



ADVENTUS

ADVENTUS REALTY TRUST

REPORT TO UNITHOLDERS

NINE MONTHS ENDED SEPTEMBER 30, 2022

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Section 1 - Introduction

Disclaimer, Accounting Standards and Currency

Management's Report to Unitholders of the financial position and the results of operations of Adventus Realty Trust (the "Trust" or "Adventus" or "we" or "our") for the nine months ended September 30, 2022 should be read in conjunction with the Trust's unaudited financial statements for the nine months ended September 30, 2022. This Report to Unitholders has been prepared and includes material financial information as of December 7, 2022. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and is expressed in US dollars unless otherwise specified. The Trust has included certain non-IFRS financial measures which management believe are important in evaluating the Trust's underlying operating performance and ability to generate cash flows. Refer to Appendix A for a summary of non-IFRS financial measures.

Trust Overview

The Trust is a private Real Estate Investment Trust (REIT) formed in 2011 and based in Vancouver, British Columbia, Canada. We are focused on the management of income producing commercial office real estate, in suburban areas of select US markets where we can earn a premium return compared to the market's Central Business District (CBD). Such markets will have a large concentration of major corporate headquarters, strong employment statistics, favorable demographics and easy access to transportation.

Website

The Trust's website hosts a log-in portal available to all unitholders to privately access certain confidential information, including historical Financial Statements, Reports to Unitholders, and Conference Call transcripts. The uniform log-in details are as follows:

Username: unitholder
Password: H9ld1ng2

The username and password are case sensitive. In order to maintain the privacy of the financial reports, please do not share these log-in credentials.

President's Message

As has been previously noted, Covid-19 has caused significant economic and social disruptions which continue to have an impact on the financial performance of the Trust. Notwithstanding strong rental collections (~99%) throughout the pandemic, new tenant leasing activity (as opposed to renewal leasing of existing tenants) in 2020 and 2021 was nominal, reducing our portfolio occupancy to 83% (September 2022) from 90% (December 2019), resulting in lower net operating income and available funds from operations in 2022.

Also, as previously disclosed, we expected 2022 to be a productive leasing year with the cash flow benefits of the expected leasing activity to be realized in 2023 and 2024. The Trust did experience an increase in leasing activity to start 2022, however the balance of 2022 has experienced a significant slow-down in activity in tenant demand, in part, due to expected seasonal factors as well as recessionary concerns over the economy. New tenant leasing activity has not been sufficient to improve occupancy levels and portfolio occupancy has remained at approximately 83% throughout the first 9 months of 2022. As such, a recovery in net operating income and funds from operations will not be realized until significant occupancy improvement from new tenant leasing is achieved. We are currently facing a serious liquidity issue and consequently we have severely constrained our leasing activity except in most situations where we have reserves held by our lenders to fund leasing costs. As of September 30, 2022, we had approximately \$24.6 million of reserves held by lenders that could be used to fund leasing costs at the respective properties.

From a macroeconomic perspective, global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering Covid-19 pandemic all weigh heavily on the economic outlook.

Highly attentive to inflation risks, the US Federal Reserve has now hiked rates at six straight meetings, bringing the benchmark interest rate up to a target range of 3.75% to 4.00%, the highest since early 2008. These monetary policy actions have resulted in increased borrowing costs and concerns of a recession have caused credit spreads to widen, significantly hampering lending activity. Debt markets remain highly illiquid, in particular for the suburban office market, as evidenced by the

issues we encountered in our recent efforts to refinance the Highland Landmark V property, described in more detail below in this subsection.

The rapid increase in interest rates has had a significant negative impact on the Trust's cash flows and liquidity. As of September 30, 2022, the Trust has approximately \$386 million in variable rate debt, representing approximately 63% of its total debt outstanding, which is exposed to changes in the 30-day London Inter-Bank Offered Rate (LIBOR). LIBOR has been increasing significantly in recent months. For example, LIBOR was 0.10% on July 1, 2021 when \$350 million of the Trust's variable rate debt was issued. On April 1, 2022, LIBOR was 0.44% and has increased to 3.90% as of November 16, 2022. While the Trust does have certain time-limited interest rate hedges in place, this large increase in interest rates still resulted in a significant increase in our cost of debt. The incremental annualized interest cost on the \$350 million of variable rate debt, when comparing LIBOR at its origination (0.10%) to the current rate cap (3.0%), is \$10.2 million or \$0.53 per unit. For the \$350 million loan, the current interest rate hedge expires on the loan's initial maturity date, July 9, 2023, and will need to be replaced with a new interest rate hedge if the maturity date of the loan is extended. Given the current high level of interest rates, a replacement interest rate hedge that meets the existing loan extension requirements could be cost prohibitive and/or unavailable on acceptable terms. The Trust also has CAD \$50 million of convertible debentures that mature on July 22, 2023 and the lender's consent is required to extend the maturity date of those convertible debentures

As previously disclosed, the capitalization rates and discount rates are moving unfavourably in our markets and are difficult to determine at this time due to a lack of transaction activity. We remain cautious as changes to either or both of these rates can have significant effects on our asset values. We also continue to have concerns about the global economic uncertainties and their impact upon our investment properties. The appraisal community is struggling with establishing values in this turbulent time which, of course, leads to more uncertainty. In order to determine the appropriate provision for the current period, we have held discussions with several appraisal firms in both of our markets. Based upon these discussions and due to the uncertainties in the office sector, we have taken a current period provision of \$25.4 million as a reduction of the IFRS value on our investment properties.

