



PRO REAL ESTATE INVESTMENT TRUST
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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Independent Auditor's Report

To the Unitholders of Pro Real Estate Investment Trust:

Opinion

We have audited the consolidated financial statements of Pro Real Estate Investment Trust and its subsidiaries (the "REIT"), which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020, and the consolidated statements of net income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Key Audit Matters

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

Investment Properties - Valuation

Key Audit Matter Description

Investment properties are measured at fair value and totaled \$974,700,000 as at December 31, 2021, which represented approximately 98% of total assets.

Fair value is determined using valuation techniques and assumptions which considers in most cases estimates of projected future cash flows from the properties and estimates of suitable discount rates for these cash flows. Valuation techniques for real estate can be subjective in nature and involve various assumptions regarding pricing factors. These assumptions include, among others, capitalization rate, market rental income, market-derived discount rate, inflation rate, projected net operating income, vacancy levels and estimate of the terminal capitalization rate. When possible, fair value is determined based on recent real estate transactions with similar characteristics and location of the valued properties. Because the valuation of investment properties is complex and highly dependent on estimates and assumptions, we consider the valuation of investment properties as a key audit matter in our audit.

Refer to Note 3 Summary of significant accounting policies, Note 6 Investment property acquisitions and Note 7 Investment properties, for disclosures regarding the REIT's policy for accounting for investment properties and further information on the composition of investment properties.

Audit Response

We responded to this matter by performing procedures over fair value of investment properties. Our audit work in relation to this included, but was not restricted to, the following:

- We gained an understanding of management's valuation process;
- We examined management's estimate of the fair value of investment properties, which included examining appraisal reports provided by management to support the values as well as management's internal assessments of fair values of properties where external appraisals were not obtained or updated in the current year;
- We involved real estate appraisal specialists to assist us with the audit of the valuation of the investment properties based on their specific experience and knowledge in local markets;
- We evaluated the external valuator's expertise, independence and methodology used for the valuation;
- We evaluated the key assumptions included in the valuations (such as capitalization rate, stabilized net operating income, vacancy levels, rent-free periods, tenant allowances and renewals);
- We assessed that the professional appraisers used by the REIT are firms with suitable qualifications and considerable experience in the Canadian market;
- We agreed the significant data applied for valuation purposes to supporting documentation; and
- We assessed the appropriateness of the disclosures relating to the assumptions used in the valuations and sensitivity analysis in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

Montréal, Québec

March 23, 2022

MNP¹ S.E.N.C.R.L./s.r.l.

¹ CPA auditor, CA, public accountancy permit no. A135863

PRO REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CAD \$ thousands

	Note	December 31 2021	December 31 2020
Assets			
Non-current assets			
Investment properties	6,7	\$ 974,700	\$ 618,535
Property and equipment	8	1,093	1,177
Intangible assets	9	3,986	4,358
		979,779	624,070
Current assets			
Receivables and other	10	4,240	4,155
Cash		5,944	6,259
		10,184	10,414
TOTAL ASSETS		\$ 989,963	\$ 634,484
Liabilities and unitholders' equity			
Non-current liabilities			
Debt	11	486,696	323,686
Class B LP Units	12	9,589	9,166
Long-term incentive plan	13	10,159	7,099
		506,444	339,951
Current liabilities			
Credit facility	14	14,738	24,835
Debt	11	21,349	16,213
Accounts payable and other liabilities	15	15,472	8,783
Distributions payable		2,267	1,501
		53,826	51,332
Total liabilities		560,270	391,283
Unitholders' Equity		429,693	243,201
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		\$ 989,963	\$ 634,484

Approved by the Board

"signed"

James W. Beckerleg
Trustee

"signed"

Ronald E. Smith, FCPA, FCA, ICD.D
Trustee

PRO REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

CAD \$ thousands

	Note	Year Ended December 31 2021	Year Ended December 31 2020
Property revenue	17,18	\$ 77,674	\$ 69,810
Property operating expenses	17,18	31,392	29,281
Net operating income		46,282	40,529
General and administrative expenses	19	4,347	3,328
Long-term incentive plan expense	13	3,060	585
Depreciation of property and equipment	8	357	299
Amortization of intangible assets	9	372	372
Interest and financing costs	19	16,887	15,382
Distributions - Class B LP Units	12	663	928
Fair value adjustment - Class B LP Units	12	1,083	(5,257)
Fair value adjustment - investment properties	7	(63,161)	4,667
Other income	20	(2,338)	(2,110)
Other expenses	20	1,330	1,263
Debt settlement costs	11	1,838	-
Net income and comprehensive income		\$ 81,844	\$ 21,072

See accompanying notes to the consolidated financial statements

PRO REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

CAD \$ thousands except per unit and per unit amounts

	Note	Number of Units	Units issued	Cumulative distributions	Retained earnings	Total
Balance, January 1, 2021		38,510,187	\$ 236,885	\$ (80,054)	\$ 86,370	\$ 243,201
Net income and comprehensive income		-	-	-	81,844	81,844
Transactions with Unitholders:						
Distributions declared - \$0.4500 per Unit				(21,504)	-	(21,504)
Issuance of Units, net of issue costs of \$7,803	16	20,424,207	125,492	-	-	125,492
Exchange of Class B LP Units for REIT Units	16	100,603	660	-	-	660
Balance, December 31, 2021		59,034,997	\$ 363,037	\$ (101,558)	\$ 168,214	\$ 429,693

		Number of Units	Units issued	Cumulative distributions	Retained earnings	Total
Balance, January 1, 2020		37,311,373	\$ 231,495	\$ (61,183)	\$ 65,298	\$ 235,610
Net income and comprehensive income		-	-	-	21,072	21,072
Transactions with Unitholders:						
Distributions declared - \$0.4950 per Unit				(18,871)	-	(18,871)
Issuance of Units - distribution reinvestment plan	16	153,000	869	-	-	869
Cancellation of Units - normal course issuer bid	16	(14,000)	(41)	-	-	(41)
Exchange of Class B LP Units for REIT Units	16	1,059,814	4,562	-	-	4,562
Balance, December 31, 2020		38,510,187	\$ 236,885	\$ (80,054)	\$ 86,370	\$ 243,201

See accompanying notes to the consolidated financial statements

PRO REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

CAD \$ thousands

	Note	Year Ended December 31 2021	Year Ended December 31 2020
Cash provided by (used in):			
Operating activities			
Net income and comprehensive income		\$ 81,844	\$ 21,072
Items not affecting cash:			
Depreciation of property and equipment	8	357	299
Amortization of financing costs	19	1,592	1,346
Amortization of intangible assets	9	372	372
Long-term incentive plan expense	13	3,060	585
Straight-line rent adjustment	7	(493)	(683)
Fair value adjustment - Class B LP Units	12	1,083	(5,257)
Fair value adjustment - investment properties	7	(63,161)	4,667
Changes in non-cash working capital	21	4,622	1,009
Net cash flows provided by operating activities		29,276	23,410
Financing activities			
Proceeds of issuance of Units, net of issue costs	16	125,492	-
Repayment of debt		(102,839)	(20,339)
Increase in debt		263,080	28,000
Increase in credit facility		47,000	9,500
Repayment of credit facility		(57,000)	(15,000)
Financing costs		(2,214)	(929)
Distributions paid on Units		(21,504)	(18,002)
Cancellation of Units - normal course issuer bid	16	-	(41)
Net cash flows provided by (used in) financing activities		252,015	(16,811)
Investing activities			
Acquisition of investment properties	6	(291,706)	(8,483)
Additions to investment properties	7	(5,193)	(4,912)
Net proceeds on disposal of investment properties		18,339	9,650
Leasing commissions	7	(2,773)	(1,566)
Additions to property and equipment	8	(273)	(331)
Net cash flows used in investing activities		(281,606)	(5,642)
Change in cash during the year		(315)	957
Cash, beginning of year		6,259	5,302
Cash, end of year		\$ 5,944	\$ 6,259

Supplemental cash flow information

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See accompanying notes to the consolidated financial statements

PRO REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

CAD \$ thousands except per unit and per unit amounts

1. Nature of operations

PRO Real Estate Investment Trust (the "REIT") is an unincorporated open ended real estate investment trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated February 7, 2013 and amended and restated on December 21, 2018 (as amended from time to time, the "Declaration of Trust").

