19.7 million mortgage payable maturing in 2023, and a $35.7 million mortgage payable maturing during 2022, resulting in a working capital deficiency of $49.5 million. To remediate the working capital deficiency, subsequent to period end, the Realty Trust refinanced and extended Mortgage #9 in conjunction with its maturity on November 9, 2022 (see note 19). Additionally, the Realty Trust is in the process of turning over Property 2 LP to the lender in exchange for settlement of its outstanding mortgage payable balance. The Realty Trust also plans to utilize restricted cash, to the extent that it is available to the Realty Trust, for certain leasing costs included in accounts payable and accrued liabilities at September 30, 2022. If these combined efforts are insufficient to satisfy the working capital deficiency, the Realty Trust will endeavour to raise additional capital and restructure its debt as described below.

The Realty Trust's $350 million loan matures on July 9, 2023, and its CAD $50 million of convertible debentures mature on July 22, 2023. The Realty Trust continues to actively manage its outstanding obligations through repayment of debt and execution of extension agreements. In addition, the Realty Trust will be exploring its options to issue units, refinance and/or restructure its existing debt and possibly sell assets if the market for the sale of such assets improves, however there is no assurance the Realty Trust will successfully execute on these options.

**(tabular amounts in thousands of U.S. dollars, except unit and per unit amounts)**

### *d. Currency risk*

Currency risk is the risk associated with a fluctuation in the value of the US dollar as related to other foreign currencies. The Realty Trust is exposed to currency risk as certain transactions related to payment of the Realty Trust's expenses, and receipt of proceeds from certain debt financings, are denominated in Canadian dollars.

### *e. Redemption risk*

The Realty Trust's unitholders are entitled to redeem a certain number of units at any time on demand. The aggregate redemption price payable by the Realty Trust is subject to limitations. The Realty Trust will not be required to pay the redemption price by way of a cash payment if the total amount payable by the Realty Trust in any quarter will exceed the lesser of CAD $100,000 and the amount that is 0.75% of the aggregate subscription price of all trust units that were issued and outstanding at the start of such 12-month period.

## 17. LEASES

The Realty Trust has entered into lease agreements on its property portfolio. The following table summarizes the future minimum revenue receivable under non-cancellable operating leases as at September 30, 2022:

| | | |
|---|---|---|
| Not later than 1 year | $ | 71,844 |
| Later than 1 year and not later than 5 years | | 161,202 |
| Later than 5 years | | 54,723 |
| | **$** | **287,769** |

## 18. COMMITMENTS AND CONTINGENCIES

The Realty Trust and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business, and with respect to litigation and claims that arise from time to time. Tenant incentive commitments for executed lease agreements commencing after year end have been appropriately accrued.

## 19. SUBSEQUENT EVENTS

As of October 2022, the Realty Trust suspended monthly distributions until further notice in response to the rapidly changing interest rate environment and impact on the Trust's variable rate debt.

On November 9, 2022, the existing $35.7 million Mortgage #9 was extended for 12 months, as a non-recourse first mortgage, requiring an initial principal paydown of $2.25 million. Subsequent repayments of $2.25 million are also required on each of April 9, 2023 and July 9, 2023, bringing the new maturity amount to $28.9 million at November 9, 2023.