Notwithstanding the current period provision, unitholders are cautioned that there could be significant additional value erosion when we have the full portfolio appraised as of December 31, 2022, in conjunction with the preparation of our audited annual financial statements.

The table below highlights the primary items contributing to the decrease in net asset value, including the capitalization/discount rate discussion above, from December 31, 2019 (pre Covid-19) to September 30, 2022:

	NAV per unit \$
Net Asset Value at December 31, 2019	19.35
Fair value adjustments to investment properties ⁽¹⁾	(6.36)
Aborted transaction costs ⁽²⁾	(0.32)
Property dispositions ⁽³⁾	(0.94)
Mortgage breakage costs ⁽⁴⁾	(1.31)
Other items ⁽⁵⁾	0.66
Change in Net Asset Value	(8.27)
Net Asset Value at September 30, 2022	11.08

(1) Fair value adjustment to investment properties for the period from December 31, 2019 to September 2022.

(2) In April 2020, due to the economic uncertainty surrounding Covid-19 the Trust terminated the purchase and sale agreement for its Dallas acquisition and forfeited a \$6.0 million deposit.

(3) Change in carrying value of Oak Brook Office Center (currently held for disposal) and Deerfield (sold October 2021), both properties identified as non-core assets to Adventus.

(4) In July 2021, the Trust completed its major portfolio refinancing of eight existing mortgages. All transaction costs and fees incurred in conjunction with prepaid mortgages were recognized as an expense in the respective period.

(5) Includes, in part, net income before other items offset by distributions paid to unitholders.

The Trust also has two current mortgages and a convertible debenture facility maturing in the next twelve months. These include a \$35.7 million mortgage on Highland Landmark V, a \$20.0 million mortgage on Oak Brook Office Center, and CAD \$50 million convertible debenture facility maturing July 2023. The Trust plans to request an extension of the convertible debenture facility with the existing holder. The two maturing mortgages are further discussed below.

As previously disclosed, refinancing the Highland Landmark V mortgage had unique challenges as the property is fully leased to two tenants with 2025 lease expirations, but the major tenant has physically vacated the property and was attempting to sublet its premises. As a result, the property is viewed by debt financiers to be a vacant property making debt refinancing more challenging in these uncertain times. The Trust undertook an exhaustive marketing process to refinance the mortgage. However, due to the challenging credit markets, the Trust could only source a limited number of interested lenders who each presented unacceptable financing terms. Recognizing these efforts, the existing lender on the Highland Landmark V mortgage, JP Morgan, was willing to negotiate an extension of the maturing loan.

The existing \$35.7 million mortgage was extended on a 12-month basis, as a non-recourse first mortgage, and required an initial principal paydown of \$2.25 million. Subsequent principal 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.

The Trust plans to remediate the challenges at the property, in part, by attempting to execute an early renewal and extension with the in-place tenant and negotiating a surrender or termination with the major tenant, subject to lender approval. The major tenant has had no success in subletting its premises due to the relatively short-term remaining on the lease of approximately 2.5 years. The Trust has commenced marketing efforts to backfill the pending vacancy and has proposals under negotiation to replace approximately 75% of the major tenant's space if a surrender or termination can be resolved with the major tenant and approved by the lender.

The Oak Brook Office Center mortgage is a non-recourse loan which the Trust anticipates will be written-off in conjunction with the property's disposal expected later in 2022 (see subsection Portfolio Review - Non-Core Asset Disposition below).

The combination of the above factors has led to reduced occupancy, lower net operating income and an increase in debt servicing costs, which in turn has eliminated sufficient cash available for distribution, resulting in our recently announced suspension of Trust distributions. The Trust has been unable to raise equity since early 2020 which has had a material negative impact on our business operations. Although we were able to raise debt capital during the pandemic with our major portfolio refinancing in July 2021, the resulting increase to our leverage has been very detrimental to cash flows during a rising interest rate environment. It is critical the Trust raise capital in the near term to reduce leverage and support the leasing program. If the Trust is unable to raise additional capital in the near future, leasing activity will have to be severely curtailed which will have a material negative impact on cash flows, net income and overall viability of the Trust. Without maintaining and advancing our leasing programs, our future net operating income will decrease.