The REIT's trust units ("Units") are listed on the Toronto Stock Exchange (the "TSX") under the symbol PRV.UN. The principal, registered and head office of the REIT is located at 2000 Mansfield Street, Suite 1000, Montréal, Quebec, H3A 2Z7.

2. Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and International Financing Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements have been prepared on a historical cost basis with the exception of investment properties, Class B LP Units (as defined herein) and units under the long-term incentive plan, which are measured at fair value.

The REIT's reporting and functional currency is Canadian dollars.

These consolidated financial statements include the financial statements of the REIT and its subsidiaries, including joint operations and partnerships over which the REIT has control.

(i) Subsidiaries and partnerships over which the REIT has control:

Control is present when the REIT has all the following:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of its returns (the power, directly or indirectly, to control the financial and operational policies of the controlled entity).

(ii) Joint operations:

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets and the obligations for the liabilities relating to the arrangement. The REIT records only its share of assets, liabilities and share of the results of the joint operation. The assets, liabilities and results of the joint operation are included within the respective line items of the consolidated statements of financial position and consolidated statements of net income and comprehensive income.

On consolidation, all inter-entity transactions and balances have been eliminated.

These consolidated financial statements were authorized for issuance by the Board of Trustees of the REIT on March 23, 2022.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Property acquisitions and business combinations

Where property is acquired, management considers the substance of the assets and activities acquired in determining whether the acquisition represents the acquisition of a business. The basis of the judgment is set out in Note 4.

Where such acquisitions are not judged to be an acquisition of a business, they are treated as asset acquisitions. The cost to acquire the property is allocated between the identifiable assets and liabilities acquired based on their relative fair values at the acquisition date, and no goodwill arises.

Where acquisitions are judged to be businesses, they are accounted for using the acquisition method. The acquisition is recognized at the aggregate of the consideration transferred, measured on the acquisition date at fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the REIT measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed in the consolidated statements of net income and comprehensive income.

PRO REAL ESTATE INVESTMENT TRUST
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CAD \$ thousands except per unit and per unit amounts

3. Summary of significant accounting policies (continued)

Property acquisitions and business combinations (continued)

When the REIT acquires a business, it makes an assessment of the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the REIT's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through the consolidated statements of net income and comprehensive income. Any contingent consideration to be transferred by the REIT will be recognized as a liability at fair value at the acquisition date. Subsequent changes to the fair value of any contingent consideration are recognized in the consolidated statements of net income and comprehensive income.

Investment properties

Property is determined to be an investment property when it is principally held to earn rental income or capital appreciation or both. It includes land, buildings, leasehold improvements and direct leasing costs incurred in negotiating and arranging tenant leases. The REIT applies IAS 40 – Investment Property, and has chosen the fair value method of presenting its investment properties in the consolidated financial statements.

Investment property is measured initially at cost including transaction costs. Transaction costs include expenses such as transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. Subsequent to initial recognition, investment property is carried at fair value. Gains or losses arising from changes in fair value are included in the consolidated statements of net income and comprehensive income during the period in which they arise.

The REIT measures fair value in accordance with IFRS 13, Fair value measurement. Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of investment properties shall reflect market conditions at the end of the reporting period. Fair value is time-specific as of a given date. As market conditions could change, the amounts presented as fair value could be incorrect or inadequate at another date. The fair value of investment properties is based on valuation methods performed by management and third-party appraisers who are members of the Appraisal Institute of Canada.

Payments to tenants under lease obligations are included in the carrying cost of the investment properties. Payments that are determined to primarily benefit the tenant are treated as tenant incentives and are amortized as a reduction of rental revenue on a straight line basis over the term of the lease.

Property and equipment

Property and equipment is carried at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the assets.

The REIT allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates each part separately.

Depreciation of property and equipment is provided over the remaining useful lives of the assets using the declining balance method for furniture and fixtures and computer equipment and on the straight-line method for leasehold improvements as follows:

- Furniture and fixtures – 20%
- Computer equipment – 30%
- Leasehold improvements – over the term of the lease

Depreciation is determined with reference to the asset's cost, estimated useful life and residual value. Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate and depreciated over their expected useful life. The asset's residual values, depreciation method and useful lives are reviewed annually and adjusted if appropriate. Assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the relevant asset). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Intangible assets

The REIT's intangible assets consist of customer relationships, non-compete agreement, brand and goodwill. The customer relationships and the non-compete agreement have finite lives and are amortized on a straight-line basis over a period of 8 years and 5 years respectively. They are reviewed for impairment when an indication of impairment exists. Brand name and goodwill are not amortized but tested for impairment at least annually, or more frequently if there are indicators of impairment.

Cash

Cash includes balances with banks and funds held in trust.

PRO REAL ESTATE INVESTMENT TRUST
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CAD \$ thousands except per unit and per unit amounts

3. Summary of significant accounting policies (continued)

Deferred acquisition costs

Deferred acquisition costs include transaction costs directly attributable to asset acquisition of investment properties, where it is probable that the acquisition will be completed.

Financial instruments

Under and subject to the terms and conditions of the Declaration of Trust, the REIT recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at FVTPL are expensed in the consolidated statements of net income and comprehensive income when incurred.

Financial assets are classified and measured based on the business model in which they are managed and the characteristics of their contractual cash flows. IFRS 9 (Financial Instruments) contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost as described above are measured at FVTPL. The REIT derecognizes a financial asset when its contractual rights to the cash flows from financial asset expire.

The REIT recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, financial liabilities are measured at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at FVTPL for which transaction costs are immediately recorded in the consolidated statements of net income and comprehensive income.

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains or losses relating to a financial liability are recognized in the consolidated statements of net income and comprehensive income. The REIT derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

The 'expected credit loss' ("ECL") model is used to determine impairment of financial assets measured at amortized cost, contract assets and debt investments at fair value through other comprehensive income. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

Financial assets measured at amortized cost are assessed at each reporting date to determine the credit risk of the financial asset to apply the relevant impairment requirements. There are generally 3 stages of credit risk:

1. Financial assets that are expected to perform in line with their contractual terms and which have no signs of increased credit risk;
2. Financial assets that have significantly increased in credit risk since initial recognition but are not credit-impaired; and
3. Credit-impaired financial instruments.

The REIT assesses whether a financial asset has experienced a significant increase in credit risk or is credit-impaired at the reporting date. Regular indicators that a financial instrument has significantly increased in credit risk or is credit-impaired include significant financial difficulties as evidenced through default or delinquency by a debtor, restructuring of an amount due to the REIT on terms that the REIT would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy. For financial assets assessed as having significantly increased in credit risk since initial recognition or credit-impaired at the reporting date, the REIT continues to recognize a loss allowance equal to lifetime expected credit losses.

An impairment loss in respect of a financial asset measured at amortized cost is measured through a loss allowance at an amount equal to:

- (i) 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- (ii) Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Losses are recognized in the consolidated statements of net income and comprehensive income and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through comprehensive income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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CAD \$ thousands except per unit and per unit amounts

3. Summary of significant accounting policies (continued)

Fair Value Hierarchy

The REIT classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to the valuation technique used to measure fair value as per IFRS 7 – Financial Instruments: Disclosures. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 (“L1”) – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2 (“L2”) – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
Level 3 (“L3”) – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Unitholders' equity

The REIT's Units are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities in accordance with IAS 32: Financial Instruments: presentation. In accordance with IAS 32, puttable instruments are to be presented as equity when certain conditions, called the “Puttable Instrument Exemption”, are met.

To be presented as equity, the Units must meet all of the following conditions required by the Puttable Instrument Exemption: (i) it must entitle the holder to a pro-rata share of the REIT's net assets in the event of the REIT's dissolution; (ii) it must be in the class of instruments that is subordinate to all other instruments; (iii) all instruments in the class in (ii) must have identical features; (iv) other than the redemption feature, the Units may contain no other contractual obligations that meet the definition of a liability; and (v) the expected cash flows for the Units must be based substantially on the profit or loss of the REIT or change in fair value of the Units.

The Units meet the Puttable Instrument Exemption and are classified and accounted for as equity in the consolidated statements of financial position. Distributions on Units, if any, are deducted from unitholders' equity.

Payment of distributions

The determination to declare and make payable distributions from the REIT is at the sole discretion of the Board of Trustees of the REIT, and until declared payable by the Board of Trustees of the REIT, the REIT has no contractual requirement to pay cash distributions to unitholders of the REIT or holders of Class B LP Units.

Class B LP Units

The Class B limited partnership units (“Class B LP Units”) of PRO REIT Limited Partnership (“PRLP”), one of the REIT's limited partnerships under control, are classified as “financial liabilities”, as they are exchangeable into Units of the REIT on a one-for-one basis at any time at the option of the holder. Class B LP Units are measured at fair value and presented as part of non-current liabilities in the consolidated statements of financial position, with changes in fair value recorded in the consolidated statements of net income and comprehensive income. The fair value of the Class B LP Units is determined with reference to the market price of the Units on the date of measurement. Distributions on Class B LP Units are recognized in the consolidated statements of net income and comprehensive income when declared.

Long-term incentive plan

The REIT has adopted a long-term incentive plan which provides for the grant of deferred units (“DU” or “Deferred Units”) and restricted units (“RU” or “Restricted Units”) of the REIT to directors, employees, trustees and consultants of the REIT and its subsidiaries. The RUs and DUs are considered to be financial liabilities in the consolidated statements of financial position because there is a contractual obligation for the REIT to deliver Units upon settlement of the RUs and DUs. As a result of this obligation, the RUs and DUs are exchangeable into a liability as the Units are a liability by definition in accordance with IAS 32 and the Puttable Instrument Exemption does not apply to IFRS 2 – Share-Based Payment (“IFRS 2”). In accordance with IAS 32, the long-term incentive plan is presented as a liability and is measured at fair value in the consolidated statements of financial position in accordance with IFRS 9 Financial Instruments. Fair market value is determined with reference to observable market price of the REIT's Units.

The compensation expense relating to the long-term incentive plan is recognized over the vesting period based on the fair value of the Units at the end of each reporting period and includes additional compensation expense relating to additional DUs and RUs issued as a result of distributions on the underlying Units. Once vested, the liability is remeasured at the end of each reporting period and at the date of settlement, with any fair value adjustment recognized in the consolidated statements of net income and comprehensive income for the period. Distributions declared on vested DUs and RUs are also recorded in the consolidated statements of net income and comprehensive income.

Cancellation of Units under the normal course issuer bid

In the event the REIT repurchases its own Units under the normal course issuer bid (“NCIB”), those Units are deducted from unitholders' equity and the associated Units are cancelled. No gain or loss is recognized and the consideration paid, including any directly attributable incremental costs, is recognized in unitholders' equity.

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3. Summary of significant accounting policies (continued)

Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the REIT has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and risks specific to the obligation. Provisions are re-measured at each financial reporting date using the current discount rate. The amount recognized as provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date.

Revenue recognition

The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; straight-line rent receivable, which is included in the carrying amount of the investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received. Contingent rental income or percentage rents are recognized when the required level of sales has been achieved. Lease cancellation fees are recognized as revenue when the tenant foregoes the rights and obligations from the use of the space. Lease incentives are recognized on a straight-line basis over the term of the lease, even if the payments are not made on such a basis.

Recoveries from tenants for taxes, insurance and other operating expenses are recognized as service charge income in the period in which the applicable costs are incurred. Services charges and other such receipts are included gross of the related costs in property income, as management considers that the REIT acts as principal in this respect. Recoveries for repair and maintenance costs capitalized with investment property are recognized on a straight-line basis over the expected life of the items. Parking and other incidental revenues are recognized when the services are provided.

Segmented disclosure

Segmented disclosure is determined based on internal reports that are regularly reviewed by the Chief Executive Officer and the Chief Financial Officer for the purpose of allocating resources to the segment and assessing its performance. The REIT's segments are managed by use of properties. As of January 1, 2021, the REIT reclassified its Commercial Mixed Use assets to Industrial assets to be consistent with other commercial Canadian REITs. Comparative periods have been updated to reflect these changes.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Those parties are called joint operations. The consolidated financial statements include the REIT's proportionate share of the joint operations' assets, liabilities, revenue and expenses on a line by line basis, from the date that the joint control commences until the date that joint control ceases.

Income and capital taxes

The REIT currently qualifies as a "mutual fund trust" for income tax purposes. The REIT expects to distribute or designate all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, except for the REIT's subsidiaries, no provision for income taxes payable is required.

The legislation relating to the federal income taxation of a specified investment flow through ("SIFT") trust or partnership was enacted on June 22, 2007. Under the SIFT rules, certain distributions from a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax. Under the SIFT rules, the new taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the SIFT rules and has assessed their interpretation and application to the REIT's assets and income. While there are uncertainties in the interpretation and application of the SIFT rules, the REIT believes that it meets the REIT Conditions.

However, certain of the REIT's subsidiaries are incorporated companies. For these companies, the REIT follows the tax liability method for determining income taxes. Under this method, deferred income taxes assets and liabilities are determined according to differences between the carrying amounts and tax bases of specific assets and liabilities. Deferred tax assets and liabilities are measured based on enacted or substantively enacted tax rates and laws at the date of the consolidated financial statements for the years in which these temporary differences are expected to reverse. Adjustments to these balances are recognized in the consolidated statements of net income and comprehensive income as they occur. It was determined that no current or deferred income tax provisions were required for the periods presented in these consolidated financial statements.

4. Significant accounting judgments, estimates and assumptions

The preparation of the REIT's consolidated financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities and the disclosure of contingent liabilities, at the date of the consolidated financial statements. The critical estimates and judgments utilized in preparing the REIT's consolidated financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, depreciation and amortization rates and useful lives, determination of the degree of control that exists in determining the corresponding accounting basis and the selection of accounting policies. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

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4. Significant accounting judgments, estimates and assumptions (continued)

Judgments

In the process of applying the REIT's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

- (i) Business combinations and asset acquisitions – The REIT, in general, acquires investment properties as asset acquisitions but at the time of the acquisition also considers whether the acquisition represents the acquisition of a business. The REIT accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the investment property. Consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, etc.). The significance of any process is judged with reference to the guidance in IAS 40 about ancillary services.
- (ii) Impairment of assets – Long-lived assets, which include property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with the expected future net discounted cash flows from its use together with its residual value. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value.
- (iii) Leases – The REIT uses judgment in determining whether certain leases, in particular those tenant leases with long contractual terms where the lessee is the sole tenant, are operating or finance leases. The REIT has determined that all of its leases are operating leases.
- (iv) Income taxes – Under current tax legislation, a real estate investment trust is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the year. The REIT is a real estate investment trust if it meets the REIT Conditions. The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REITs assets and revenue, and it has determined that it qualifies as a real estate investment trust.

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

- (v) Joint arrangements – The REIT makes judgments in determining whether a joint arrangement structured through a separate vehicle is a joint operation by assessing the legal form of the separate vehicle, including the determination on whether the REIT's interest represents an interest in the assets and liabilities (joint operation) or in its net assets (a joint venture).
- (vi) Intangible assets – The REIT makes judgments with respect to the amortization period relating to the customer relationships and non-compete agreement that have finite useful lives, while also reviewing for impairment when an indication of impairment exists. In addition, on an annual basis or more frequently if there are any indications of impairment, the REIT evaluates whether brand name and goodwill may be impaired by determining whether the recoverable amounts are less than the carrying amount for the smallest identified cash-generating unit.

Estimates and assumptions

In the process of applying the REIT's accounting policies, management has made the following estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements:

- (i) Valuation of investment properties – Investment properties are presented at fair value at the reporting date. Currently, any change in fair value is determined by management and by independent real estate valuation experts using recognized valuation techniques. The techniques used by management and by independent real estate valuation experts comprise of the discounted cash flow and direct capitalization methods of valuation and includes estimating, among other things, capitalization rates and future net operating income and discount rates and future cash flows applicable to investment properties, respectively.
- (ii) Fair value of financial instruments – Where the fair value of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value in the consolidated financial statements.