We are presently working on plans to raise additional capital as soon as possible and will provide further information in that regard in due course. We are also in the process of retaining appropriate advisors to assist us with restructuring our financial obligations. We are working diligently to manage the business during continuing difficult times, as 2022 is proving to be another challenging year for Adventus, including instituting several prudent cost-cutting measures (see Section 3 – Overhead for a summary of cost reductions budgeted for 2023). We will nonetheless continue to seek to maximize value for the assets that the Trust owns. The Management team and Board are in regular close communication during this continued period of economic uncertainty.

Section 2 – Key Business Updates

The following provides some further detail for our key updates:

Strategic Transaction Review

The strategic transaction review was overseen by a special committee of independent members of the Board of the Trustee (the "Special Committee"), with assistance from independent financial and legal advisors.

As previously announced on June 2, 2022, the Trust engaged Lazard Freres & Co. LLC ("Lazard"), a global investment banking firm, to advise the Trust and to establish a process to solicit and evaluate interest in a potential strategic transaction involving a merger, sale or recapitalization of the Trust. Lazard embarked on a broad outreach process to solicit interest in a corporate transaction with the Trust. The outreach targeted at least 50 potential strategic and financial investors who are active investors in suburban office properties. Potential counterparties spanned a wide range of fund mandates and investor types, including publicly-traded REITs, private owner/operators, pension funds, sovereign wealth funds, and insurance companies, amongst others. The Trust engaged with a number of counterparties but suitable terms could not be reached.

Feedback received from potential counterparties who meaningfully engaged with Lazard but declined to submit an offer sheet or proposal highlighted their concerns around: i) negative outlook for the suburban Office sector, ii) concerns

about global market uncertainty, iii) current closure of capital markets (both debt and equity), iv) high in-place leverage levels, and v) the Chicago office market specifically.

Adventus did receive non-binding offer sheets from a US-based private REIT and a Canadian-based private real estate investment fund. However, under the present circumstances, the terms were deemed to be unacceptable, in part, due to: i) the implied equity valuation of the Trust, ii) insufficient cash consideration, and iii) a lack of liquidity in the counterparty's share-based consideration. The Trust also had meaningful negotiations with a Canadian-based public REIT, which toured each asset in the Adventus portfolio, however, a formal proposal was not received primarily due to concerns over the Trust's variable rate debt and its impact on near term cash flow from operations. Additionally, the US commercial real estate market is in a period of material uncertainty at the moment which has caused all potential counterparties to be very cautious and to propose opportunistic asset values for the Trust's assets.

The strategic transaction engagement with Lazard has been suspended while Board and Management review existing business plans and consider other potential liquidity alternatives.

US Suburban Office Market Experience

Despite challenging markets in both Atlanta and Chicago throughout 2022, our portfolio has outperformed their respective submarkets. Tenant retention has been relatively strong while our capital expenditure program has been adjusted to partially offset increased costs from rising interest rates.

Management has concluded approximately 367,000 square feet of leasing activity as of November 2022. In suburban Chicago, market vacancy is in the range of 24% - 29% while our portfolio has availability of 21.6%. In suburban Atlanta, market vacancy is in the range of 14% - 19% where our portfolio has availability of 8.0%.

Supply chain disruptions coupled with increasing interest rates have caused delays in projects and significant cost escalations. This remains an ongoing concern of the Trust. Focusing on cashflow management, we have deferred building capital expenditures where possible.

Change in Leasing Momentum

Leasing activity increased to above pre-pandemic levels during the first half of 2022. However, the balance of 2022 has experienced a significant slow-down in activity and tenant demand, in part, due to expected seasonal factors as well as recessionary concerns over the economy.

As a result of the current strain on our cashflow, we have been forced to substantially slow down our leasing activity. The fact that the general office leasing market is experiencing a decline at this same time makes our slowdown efforts somewhat easier to manage and less visible to the markets in which we operate. Notwithstanding this, any decline in leasing affects our financial position and should it continue for some time, the impact will be very detrimental to our finances and operations. Consequently, as mentioned previously, we are pursuing all possible options to raise additional capital and restructure our debt obligations.

Despite the current change in leasing velocity, the Trust generally outperformed the market with respect to renewal leasing for 2022. We have had success in renewing expiring tenants with approximately 190,000 square feet of renewal leasing year to date compared to our annual budget of 120,000 square feet. Unfortunately, new tenant leasing year to date is currently at approximately 170,000 square feet compared to our annual budget of 250,000 square feet.