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4. Significant accounting judgments, estimates and assumptions (continued)

- (iii) Goodwill impairment and impairment of indefinite lived intangible assets – Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the REIT relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill. Management assesses intangible assets with indefinite lives for impairment on an annual basis. This assessment takes into account factors such as economic and market conditions as well as any changes in the expected use of the asset.
- (iv) Contractual rents and other tenant receivables presented net of an allowance for doubtful accounts – Estimates and assumptions used in determining the allowance for doubtful accounts, include the historical credit loss experience adjusted for current conditions and forward-looking information including future expectations of likely default events based on actual or expected insolvency filings, likely deferrals of payments due and potential abatements to be granted by the REIT through tenant negotiations or under government programs, and macroeconomic conditions.

5. Future applicable accounting standards

Amendments to IAS 1 - Classification of liabilities as current or non-current – In January 2020, the IASB issued amendments to IAS 1, “Presentation of Financial Statements”, to clarify how to classify debt and other liabilities as either current or non-current. Specifically, the amendments clarify the definition of a right to defer settlement and specify that the conditions that exist at the end of the reporting period are those that are to be used to determine if a right to defer settlement of a liability exists. The amendments are effective for fiscal years beginning on or after January 1, 2023 and must be applied retrospectively. Early adoption is permitted. The REIT has not yet assessed the impact of these amendments on its consolidated financial statements.

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6. Investment property acquisitions

During the year ended December 31, 2021, the REIT acquired the following 34 investment properties:

Investment Property	Location	Property Type	Acquisition Date	Interest Acquired
2615 Lancaster Road	Ottawa, Ontario	Industrial	April 23, 2021	100%
2620-2650 Lancaster Road	Ottawa, Ontario	Industrial	April 23, 2021	100%
1050-1051 Baxter Road	Ottawa, Ontario	Industrial	April 23, 2021	100%
66 English Drive	Moncton, New Brunswick	Industrial	May 14, 2021	100%
61-85 Muir Road	Winnipeg, Manitoba	Industrial	May 25, 2021	100%
1 Duck Pond Road	Halifax, Nova Scotia	Industrial	June 28, 2021	100%
10 Old Placentia Road	St. John's, Newfoundland	Industrial	June 28, 2021	100%
460 MacNaughton Avenue	Moncton, New Brunswick	Industrial	June 28, 2021	100%
611 Ferdinand Boulevard	Moncton, New Brunswick	Industrial	June 28, 2021	100%
550 McAllister Drive	Saint John, New Brunswick	Industrial	June 28, 2021	100%
32 Beghin Avenue	Winnipeg, Manitoba	Industrial	June 29, 2021	100%
45 Beghin Avenue	Winnipeg, Manitoba	Industrial	June 29, 2021	100%
115-133 De Baets Street	Winnipeg, Manitoba	Industrial	June 29, 2021	100%
141-159 De Baets Street	Winnipeg, Manitoba	Industrial	June 29, 2021	100%
214 De Baets Street	Winnipeg, Manitoba	Industrial	June 29, 2021	100%
30 Durand Road	Winnipeg, Manitoba	Industrial	June 29, 2021	100%
36-48 Durand Road	Winnipeg, Manitoba	Industrial	June 29, 2021	100%
70-104 Durand Road	Winnipeg, Manitoba	Industrial	June 29, 2021	100%
1500 Notre Dame Avenue	Winnipeg, Manitoba	Industrial	October 29, 2021	100%
10 Morris Drive	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
10 Vidito Drive	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
101 Thornhill Drive	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
11 Morris Drive	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
120 Troop Avenue	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
222 Edinburgh Drive	Moncton, New Brunswick	Industrial	November 8, 2021	100%
29-59 Mosher Drive	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
30-58 Mosher Drive	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
320-340 Wright Avenue	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
40 Thornhill Drive	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
50 Akerley Boulevard	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
50 Thornhill Drive	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
55 Akerley Boulevard	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
58 Wright Avenue	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%
60 Thornhill Drive	Dartmouth, Nova Scotia	Industrial	November 8, 2021	100%

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6. Investment property acquisitions (continued)

During the year ended December 31, 2020, the REIT acquired the following investment property:

Investment Property	Location	Property Type	Acquisition Date	Interest Acquired
123 Price Street	Moncton, New Brunswick	Industrial	March 16, 2020	100%

The property acquisitions were determined to be asset acquisitions.

The fair value of the investment properties acquired and related consideration paid, at their respective dates of acquisition, can be broken down as follows:

	December 31 2021	December 31 2020
Assets		
Investment properties	\$ 302,884	\$ 8,525
Other assets	1,469	-
	\$ 304,353	8,525
Liabilities		
Assumed mortgages	8,430	-
Accounts payable and other liabilities	4,217	42
	12,647	42
Net assets acquired	\$ 291,706	8,483
Consideration paid by the REIT:		
Cash	\$ 100,026	\$ 2,733
Proceeds from new mortgage financing	191,680	5,750
	\$ 291,706	\$ 8,483

7. Investment properties

	December 31 2021	December 31 2020
Balance, beginning of year	\$ 618,535	\$ 617,166
Acquisitions	302,884	8,525
Disposal	(18,339)	(9,650)
Additions	5,193	4,912
Leasing commissions	2,773	1,566
Straight-line rent adjustment	493	683
Fair value adjustment	63,161	(4,667)
Balance, end of year	\$ 974,700	\$ 618,535

The fair value is determined on the basis of valuations made by management and by independent external appraisers having appropriate professional qualifications, using recognized valuation techniques, comprising of the discounted cash flow and direct capitalization methods. These methods require certain key assumptions, including rental income, market rents, operating expenses, vacancies, inflation rates, capitalization rates, terminal capitalization rates and discount rates. These rates are determined for each property based on available market information related to the sale of similar buildings within the same geographical locations.

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7. Investment properties (continued)

Given the evolving circumstances surrounding the COVID-19 pandemic, it is difficult to predict with certainty the extent and severity of COVID-19 and the impact it will have on the operations of the REIT. The impact of the COVID-19 pandemic is highly dependent on future developments, which include among other things, emerging information concerning COVID-19 and the actions required to contain or manage its impact. Key valuation assumptions that could be impacted over the long term include: market rents, leasing costs, vacancy rates, discount rates and capitalization rates. The REIT will continue to monitor the effect of the economic environment on the valuation of its investment properties. If there are any changes in the critical and key assumptions used in valuing the investment properties, or in regional, national or international economic conditions, or new developments in the COVID-19 pandemic, the fair value of investment properties may change materially.

At December 31, 2021, external appraisals were obtained for investment properties with an aggregate fair value of \$974,700 (December 31, 2020 - \$618,535) and management's internal valuations were used for investment properties with an incremental aggregate fair value of \$Nil (December 31, 2020 - \$Nil).

Significant assumptions made to determine the fair value of the investment properties are set out as follows:

At December 31, 2021	Retail	Office	Industrial ⁽¹⁾
Capitalization rate	5.3% - 9.0%	5.5% - 9.0%	4.3% - 6.8%
Terminal capitalization rate	5.5% - 8.25%	5.8% - 9.0%	4.3% - 7.0%
Discount rate	6.0% - 9.0%	6.3% - 9.8%	4.8% - 7.8%

At December 31, 2020	Retail	Office	Industrial ⁽¹⁾
Capitalization rate	5.3% - 9.0%	5.5% - 9.3%	5.5% - 8.0%
Terminal capitalization rate	5.5% - 8.5%	5.8% - 9.0%	5.8% - 7.8%
Discount rate	6.0% - 9.5%	6.3% - 9.8%	6.0% - 8.5%

⁽¹⁾ As of January 1, 2021, the REIT reclassified its Commercial Mixed Use assets to Industrial assets to be more consistent with other commercial Canadian REITs. Comparative periods have been updated to reflect these adjustments.

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

	Impact of 25-basis points			
	December 31, 2021		December 31, 2020	
	Increase	Decrease	Increase	Decrease
Capitalization rate	\$ (39,467)	\$ 42,933	\$ (22,609)	\$ 24,402
Terminal capitalization rate	\$ (30,629)	\$ 17,244	\$ (20,080)	\$ 6,405
Discount rate	\$ (24,962)	\$ 10,674	\$ (18,586)	\$ 3,925

8. Property and equipment

Cost	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Balance, January 1, 2021	\$ 181	\$ 686	\$ 919	\$ 1,786
Additions	10	263	-	273
Balance, December 31, 2021	191	949	919	2,059
Accumulated depreciation				
Balance, January 1, 2021	64	240	305	609
Depreciation	17	157	183	357
Balance, December 31, 2021	81	397	488	966
Carrying value, December 31, 2021	\$ 110	\$ 552	\$ 431	\$ 1,093

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8. Property and equipment (continued)

Cost	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Balance, January 1, 2020	\$ 179	\$ 361	\$ 915	\$ 1,455
Additions	2	325	4	331
Balance, December 31, 2020	181	686	919	1,786
Accumulated depreciation				
Balance, January 1, 2020	\$ 42	\$ 147	\$ 121	\$ 310
Depreciation	22	93	184	299
Balance, December 31, 2020	64	240	305	609
Carrying value, December 31, 2020	\$ 117	\$ 446	\$ 614	\$ 1,177

9. Intangible assets

Intangible assets consist of the following:

	December 31 2021	December 31 2020
Intangible assets with finite lives		
Customer relationships	\$ 1,107	\$ 1,352
Non-compete agreement	189	316
Total intangible assets with finite lives	1,296	1,668
Brand	334	334
Goodwill	2,356	2,356
	\$ 3,986	\$ 4,358

The reconciliation of the carrying value of the intangible assets with finite lives is set out below:

	Customer Relationships	Non-Compete Agreement	Total
Intangible assets with finite lives			
At January 1, 2020	\$ 1,597	\$ 443	\$ 2,040
Amortization	(245)	(127)	(372)
At January 1, 2021	1,352	316	1,668
Amortization	(245)	(127)	(372)
At December 31, 2021	\$ 1,107	\$ 189	\$ 1,296

10. Receivables and other

	December 31 2021	December 31 2020
Accounts receivable	\$ 2,133	\$ 2,233
Prepaid taxes	1,426	717
Prepaid other	612	362
Deposits	58	128
Other receivables	11	715
	\$ 4,240	\$ 4,155

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11. Debt

	December 31 2021	December 31 2020
Mortgages payable (net of financing costs of \$3,032)	\$ 498,887	\$ 318,396
Term loans (net of financing costs of \$368)	9,158	20,753
Vendor take-back mortgage	-	750
Total	508,045	339,899
Debt (current)	21,349	16,213
Non-current debt	\$ 486,696	\$ 323,686

As at December 31, 2021, all mortgages payable were at fixed rates with a weighted average contractual rate of approximately 3.39% (December 31, 2020 – 3.73%). The mortgages payable are secured by first charges on certain investment properties with a fair value of approximately \$884,665 at December 31, 2021 (December 31, 2020 - \$568,510).

The REIT's first term loan is to finance acquisitions and fund deposits on future acquisitions with a maximum available of \$9,000. The term loan is interest bearing only at a rate equal to the greater of 7.50% or the financial institution prime rate plus 3.55% per annum and matures February 2022. The term loan was repaid in full and cancelled April 16, 2021.

The REIT's second term loan is in the amount of \$1,800 bearing interest only at 6.25% per annum with a January 2022 maturity date. The term loan was repaid in full June 7, 2021.

Advances under the REIT's third term loan was in the amount of \$13,250. The REIT repaid \$7,000 on November 30, 2021. This term loan bears interest at 6.45% per annum and matures in November 2023. The term loan is secured by a pool of second charges on certain investment properties with a fair value of approximately \$115,925 (December 31, 2020 - \$168,685). At December 31, 2021, the REIT had an outstanding balance of \$6,151 (\$13,250 at December 31, 2020).

On February 26, 2021, the REIT entered into a new \$46,600 mortgage financing with a term of ten years at a rate of 3.21%. Proceeds were used to repay approximately \$29,000 of mortgages maturing in 2021 and 2022, pay \$1,303 in yield maintenance fees, and the balance was used to reduce its credit facility and be available for general corporate purposes.

On May 14, 2021, the REIT entered into a fourth term loan in the amount of \$3,375. The term loan is secured by a property with a fair value of approximately \$7,400 and bears interest only at prime plus 125 basis points and matures May 2023.

On June 7, 2021, the REIT entered into a new \$24,800 mortgage financing with a term of seven years at a rate of 3.70%. Part of the proceeds were used to repay approximately \$19,800 of mortgages maturing in 2022, repay a term loan of \$1,800 maturing in 2022, and pay \$394 in yield maintenance fees.

Interest expense was \$14,726 for the year ended December 31, 2021 (\$12,923 for the year ended December 31, 2020). The REIT is required under the terms of specific debt agreements to maintain debt to service coverage ratios. The REIT was in compliance at December 31, 2021.

The debt is repayable no later than 2033 as follows:

	Due within						Total
	1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Later	
Principal instalments	\$ 14,363	\$ 13,826	\$ 12,567	\$ 12,326	\$ 10,660	\$ 20,867	\$ 84,609
Principal maturities	6,986	75,101	28,085	15,038	121,092	180,534	426,836
Sub-total debt	21,349	88,927	40,652	27,364	131,752	201,401	511,445
Financing costs	(945)	(805)	(473)	(433)	(310)	(434)	(3,400)
Total	\$ 20,404	\$ 88,122	\$ 40,179	\$ 26,931	\$ 131,442	\$ 200,967	\$ 508,045

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12. Class B LP Units

	December 31, 2021		December 31, 2020	
	Class B LP Units	Amount	Class B LP Units	Amount
Outstanding, beginning of year	1,512,836	\$ 9,166	2,572,650	\$ 18,985
Exchange of Class B LP Units for Units	(100,603)	(660)	(1,059,814)	(4,562)
Fair value adjustment	-	1,083	-	(5,257)
Outstanding, end of year	1,412,233	\$ 9,589	1,512,836	\$ 9,166

The Class B LP Units are exchangeable into Units on a one-for-one basis at any time at the option of the holder. During the year ended December 31, 2021, 100,603 Class B LP Units in issue were exchanged into Units (1,059,814 Class B LP Units in issue were exchanged into Units for the year ended December 31, 2020).

The Class B LP Units are entitled to distributions equal to distributions declared on Units, on a one-to-one basis. Distributions on Class B LP Units are recognized in the statements of net income and comprehensive income when declared. Distributions of \$0.4500 per Class B LP Unit were declared during the year ended December 31, 2021 (\$0.4950 for the year ended December 31, 2020).

13. Long-term incentive plan

	Number of Restricted Units (RUs)	Number of Deferred Units (DUs)	Total
At January 1, 2020	114,481	879,272	993,753
Restricted Units and Deferred Units granted	121,187	75,392	196,579
Reinvested distributions	22,418	97,427	119,845
At December 31, 2020	258,086	1,052,091	1,310,177
Restricted Units and Deferred Units granted	145,265	86,718	231,983
Reinvested distributions	26,370	78,674	105,044
At December 31, 2021	429,721	1,217,483	1,647,204
Vested	141,795	1,073,928	1,272,546
Unvested	287,926	143,555	374,658
Total	429,721	1,217,483	1,647,204

	Year Ended December 31 2021	Year Ended December 31 2020
At fair value, beginning of year	\$ 7,099	\$ 6,514
Amortization, RUs and DUs:		
Amortization, RUs and DUs	1,273	884
Reinvested distributions, RUs and DUs	654	575
Fair value adjustment, RUs and DUs	1,133	(874)
Total expense - unvested RUs and DUs	3,060	585
At fair value, end of year	\$ 10,159	\$ 7,099

The REIT has adopted a long-term incentive plan which provides for the grant of DUs and RUs to directors, employees, trustees and consultants of the REIT and its subsidiaries. The maximum number of units permitted to be issued under the long-term incentive plan is 2,449,537.