The following highlights have been achieved during the nine months ending September 30, 2022 (unless otherwise noted):

- Occupancy at Columbia Centre III has significantly improved after two primary tenants vacated in December 2021. Year-to-date leasing activity will bring Columbia Centre III vacancy to 27%, reduced from 65% vacancy as at December 31, 2021.
- Riverway reinvestment program is near complete with a total cost of approximately \$8.4 million; we have upgraded lobbies in all three buildings and are in the process of finishing upgrades to the auditorium.
- Rent-ready suite program is exceeding expectations with 24 completed suites (approximately 82,000 square feet) leased across the portfolio with new suites typically leasing within four months of completion, with a total project cost of approximately \$3.3 million over 18 months.

Current leasing activity in process is as follows:

	# of Tenants	Leasable Area (Sq. Ft.)
Leases under negotiation	5	37,322
Proposals	20	191,630
Tours	12	190,000
Total	37	418,952

Portfolio Review - Non-Core Asset Disposition

The disposition of Oak Brook Office Center is expected to be finalized by the end of the current year and is proceeding as anticipated. A summary of the transaction is as follows:

In early 2022, the Trust notified its loan servicer of a change in circumstances at the Oak Brook Office Center for the non-recourse loan totaling \$20.0 million and requested the loan be transferred to the special loan servicer to negotiate the disposal of the property. In July 2022, the lender initiated the planned foreclosure upon the property and appointed a receiver. The loan resides in a special purpose entity, is non-recourse and does not trigger any cross-default provisions within any other loan agreements. Oak Brook Office Center is recognized on the balance sheet as an investment property held for disposal, at a valuation approximately equal to the property's outstanding mortgage balance, less the restricted cash balances turned over to the lender. The Trust has recorded a working capital provision on property held for disposition on the statement of income and comprehensive income in the approximate amount of \$1.8 million, or \$0.09 per unit. The Trust remains responsible to pay insurance and property tax until the property transfers ownership and has recorded a provision in its accounts at September 30, 2022 in an amount anticipated to be sufficient to cover such costs.

Cash Management Accounts

The Trust has two properties, Riverway and Columbia Centre III, operating under a cash management account due to the occurrence of certain trigger events prescribed in the respective loan agreements. Under cash management, all income earned at the property is swept into a lender-controlled bank account. On a monthly basis, swept funds are released for debt service payments, and to the extent funds are available, released to the Trust for monthly operating costs. Any excess funds after debt service payments and operating costs are held in reserve and generally available to the Trust for leasing costs, or otherwise returned to the Trust upon repayment of the loan. Cash management was initiated at these two properties due to the following tenant trigger events: Riverway – vacancy of a major tenant; Columbia Centre III – early termination by the two major tenants. The Riverway tenant trigger event may be cured upon sufficient re-tenanting at the property. The Columbia Centre III tenant trigger event cannot be cured, and the property will operate under a cash management account until the loan is repaid.

Additionally, the Trust also has two other properties, Elgin Chase and Highland Landmark V, operating under cash management accounts. These cash management accounts are not due to the occurrence of any trigger events but are prescribed under their respective loan agreements. The cash management account for Highland Landmark V operates in the same fashion as described in the preceding paragraph. Under the cash management account for Elgin Chase, 50% of excess funds after debt service and operating costs are generally released to the Trust. Any funds swept pursuant to these cash management accounts are available for leasing costs at the respective property.

Section 3 - Financial and Operational Highlights

Occupancy

The table below highlights gross leasable area (GLA) and occupancy as reported at each of the respective period-end dates:

	30-Sep-22	31-Dec-21	31-Dec-20	31-Dec-19
Chicago Portfolio				
Gross Leasable Area (Sq. Ft.)	2,746,344	2,734,852	2,883,892	2,883,892
Occupancy ⁽¹⁾	78.4%	78.3%	83.2%	90.1%
Atlanta Portfolio				
Gross Leasable Area (Sq. Ft.)	1,350,451	1,351,764	1,351,764	1,350,871
Occupancy ⁽¹⁾	92.0%	91.8%	91.2%	91.8%
Total Portfolio				
Gross Leasable Area (Sq. Ft.)	4,096,795	4,086,616	4,235,656	4,234,763
Occupancy ⁽¹⁾	82.9%	82.8%	85.7%	90.6%

(1) Occupancy rate includes both in-place and committed leases; Chicago portfolio excludes Oak Brook Office Center to be disposed in 2022.

The Trust did experience an increase in leasing activity to start 2022, however new tenant leasing activity has not been sufficient to improve occupancy levels and occupancy rates as at September 30, 2022 have decreased slightly as compared to the prior quarter. Please refer to Section 2 - "U.S. Suburban Office Market Experience" for additional commentary and outlook.