Each RU represents the right to receive one Unit upon vesting of the RU. Vesting of the RUs will occur in full at the end of a three year period as follows: one-third of the RUs granted in any year will vest at the start of the fiscal year immediately following the grant (in this paragraph, the "initial vesting date"), subject to provisions for earlier vesting upon the occurrence of certain events; one-third will vest on the first anniversary of the initial vesting date; the final one-third will vest on the 2nd anniversary of the initial vesting period. Upon vesting of the RUs the holder of the RUs will receive one Unit in respect of each vested RU.

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13. Long-term incentive plan (continued)

Each DU represents the right to receive one Unit upon the holder of the DU ceasing to be employed by the REIT, provided that the DU is vested (or is deemed to be vested) at such time. Vesting of the DUs for the trustees will occur in full at the start of the fiscal year immediately following the grant. Vesting of the DUs for the directors, employees and consultants of the REIT will occur in full at the end of a three year period as follows: one-third of the DUs granted in any year will vest at the start of the fiscal year immediately following the grant (in this paragraph, the "initial vesting date"), subject to provisions for earlier vesting upon the occurrence of certain events; one-third will vest on the first anniversary of the initial vesting date; the final one-third will vest on the 2nd anniversary of the initial vesting date.

For the year ended December 31, 2021, 165,392 DUs and 171,635 RUs were granted at an average unit price of \$6.51 and \$6.44 respectively. For the year ended December 31, 2020, 172,819 DUs and 143,605 RUs were valued at an average unit price of \$5.87 and \$6.66 respectively.

For the year ended December 31, 2021, 150,811 DUs and 147,173 RUs were granted to Trustees and key management personnel. For the year ended December 31, 2020, 157,285 DUs and 122,784 RUs were granted to Trustees and key management personnel.

14. Credit facility

The REIT has a revolving credit facility of \$60,000 which bears interest at prime plus 100.0 basis points or bankers' acceptance rate plus 200.0 basis points. The credit facility was increased to \$60,000 in November 2021 from \$45,000. The credit facility is secured by a pool of first and second charges on certain investment properties with a fair value of approximately \$111,720 at December 31, 2021 (December 31, 2020 - \$88,325). At December 31, 2021, the REIT had \$15,000 outstanding on the revolving credit facility and unamortized financing costs of \$262. At December 31, 2020, the REIT had \$25,000 outstanding on the revolving credit facility and unamortized financing costs of \$165.

The REIT is required under the credit facility agreement to maintain certain financial ratios at the end of each reporting period and a minimum unitholders' equity at all times. At December 31, 2021, the REIT was compliant with all financial covenants under the revolving credit facility.

15. Accounts payable and other liabilities

	December 31 2021	December 31 2020
Accounts payable	\$ 4,764	\$ 2,299
Accrued liabilities	4,837	2,783
Tenant deposits	3,902	1,976
Prepaid rent	1,969	1,725
	\$ 15,472	\$ 8,783

16. Unitholders' equity

	Number of Issued Units	Amount
At January 1, 2020	37,311,373	\$ 231,495
Issuance of Units - distribution reinvestment plan	153,000	869
Exchange of Class B LP Units for Units (note 12)	1,059,814	4,562
Cancellation of Units - normal course issuer bid	(14,000)	(41)
At December 31, 2020	38,510,187	236,885
Issuance of Units – private placements and public offering	20,424,207	133,295
Less: issue costs		(7,803)
Exchange of Class B LP Units for Units (note 12)	100,603	660
At December 31, 2021	59,034,997	\$ 363,037

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units (the "Special Voting Units"). Each Special Voting Unit confers the right to one vote at any meeting of unitholders and to participate pro rata in all distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. The Special Voting Units have no par value. The Board of Trustees of the REIT (the "Trustees") has discretion in respect to the timing and amounts of distributions.

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16. Unitholders' equity (continued)

Units are redeemable at any time, in whole or in part, on demand by the unitholders. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall cease and the holder thereof shall be entitled to receive a price per Unit ("Redemption Price"), as determined by a formula outlined in the Declaration of Trust, which provides that unitholders shall be entitled to receive a price per Unit equal to the lesser of:

- 90% of the "market price" of the Units on the TSX or market on which the Units are listed or quoted on the trading day prior to the date on which the Units were surrendered for redemption; and
- 100% of the "closing market price" on the TSX or market or on which the Units are listed or quoted for trading on the redemption date.

The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

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

Special Voting Units have no economic entitlement in the REIT, but entitle the holder to one vote per Special Voting Unit at any meeting of the Unitholders of the REIT. Special Voting Units may only be issued in connection with or in relation to Class B LP Units, for the purpose of providing voting rights with respect to the REIT to the holders of Class B LP Units. A Special Voting Unit will be issued in tandem with each Class B LP Unit issued. The Class B LP Units are entitled only to receive distributions equal to those provided to holders of Units. The Class B LP Units are indirectly exchangeable on a one-for-one basis for Units at any time at the option of their holder, unless the exchange would jeopardize the REIT's status as a "mutual fund trust" under the Income Tax Act (Canada). In addition, PRLP will be entitled to require the redemption of the Class B LP Units in certain specified circumstances. The Class B LP Units are presented as a financial liability.

On April 22, 2020, the REIT announced the revision of its monthly distributions to \$0.0375 per Unit for the month of April 2020 or \$0.45 on an annualized basis. This revision to its monthly distributions, which were previously \$0.0525 per Unit, will allow for a reduction of the REIT's debt and for flexibility in allocating capital to the benefit of the unitholders.

On April 14, 2021, the REIT announced the closing of a private placement (the "Q2 Private Placement"). Pursuant to the Q2 Private Placement, 8,264,463 Units were issued from treasury on a non-brokered private placement basis at a price of \$6.05 per Unit to Collingwood Investments Incorporated for total gross proceeds of \$50,000. Collingwood Investments Incorporated received a capital commitment fee equal to 3% of the gross proceeds of the Q2 Private Placement upon closing. Total capital commitment fee and other directly related expenses of approximately \$3,226 attributable to the issuance of Units was recorded as a reduction of unitholders' equity.

On October 6, 2021, the REIT announced the closing of a public offering of Units on a bought deal basis at a price of \$6.85 per Unit (the "Offering Price") resulting in 10,074,000 Units being issued for total gross proceeds of \$69,007, including 1,314,000 Units issued pursuant to the full exercise of the over-allotment option (the "Q4 Offering"). Concurrently with the closing of the Q4 Offering, the REIT completed a non-brokered private placement pursuant to which it issued 2,085,744 Units at the Offering Price to Collingwood Investments Incorporated (the "Q4 Private Placement"), for total gross proceeds of \$14,287. Collingwood Investments Incorporated received a capital commitment fee equal to 2% of the gross proceeds of the Q4 Private Placement upon closing. Total underwriting fees and other directly related expenses of approximately \$4,577 attributable to the Q4 Offering and the Q4 Private Placement was recorded as a reduction of unitholders' equity.

Distribution reinvestment plan

The REIT has implemented a distribution reinvestment plan ("DRIP") pursuant to which holders of Units or Class B LP Units may elect to have their cash distributions of the REIT or PRLP automatically reinvested in additional Units at a 3% discount to the weighted average closing price of the Units for the last five trading days preceding the applicable distribution payment date on which trades of the Units were recorded. Cash undistributed by the REIT upon the issuance of additional Units under the DRIP will be invested in the REIT to be used for future property acquisitions, capital improvements and working capital. Unitholders resident outside of Canada will not be entitled to participate in the DRIP. Upon ceasing to be a resident of Canada, a unitholder must terminate the unitholder's participation in the DRIP.

In response to the current stock market volatility caused by the COVID-19 pandemic, the REIT suspended its DRIP, effective April 22, 2020. The DRIP will remain suspended until further notice and distributions of the REIT will be paid only in cash. Upon reinstatement of the DRIP, plan participants enrolled in the DRIP at the time of its suspension and who remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP.

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16. Unitholders' equity (continued)

NCIB

Pursuant to a notice accepted by the TSX, the REIT may, during the period commencing September 24, 2021 and ending September 23, 2022, purchase for cancellation, through the facilities of the TSX and at the market price of the REIT's Units at the time of purchase, up to 1,404,238 Units. The actual number of Units that may be purchased and the timing of any such purchases will be determined by the REIT, and will be made in accordance with the requirements of the TSX. The REIT repurchased and cancelled Nil Units for \$Nil for the year ended December 31, 2021. For the year ended December 31, 2020, the REIT cancelled 14,000 for \$41 respectively.

17. Revenue

The REIT has entered into leases with tenants on its investment property portfolio. Commercial property leases typically have initial lease terms ranging between five and twenty years with periodic upward revision of the rental charge according to prevailing market conditions.

	December 31 2021	December 31 2020
Future minimum rentals receivable under operating leases		
Within one year	\$ 57,200	\$ 41,063
Between one and five years	161,811	120,422
After five years	62,138	54,165
	\$ 281,149	\$ 215,650

The REIT's property revenue is made up of the following significant categories:

	Year Ended December 31 2021	Year Ended December 31 2020
Base rent	\$ 47,258	\$ 42,153
Recoverable operating expenses and realty taxes	29,923	26,974
Straight-line rent	493	683
	\$ 77,674	\$ 69,810

18. Segmented disclosure

The REIT's segments include three classifications of investment properties – Retail, Office, and Industrial. All of the REIT's activities are located in one geographical segment – Canada. The accounting policies followed by each segment are the same as those disclosed in Note 3. Operating performance is evaluated by the REIT's management primarily based on net operating income, which is defined as property revenue less property operating expenses. General and administrative expenses, depreciation and amortization, interest and financing costs are not allocated to operating segments. Segment assets include investment properties; segment liabilities include mortgages attributable to specific segments, but excludes the REIT's term loans, credit facility and their respective unamortized financing costs. Other assets and liabilities are not attributed to operating segments.

	Retail	Office	Industrial ⁽¹⁾	Total
Year ended December 31, 2021				
Property revenue	\$ 20,986	\$ 12,288	\$ 44,400	\$ 77,674
Property operating expenses	7,193	6,021	18,178	31,392
Net operating income	\$ 13,793	\$ 6,267	\$ 26,222	\$ 46,282
At December 31, 2021				
Investment properties	\$ 189,645	\$ 93,665	\$ 691,390	\$ 974,700
Mortgages payable	\$ 82,757	\$ 48,399	\$ 367,731	\$ 498,887

⁽¹⁾ As of January 1, 2021, the REIT reclassified its Commercial Mixed Use assets to Industrial assets to be more consistent with other commercial Canadian REITs. Comparative periods have been updated to reflect these adjustments.

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18. Segmented disclosure (continued)

	Retail	Office	Industrial ⁽¹⁾	Total
Year ended December 31, 2020				
Property revenue	\$ 21,483	\$ 12,763	\$ 35,564	\$ 69,810
Property operating expenses	7,778	6,228	15,275	29,281
Net operating income	\$ 13,705	\$ 6,535	\$ 20,289	\$ 40,529
At December 31, 2020				
Investment properties	\$ 196,075	\$ 94,115	\$ 328,345	\$ 618,535
Mortgages payable	\$ 99,168	\$ 49,417	\$ 169,811	\$ 318,396

⁽¹⁾ As of January 1, 2021, the REIT reclassified its Commercial Mixed Use assets to Industrial assets to be more consistent with other commercial Canadian REITs. Comparative periods have been updated to reflect these adjustments.

19. Supplemental comprehensive income information

Property operating expenses include property taxes, utility costs, repairs and maintenance expenses and other costs directly associated with the operation and leasing of investment properties to tenants.

General and administrative expenses include salaries and benefits, corporate expenses, office expenses, legal and professional fees, and other overhead expenses which are indirectly associated with the operation and leasing of investment properties.

The following table provides an analysis of total interest and financing costs:

	Year Ended December 31 2021	Year Ended December 31 2020
Interest and financing costs		
Amortization of financing costs	\$ 1,592	\$ 1,346
Other interest and financing costs	15,295	14,036
	\$ 16,887	\$ 15,382

20. Other income and Other expenses

Further to the acquisition of the assets of Compass Commercial Realty Limited on June 27, 2018, the REIT records revenues as well as relevant expenses ("other expenses") not related to the properties owned by the REIT in the consolidated statements of net income and comprehensive income as follows:

	Year Ended December 31 2021	Year Ended December 31 2020
Other income	\$ 2,338	\$ 2,110
Other expenses	\$ (1,330)	\$ (1,263)

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21. Supplemental cash flow information

	Year Ended December 31 2021	Year Ended December 31 2020
Change in non-cash working capital		
Receivable and other	\$ 1,384	\$ 2,239
Accounts payable and other liabilities	3,238	(1,230)
	\$ 4,622	\$ 1,009
Interest paid	\$ 17,750	\$ 14,161
	Year Ended December 31 2021	Year Ended December 31 2020
Change in liabilities arising from financing activities		
Current and long-term debt ⁽¹⁾ - beginning of year	\$ 356,164	\$ 357,443
Gross proceeds from new mortgages payable	259,705	5,750
Mortgage principal repayments	(10,944)	(9,451)
Mortgages repaid	(75,845)	(3,389)
Increase in term loans	3,375	22,250
Repayment of term loans	(15,300)	(7,500)
Repayment of vendor take-back mortgage	(750)	-
Financing costs incurred on debt	(1,938)	(869)
Non-cash changes in current and long-term debt		
Exchange of Class B LP Units for REIT Units	(660)	(4,562)
Fair value adjustment of Class B LP Units	1,083	(5,257)
Mortgage assumed on acquisition	8,430	-
Amortization, RUs and DUs	1,273	884
Reinvested distributions, RUs and DUs	654	575
Fair value adjustment, RUs and DUs	1,133	(874)
Amortization of financing costs	1,413	1,164
Current and long-term debt⁽¹⁾ – end of year	\$ 527,793	\$ 356,164

⁽¹⁾ Debt is defined for this purpose as mortgages payable, term loans, vendor take-back mortgage, Class B LP Units, and long-term incentive plan.

22. Key management and trustee compensation

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the REIT, directly or indirectly. The REIT's key management personnel include the President and Chief Executive Officer and the Executive Vice President, Chief Financial Officer and Secretary. In addition, the Trustees have oversight responsibility for the REIT. Compensation of key management and trustees is set out in the following table:

	Year Ended December 31 2021	Year Ended December 31 2020
Salaries and benefits	\$ 1,790	\$ 1,754
Long-term incentive plan – Issuance of DUs and RUs	1,929	1,742
Total	\$ 3,719	\$ 3,496

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23. Financial instruments

The REIT does not acquire, hold or issue derivative financial instruments for trading purposes. The following table presents the classification, measurement subsequent to initial recognition, carrying values and fair values (where applicable) of financial assets and liabilities.

Classification	Measurement	Carrying Value		Fair Value	
		December 31 2021	December 31 2021	December 31 2020	December 31 2020
Financial Assets					
Cash (a)	Amortized cost	\$ 5,944	\$ 5,944	\$ 6,259	\$ 6,259
Receivables and other excluding prepaid expenses, deposits and other receivables (a)	Amortized cost	2,133	2,133	2,233	2,233
		\$ 8,077	\$ 8,077	\$ 8,492	\$ 8,492
Financial Liabilities Through Profit and Loss					
Class B LP Units	Fair value (L2)	\$ 9,589	\$ 9,589	\$ 9,166	\$ 9,166
Long-term incentive plan	Fair value (L2)	10,159	10,159	7,099	7,099
		\$ 19,748	\$ 19,748	\$ 16,265	\$ 16,265
Financial Liabilities					
Accounts payable and other liabilities (a)	Amortized cost	\$ 15,472	\$ 15,472	\$ 8,783	\$ 8,783
Credit facility (a)	Amortized cost	14,738	14,738	24,835	24,835
Distributions payable (a)	Amortized cost	2,267	2,267	1,501	1,501
Debt (b)	Amortized cost	508,045	508,045	339,899	339,899
		\$ 540,522	\$ 540,522	\$ 375,018	\$ 375,018

(a) Short-term financial instruments, comprising cash, accounts receivable, accounts payable and other liabilities, credit facility and distributions payable are carried at amortized cost which, due to their short-term nature, approximates their fair value.