Change in Net Asset Value

The table below summarizes various components which make up the change in NAV and NAV per unit for the nine months ending September 30, 2022:

(000's \$, except per unit amounts)	\$	\$ per unit
Net Asset Value at December 31, 2021	256,224	13.39
Increase/(Decrease:)		
Net income before other items	1,545	0.08
Fair value adjustments to investment properties: ⁽¹⁾		
Leasing commissions, tenant incentives, and capital improvements	(15,506)	(0.81)
Amortization of tenant incentives, net of straight-line rent adjustments	3,035	0.16
Change in portfolio values and provision for global macro economic uncertainty	(25,400)	(1.32)
Working capital provision on property held for disposal	(1,756)	(0.09)
Other items (foreign exchange gain)	2,079	0.11
Distributions to trust unitholders, units issued under DRIP, other	(7,650)	(0.44)
Change in Net Asset Value	(43,653)	(2.31)
Net Asset Value at September 30, 2022	212,571	11.08

(1) The fair value adjustment relates to the net adjustment required to bring the investment property balances to their fair values, equal to the values of investment properties primarily based on most recent independent appraisals, as of December 31, 2021, and updated by management for current period leasing/capital spend activity and changing discount and exit capitalization rate assumptions.

As previously mentioned, the capitalization rates and discount rates are moving unfavourably in our markets and are difficult to determine at this time due to lack of transaction activity. We remain cautious as changes to either or both of these rates can have significant effects on our asset values. The appraisal community is also struggling with establishing values in this turbulent time. We continue to have concerns about the global uncertainties and their impact upon our investment properties. After lengthy discussions with appraisers in our markets, we have determined that it is appropriate that the Trust report investment properties values at September 30, 2022, with a provision for estimated changes to such values. The provision was calculated based on management's internal property valuations as at September 30, 2022, reflecting updated market assumptions, but unitholders are cautioned that there could be significant erosion in value for year end.

Financial and Operational Performance

The table below highlights certain key performance metrics for nine months ended September 30, 2022, as compared to the prior year period:

(000's \$, except per unit amounts)

	Nine months ended		
	30-Sep-22	30-Sep-21	% Change
Rental and services revenues	72,843	80,816	-10%
Net operating income (NOI)	29,829	38,201	-22%
Interest expense	(24,357)	(23,838)	-2%
Funds From Operations (FFO)	6,587	16,045	-59%
Weighted-average units outstanding (000's)	19,160	19,127	0%
NAV / Unit (comparative as at December 31, 2021)	11.08	13.39	-17%
NOI / Unit	1.56	2.00	-22%
FFO / Unit	0.34	0.84	-60%

For the nine months ended September 30, 2022, NOI and FFO decreased \$8.4 million and \$9.5 million, respectively, as compared to the prior year period. On a per unit basis, for the nine months ended September 30, 2022, NOI and FFO decreased \$0.44 per unit and \$0.50 per unit, respectively. The decrease in NOI and FFO is primarily due to lower rental and services revenues, as discussed in Section 5 – Review of Financial Results.

Overhead Management

Management have taken a proactive approach to managing overhead costs. Typically, smaller REITs operate with an overhead equal to 0.80% to 1.00% of their asset value¹. Notwithstanding that Adventus continues to operate with significantly lower overhead as compared to its peers (as illustrated in the table below), the increase in general and administrative costs for the nine months ended September 30, 2022 is primarily due to increased legal and professional fees incurred relating to the ongoing strategic review engagement, and a potential liquidity transaction which was aborted earlier in the year. Further discussion is included in Section 5 – Review of Financial Results.

(000's \$)	Year ended			Nine months ended
	31-Dec-19	31-Dec-20	31-Dec-21	30-Sep-22
General and administrative	4,382	4,568	5,191	3,927
General and administrative (annualized)	4,382	4,568	5,191	5,236
Total Assets	934,535	890,464	895,757	859,934
Overhead as % of Total Assets	0.47%	0.51%	0.58%	0.61%

As noted in Section 1 – President's Message, management have instituted several cost-cutting measures, including a reduction in budgeted overhead expenses for the 2023 year, as follows:

- Directors – the number of independent paid directors will be decreased from six to five in 2023 and their fees will be reduced by 25% for 2023, resulting in a budgeted decrease of 39% in 2023 compared to 2022.
- Employees – the CEO has agreed to a 40% reduction in compensation for 2023 and beyond until the Trust is stabilized and able to return to paying distributions, with the overall reduction in budgeted employee compensation of 25% in 2023.
- Office overhead – excluding advisory fees for special financing engagements, management is budgeting for a reduction in overhead expenses of 39% in 2023.