(b) Long-term financial instruments consist of debt. The fair value of debt is based upon discounted future cash flows using discount rates, adjusted for the REIT's own credit risk, that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the REIT might pay or receive in actual market transactions.

The fair value of the Class B LP Units and long-term incentive plan are estimated based on the market trading prices of the Units (Level 2).

24. Risk management

The REIT's principal financial liabilities are loans and borrowings. The main purpose of the loans and borrowings is to finance the acquisition and development of the REIT's property portfolio. The REIT has tenants and other receivables, accounts payable and other liabilities and cash that arise directly from its operations. In the normal course of its business, the REIT is exposed to market risk, credit risk and liquidity risk that can affect its operating performance.

The REIT's senior management oversees the management of these risks and the Board of Trustees reviews and approves policies for managing each of these risks which are summarized below.

Liquidity risk

Liquidity risk is the risk that the REIT will encounter difficulty meeting its obligations associated with the maturity of financial obligations. The REIT's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate levels of financing. Liquidity risk also relates to the potential required early retirement of debt.

Management's strategy to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient financial assets to meet its financial liabilities as they fall due, by forecasting cash flows from operations and anticipated investing and financing activities. Wherever possible, the REIT enters into long-term leases with creditworthy tenants which assist in maintaining a predictable cash flow. Management's policy is to ensure adequate funding is available from operations, established lending facilities and other sources, as required.

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24. Risk management (continued)

The following table presents the REIT's contractual obligations at December 31, 2021:

Contractual Obligations	Due within					
	1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Later
Debt principal instalments	\$ 14,363	\$ 13,826	\$ 12,567	\$ 12,326	\$ 10,660	\$ 20,867
Debt principal maturities	6,986	75,101	28,085	15,038	121,092	180,534
Debt interest	17,024	15,551	12,368	11,375	9,208	15,569
Credit facility	15,000	-	-	-	-	-
Accounts payable and other liabilities	15,472	-	-	-	-	-
Rent	84	84	28	-	-	-
	\$ 68,929	\$ 104,562	\$ 53,048	\$ 38,739	\$ 140,960	\$ 216,970

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The REIT's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate terms for its financing. Management has determined that any reasonably likely fluctuation in interest rates on floating rate debt would be insignificant to net income and comprehensive income as most long-term debt carries a fixed rate of interest.

Covid-19 risk

Increase in credit risk as a result of COVID-19 arises from the possibility that tenants in investment properties may not fulfill their lease. The REIT mitigates its credit risks from its tenants by attracting tenants of sound financial standing and by diversifying its mix of tenants. COVID-19 and the measures to contain it have created significant uncertainty in the general economy. A deterioration in the economy may impact the ability of tenants to meet their obligations under their leases. The REIT continues to assess the effect of economic conditions on the creditworthiness of its tenants. As part of this assessment, the REIT reviews the risk profiles of its tenant base to assess which tenants are likely to continue meeting their obligations under their leases and which tenants are at a greater risk of default.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The REIT's principal assets are commercial properties. Credit risk on accounts receivables comprising tenant receivables of \$2,133 arises from the possibility that tenants may not fulfill their lease obligations. Management mitigates this credit risk by performing credit checks on prospective tenants, having a large diverse tenant base with varying lease expirations, requiring security deposits on high risk tenants and ensuring that a considerable portion of its property income is earned from national and large anchor tenants. Accounts receivable are comprised primarily of current balances owing and the REIT has not experienced any significant receivable write offs. The REIT performs monthly reviews of its receivables and has determined there is no significant provision for doubtful accounts at December 31, 2021. Cash carries minimal risk as all funds are maintained with highly reputable financial institutions.

The REIT applied the ECL model which requires an entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected ECL if the credit risk on that financial instrument has increased significantly since initial recognition or at an amount equal to 12-month expected credit losses if the credit risk on that financial instrument has not increased significantly since initial recognition. The REIT uses a provision matrix based on historical credit loss experiences to estimate 12-month expected credit losses as the REIT has deemed the risk of credit loss has not increased significantly for accounts receivable.

Concentration risk

Concentration risk relates to the risk associated with having a significant amount of investment property leased to a single tenant. Concentration risk is mitigated by entering into long-term leases; reviewing the financial stability of the tenant and obtaining security or guarantees where appropriate; and seeking geographic and industry diversity of tenants. The REIT also maintains its assets to a quality standard that would support timely leasing of vacant space. At December 31, 2021, the REIT's largest tenant did not exceed 10% of property revenue.

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24. Risk management (continued)

Environmental risk

As an owner of real estate properties, the REIT is subject to various Canadian federal, provincial and municipal laws relating to environmental matters. These laws could result in liability for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in investment properties, or disposed of at other locations. Failure to remove or remediate such substances, if any, could adversely affect the ability to sell real estate, or to borrow using real estate as collateral, and could potentially result in claims or other proceedings. The REIT is not aware of any material non-compliance with environmental laws at any properties. The REIT is also not aware of any material pending or threatened investigations or actions by environmental regulatory authorities in connection with, or conditions at, properties. The REIT has policies and procedures to review and monitor environmental exposure, and has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and the REIT may become subject to more stringent environmental laws and regulations in the future. Compliance with stringent environmental laws and regulations could have an adverse effect on the financial condition or results of operations.

25. Capital management

The REIT is free to determine the appropriate level of capital in context with its cash flow requirements, overall business risks and potential business opportunities. As a result of this, the REIT will make adjustments to its capital based on its investment strategies and changes to economic conditions.

The REIT's objective is to maintain a combination of short, medium and long-term debt maturities that are appropriate for the overall debt level of its portfolio, taking into account availability of financing and market conditions, and the financial characteristics of each property.

The REIT's other objectives when managing capital on a long-term basis include enhancing the value of the assets and maximizing unit value through the ongoing active management of the REIT's assets, expanding the asset base through acquisitions of additional properties and the re-development of projects which are leased to creditworthy tenants, and generating sufficient returns to provide unitholders with stable and growing cash distributions. The REIT's strategy is driven by policies as set out in the Declaration of Trust, as well as requirements from certain lenders. The requirements of the REIT's operating policies as outlined in the Declaration of Trust include requirements that the REIT will not:

- (a) incur or assume indebtedness on properties in excess of 75% of the property's market value; and
- (b) incur or assume indebtedness which would cause the total indebtedness of the REIT to exceed 70% of Gross Book Value

Gross Book Value is calculated as follows:

	December 31
	2021
Total assets, including investment properties stated at fair value	\$ 989,963
Accumulated depreciation on property and equipment and intangible assets	2,268
Gross Book Value	992,231
Debt, excluding unamortized financing costs	511,445
Credit facility, excluding unamortized financing costs	15,000
Debt	\$ 526,445
Debt, as above, as a percentage of Gross Book Value	53.06%

The REIT was in compliance with the above requirements as well as all required financial covenants at December 31, 2021.

26. Commitment

The REIT has a lease commitment relating to office space which expires on April 30, 2024. The current commitment in respect of this lease is \$84 per annum.

27. Subsequent events

- (a) On January 19, 2022, the REIT announced a cash distribution of \$0.0375 per Unit for the month of January 2022. The distribution was paid on February 15, 2022 to unitholders of record as at January 31, 2022.
- (b) On February 17, 2022, the REIT announced a cash distribution of \$0.0375 per Unit for the month of February 2022. The distribution was paid on March 15, 2022 to unitholders of record as at February 28, 2022.
- (c) On March 21, 2022, the REIT announced a cash distribution of \$0.0375 per Unit for the month of March 2022. The distribution is payable on April 18, 2022 to unitholders of record as at March 31, 2022.