¹ Source: "Finding Value in Small and Midsize REITs" – Green Street Advisors, LLC – February 7, 2018

The table below summarizes these budgeted overhead cost reductions:

	Budgeted Reduction in Overhead Cash Costs in 2023 vs 2022
Employees (CEO - 40%)	25%
Directors	39%
Other overhead	39%
Total 2023 Budgeted Overhead Cash Costs Reduction	33%

Section 4 – Cash Flows and Distributions

Cash Flows

The following schedule details the changes in cash and cash equivalents for the nine months ended September 30, 2022, and September 30, 2021:

(000's \$)	Nine months ended	
	30-Sep-22	30-Sep-21
Cashflow from Operating activities	19,491	24,408
Cashflow to Investing activities	(13,799)	(6,104)
Cashflow to Financing activities	(16,751)	10,239
Net (decrease) increase in cash and cash equivalents	(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

For the nine months ended September 30, 2022:

The change in cash flows from operating activities relates primarily to ongoing property operations through collecting rents receivable and making payments against outstanding accounts payable. Cashflow from operating activities for nine months ended September 30, 2022 decreased \$4.9 million compared with the prior year period, primarily due to a reduction in net operating income (see Results of Operations in Section 5 – Review of Financial Results).

The change in cash flows to investing activities relates primarily to greater amounts incurred for leasing costs on new leasing activity and capital expenditures in the current year period.

The change in cash flows to financing activities relates primarily to funding and repayment of short term and mortgage financings, interest paid, distributions to Trust unitholders, and regular contributions to restricted cash for direct leasing costs and capital expenditures in excess of amounts recovered during the period. Cash flow from financing activities during the nine months ended September 30, 2021 reflects a cash surplus as a result of the major portfolio refinancing completed in July 2021.

Distributions to Unitholders

Distributions totaled \$0.45 per unit for the nine months ended September 30, 2022 and all distributions during this period are expected to be classified as return of capital for Canadian income tax purposes. Subsequent to period end, the Trust announced the suspension of distributions effective October 2022 until further notice in response to the rapidly changing interest rate environment and impact on the Trust's variable rate debt. During the nine months ended September 30, 2022 and 2021, distributions were paid for nine months and three months respectively.

Section 5 – Review of Financial Results

Results of Operations

(000's \$)

	Nine months ended	
	30-Sep-22	30-Sep-21
Rental and services revenues	72,843	80,816
Amortization of tenant incentives	(4,132)	(4,102)
Operating expenses	(38,882)	(38,513)
Net operating income	29,829	38,201
Interest expense	(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	(1,756)	-
Foreign exchange gain (loss) and other income (expenses)	2,079	(429)
Mortgage prepayment costs	-	(24,896)
Fair value adjustment on investment properties	(37,871)	(9,075)
Net loss and comprehensive loss	(36,003)	(23,318)

Discussion of Components of Net Income and Comprehensive Income

Net Operating Income

Revenues consist of base rental revenue, operating and property tax costs recovered from tenants, sundry billings such as parking and antenna revenue which are ancillary to the Trust's business, and amortization of tenant incentives.

Operating expenses consist of both recoverable and non-recoverable costs, including administrative costs, property taxes, grounds maintenance, repairs and maintenance, and utilities.

For the nine months ended September 30, 2022, rental and services revenues decreased \$7.9 million compared with the prior year period, primarily due to lower portfolio occupancy as a result of two tenant vacancies at Columbia Centre III and a primary tenant vacancy at Oak Brook Office Center, each effective as of December 31, 2021.

For the nine months ended September 30, 2022, operating expenses increased \$0.4 million compared to the prior year period, primarily due to higher property operating expenses from increased physical occupancy.

As a result of the above, and including the change in amortization of tenant incentives, net operating income decreased \$8.4 million for the nine months ended September 30, 2022, as compared to the prior year period.

Interest Expense

For the nine months ended September 30, 2022, interest expense increased \$0.5 million compared with the prior year period, primarily due to an increase in property level mortgage interest paid as a result of variable rate increases year to date, partially offset by refinancing \$35.0 million of 9% credit facilities outstanding in the prior year period with proceeds from the major portfolio refinancing completed in July 2021. The weighted-average interest rate for the Trust's total debt as at September 30, 2022 is 5.93% (4.38% - December 31, 2021).

General and Administrative

For the nine months ended September 30, 2022, general and administrative costs increased \$0.6 million compared with the prior year, primarily due to increased legal and professional fees incurred relating to the ongoing strategic review engagement, and a potential liquidity transaction which was aborted earlier in the year.

Working Capital Provision on Property Held For Disposal

As previously disclosed, Adventus is finalizing a disposition of Oak Brook Office Center. The Trust notified its loan servicer of a change in circumstances at the Oak Brook Office Center for the non-recourse loan totaling \$20.0 million and requested the loan be transferred to the special loan servicer to negotiate the disposal of the property. In July 2022, the lender

initiated the planned foreclosure upon the property and appointed a receiver. The loan resides in a special purpose entity, is non-recourse and does not trigger any cross-default provisions within any other loan agreements. The Trust anticipates the total cost of disposition will be approximately \$1.8 million, recorded as working capital provision on property held for disposition on the statement of income and comprehensive income.

Foreign Exchange Gain

For the nine months ended September 30, 2022, unrealized foreign exchange gain was \$2.1 million, primarily due to a weakening Canadian dollar and the related foreign exchange impact on our Canadian dollar denominated convertible debentures.

Fair Value Adjustments

The values of investment properties are based on most recent appraisals, primarily as of December 31, 2021, and updated by management in subsequent periods for current period leasing and changing rate assumptions. The table below summarizes each component of the fair value adjustment of investment properties:

	Nine months ended	
	30-Sep-22	30-Sep-21
Recognition of rental revenue on a straight-line basis	(1,097)	(1,627)
Other capitalized costs, including leasing commissions, tenant incentives and capital improvements	(15,506)	(11,100)
Amortization of tenant incentives	4,132	4,102
Change in portfolio values and provision for global macro economic uncertainty ⁽¹⁾	(25,400)	(450)
Fair value adjustment on investment properties	(37,871)	(9,075)

- (1) The fair value adjustment relates to the net adjustment required to bring the investment property balances to their fair values, equal to the values of investment properties primarily based on most recent independent appraisals, as of December 31, 2021, and updated by management for current period leasing/capital spend activity and changing rate assumptions.

As previously mentioned, the capitalization rates and discount rates are moving in our markets and are difficult to determine at this time due to lack of transaction activity. We remain cautious as changes to either or both of these rates can have significant effects on our asset values. Concerns surrounding global uncertainties have caused the Trust to report the investment properties values at September 30, 2022 with a provision against the independent appraisals as of December 31, 2021. The provision was calculated based on management's internal property valuations as at September 30, 2022 reflecting updated market rate assumptions.

Net Operating Income ("NOI"), and Funds from Operations ("FFO")

NOI and FFO are a supplemental non-IFRS measure of operating performance widely used in the Canadian real estate industry. FFO is not defined under IFRS and should not be used as a substitute to net income, cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. The Trust calculates FFO as described under the "Non-IFRS Financial Measures" in Appendix A. Net income and comprehensive income are reconciled to FFO as follows:

(000's \$, except per unit amounts)

	Nine months ended	
	30-Sep-22	30-Sep-21
Net loss and comprehensive loss	(36,003)	(23,318)
Add (deduct):		
Amortization of tenant incentives	4,132	4,102
Foreign exchange	(2,079)	429
Working capital provision on property held for disposal	1,756	-
Changes in fair value of investment properties	37,871	9,075
Mortgage prepayment costs	-	24,896
Changes in fair value of unit options payable and long-term incentive plan	910	861
Funds From Operations (FFO)	6,587	16,045
Net Operating Income (NOI)	29,829	38,201
Weighted-average units outstanding (000's)	19,160	19,127
NOI / Unit	1.56	2.00
FFO / Unit	0.34	0.84

For the nine months ended September 30, 2022, NOI and FFO decreased \$8.4 million and \$9.5 million, respectively, as compared to the prior year period. On a per unit basis, for the nine months ended September 30, 2022, NOI and FFO decreased \$0.44 per unit and \$0.50 per unit, respectively. The decrease in NOI and FFO is primarily due to lower rental and services revenues, as discussed above (see subsection "Discussion of Components of Net Income and Comprehensive Income").

Review of Financial Position

(000's \$)

	30-Sep-22	31-Dec-21
Assets		
Investment properties	766,600	811,575
Goodwill	10,392	10,392
Non-current assets	776,992	821,967
Investment properties - held for disposal	19,575	-
Other assets	3,144	2,329
Restricted cash	41,017	41,196
Cash and cash equivalents	19,206	30,265
Current assets	82,942	73,790
Total assets	859,934	895,757
Liabilities		
Mortgages payable	502,425	523,187
Convertible debentures	12,234	39,586
Preferred units	250	250
Non-current liabilities	514,909	563,023
Mortgages payable - current portion	3,507	3,954
Mortgages payable - maturing	55,374	35,670
Convertible debentures - current portion	36,387	-
Accounts payable and other liabilities	37,186	36,886
Current liabilities	132,454	76,510
Total liabilities	647,363	639,533
Unitholders' equity	212,571	256,224
Total liabilities and unitholders' equity	859,934	895,757

Discussion of Components of Financial Position

Investment Properties

Investment properties and investment properties – held for disposal are initially recorded at their most recent independently appraised fair values, as of December 31, 2021, and updated by management for current period leasing activity and changes in market rate assumptions. Concerns surrounding global uncertainties have caused the Trust to cautiously report the investment properties values at September 30, 2022 with a provision recorded against the independent appraisals as of December 31, 2021.

The following is a summary of the balances by geographic location:

Portfolio	Gross Leasable Area		Appraised / Fair Value		Value / SF (\$M)
	(SF)	(%)	(\$M)	(%)	
Chicago - Core	2,746,344	62.3%	\$452.7	57.6%	\$164.8
Atlanta	1,350,451	30.6%	\$313.9	39.9%	\$232.4
Investment properties - non-current	4,096,795	92.9%	\$766.6	97.5%	\$187.1
Chicago - Non-Core	312,212	7.1%	\$19.6	2.5%	\$62.7
Total - Investment properties, September 30, 2022	4,409,007	100.0%	\$786.2	100.0%	\$178.3

Goodwill

On August 1, 2019, the Trust completed the internalization of management and acquisition of ACP. For accounting purposes, the acquisition by the Trust constituted 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 results in the Trust having a simplified investment structure, which aligns the Trust with the capital markets' preference for internally managed REITs. Management expects this to increase the Trust's ability to raise capital, and this acquisition will ultimately reduce certain overhead costs and other reporting requirements. The Trust also acquired the management contracts related to investment properties held by ACP. As a result of the acquisition of ACP, the Trust recorded goodwill totaling \$10.4 million. Goodwill was tested for impairment as at September 30, 2022, resulting in no change to the carrying value.

Other Assets

Other assets consist of prepaid expenses and accounts receivable. Other assets at September 30, 2022 increased \$0.8 million compared to December 31, 2021, primarily due to prepaid insurance costs and real estate taxes across the portfolio.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents at September 30, 2022 decreased \$11.1 million compared with the balance at December 31, 2021, primarily due to:

- cash generated through operating activities of \$19.5 million;
- cash used for investing activities of \$13.8 million; and
- cash used for financing activities of \$16.8 million.

Restricted cash represents amounts withheld by our mortgage lenders in reserve for the payment of insurance, property taxes, future tenant improvements, leasing commissions, and capital expenditures. The Trust is contractually required to set funds aside each month to cover these costs. Qualifying expenditures that are made in respect of these amounts can be subsequently recovered from the reserve fund typically three to six months after the costs are incurred. Restricted cash at September 30, 2022 decreased \$0.2 million compared with the balance at December 31, 2021, primarily due to amounts recovered during the period being in excess of regular contributions.

Mortgages Payable

Mortgages payable (non-current, current and maturing) at September 30, 2022 decreased \$1.5 million compared to the balance at December 31, 2021, primarily due to scheduled principal repayments. A total of \$561.3 million of mortgages payable (non-current, current and maturing) was outstanding as of September 30, 2022.

Convertible Debentures

Convertible debentures at September 30, 2022 increased \$9.0 million compared to the balance at December 31, 2021, primarily due to an additional draw on the Canadian dollar denominated 7% convertible debenture facility of CAD \$15.0 million during the

period, net against unrealized foreign exchange adjustments on the same Canadian dollar facility. A total of CAD \$50.0 million is drawn and outstanding as at September 30, 2022.

Accounts Payable and Other Liabilities (current and non-current)

Accounts payable and other liabilities (current and non-current) are comprised of accounts payable and accrued liabilities, prepaid rent, and preferred units. Accounts payable and other liabilities (current and non-current) at September 30, 2022 increased \$0.3 million compared with the balance at December 31, 2021, primarily due to timing of settlement of outstanding accounts payable.

Unitholders' Equity

For the nine months ended September 30, 2022, unitholders' equity decreased \$43.7 million compared with the balance at December 31, 2021, primarily due to:

- net loss and comprehensive loss of \$36.0 million; and
- distributions to trust unitholders (net of units issued under the distribution reinvestment plan and for cash) of \$8.2 million; offset by
- unit based compensation costs of \$0.6 million.

Section 6 – Subsequent Events

During 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.

Non-IFRS Financial Measures

The Trust has included certain non-IFRS financial measures, in addition to conventional measures prepared with IFRS, which management believe are important in evaluating the Trust's underlying operating performance and ability to generate cash flows. They do not have standardized meanings and may not be comparable to measures used by other issuers in the real estate industry. The non-IFRS financial measures included in this Report to Unitholders are as follows:

Net Operating Income (NOI)

NOI is defined by the Trust as the total investment property revenue less investment property operating expenses. Management considers NOI to be a comparable performance metric to EBITDA. NOI excludes interest expense, fair value adjustment on investment properties, foreign exchange gain or loss, and corporate overhead (foreign exchange gain or loss and corporate overhead are generally included in EBITDA).

Funds from Operations (FFO)

Management believes FFO is an important and commonly acceptable measure of operating performance for the commercial real estate industry, however, it is not a defined measure under IFRS.

The Trust calculates FFO in accordance with the Real Property Association of Canada ("REALpac") White Paper on FFO for IFRS which was revised February 2017. Specifically, FFO is calculated as net income and comprehensive income, in accordance with IFRS, adjusted for cash and non-cash items including: amortization of capitalized leasing costs; fair value adjustments to investment properties; foreign exchange gain or losses; non-controlling interest; changes in fair value of unit options payable, and certain non-operational and non-reoccurring corporate costs.