

Triumph Real Estate Investment Fund II

Financial Statements

(Expressed in Canadian Dollars)

December 31, 2022 and 2021

Triumph Real Estate Investment Fund II

Financial Statements

December 31, 2022 and 2021

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Independent Auditor's Report

To the Unitholders of Triumph Real Estate Investment Fund II

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Triumph Real Estate Investment Fund II ("the Trust"), which comprise the statements of financial position as at December 31, 2022 and December 31, 2021 and the statements of net income (loss) and comprehensive income (loss), changes in unitholder's equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2022 and December 31, 2021, and its financial performance and its 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 Financial Statements* section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the 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.

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

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

In preparing the financial statements, management is responsible for assessing the Trust'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 Trust or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

Independent Auditor's Report (continued)

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 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 Trust'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 Trust'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 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 Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Calgary, Alberta
May 18, 2023

Crowe MacKay LLP
Chartered Professional Accountants

Triumph Real Estate Investment Fund II

Statements of Financial Position

December 31, 2022 2021

Assets

Cash	\$	3	\$	-
Investment in Class A limited partnership units (Note 6)		10,431,599		9,023,290
Due from partnership (Note 5)		28,858		154
		<hr/>		<hr/>
		10,460,460	\$	9,023,444

Liabilities

Current

Bank indebtedness	\$	-	\$	82
Accounts payable		28,789		-
Deposits received		72		72
		<hr/>		<hr/>
		28,861		154

Unitholders' equity (Note 7) 10,431,599 9,023,290

\$ 10,460,460 **\$ 9,023,444**

Commitments (Note 10)

Approved on behalf of the Trust:

Signed: "Craig Bentham" Triumph Real Estate Investment Fund I Admin Co Ltd.

Signed: "David Wallach" Triumph Real Estate Investment Fund I Admin Co Ltd.

Triumph Real Estate Investment Fund II

Statements of Changes in Unitholders' Equity

	Units #	Amount	Retained Earnings (Deficit)	Total
Balance, December 31, 2020	8,060,968	\$ 7,758,471	\$ (1,577,170)	\$ 6,181,301
Issuance of Trust units (Note 7)	2,394,947	2,394,947	-	2,394,947
Distributions	-	(368,905)	-	(368,905)
Net income and comprehensive income	-	-	815,947	815,947
Balance, December 31, 2021	10,455,915	9,784,513	(761,223)	\$ 9,023,290
Issuance of Trust units (Note 7)	2,083,388	2,083,388	-	2,083,388
Redemption of Trust units (Note 7)	(67,439)	(64,058)	-	(64,058)
Distributions	-	(418,823)	-	(418,823)
Net loss and comprehensive loss	-	-	(192,198)	(192,198)
Balance, December 31, 2022	12,471,864	\$ 11,385,020	\$ (953,421)	\$ 10,431,599

Triumph Real Estate Investment Fund II

Statements of Net (Loss) Income and Comprehensive (Loss) Income

Year ended December 31,	2022	2021
Revenue		
Preferred return (Note 5)	\$ 831,821	\$ 637,855
Expenses (Note 10)	-	-
Net income before other items	831,821	637,855
Other items (Note 6)		
Change in fair value of Class A limited partnership units	(204,468)	(115,458)
Income (Loss) from partnership	(819,551)	293,550
	(1,024,019)	178,092
Net (loss) income and comprehensive (loss) income	\$ (192,198)	\$ 815,947

Triumph Real Estate Investment Fund II

Statements of Cash Flows

Year ended December 31,	2022	2021
Cash provided by (used for)		
Operating activities		
Net (loss) income and comprehensive (loss) income	\$ (192,198)	\$ 815,947
Change in fair value of Class A limited partnership units	204,468	115,458
Preferred return	(831,821)	(637,855)
Loss (income) from partnership	819,551	(293,550)
Cash flow from operating activities	-	-
Financing activities		
Proceeds from issuance of Trust units	1,921,950	2,289,771
Payment for redemption of Trust units	(35,269)	-
Distributions paid	(257,385)	(263,729)
Cash flows from financing activities	1,629,296	2,026,042
Investing activities		
Investment in Class A limited partnership units	(1,921,950)	(2,289,771)
Proceeds from redemptions of Class A partnership units	35,269	-
Advances (to) from partnership	85	13
Distributions received	257,385	263,729
Cash used in investing activities	(1,629,211)	(2,026,029)
Increase (decrease) in cash	85	13
Cash (bank indebtedness), beginning of year	(82)	(95)
Cash Balance (bank indebtedness), end of year	\$ 3	\$ (82)

Supplemental disclosure of non-cash flow activities:

Deposits settled on the issuance of Trust units	\$ -	\$ 85,000
Distributions reinvested in Class A limited partnership units	\$ 161,438	\$ 105,176

Triumph Real Estate Investment Fund II

Notes to the Financial Statements

December 31, 2022 and 2021

1. General business description

Triumph Real Estate Investment Fund II (the "Trust") is an unincorporated, open-ended, investment trust formed under the laws of the Province of Alberta on May 28, 2018 pursuant to the Declaration of Trust. On February 20, 2020, the Board of Directors voted to extend the operating life of the Trust to December 31, 2025. On April 15, 2021, the Board passed a resolution to extend the life of the Trust to December 31, 2026.

The Trust was formed to raise funds for the purpose of acquiring Class A limited partnership units ("Class A units") in Triumph Real Estate Investment Fund II LP (the "Partnership") and may loan a portion of such funds to a United States registered limited partnership that will be controlled by the Partnership to use for United States property acquisitions, with the objective of generating returns to unitholders.

The Trust is considered an "investment entity" under the terms of IFRS 10 *Consolidated Financial Statements*.

The Partnership was formed to acquire a portfolio of real estate assets comprised of multi-tenant office, industrial or retail properties located in the provinces of Alberta, Saskatchewan and Ontario, and in the states of Arizona, Colorado, Nevada, Oregon, Texas and Washington. Where a property acquired is in the United States or Canada, the Partnership will utilize a United States registered limited partnership or Canadian limited partnership, respectively, to acquire that property.

A limited partnership agreement dated May 28, 2018 governs the operations and business affairs of the Partnership. In accordance with the agreement, all operations are overseen by the general partner, Triumph Real Estate Investment Fund II GP Ltd. (the "General Partner").

The Trustee of the Trust is Olympia Trust Company (the "Trustee"). The Trustee has entered into an agreement with Triumph Real Estate Investment Fund 1 AdminCo Ltd. (the "Administrator") who will perform management and administrative services on behalf of the Trust.

These financial statements do not include all the assets and liabilities of the unitholders, but only those relating to the business of Triumph Real Estate Investment Fund II.

The Trust is taxed as a mutual fund trust for Canadian income tax purposes. In accordance with the Declaration of Trust, distributions to unitholders are declared at the discretion of the Administrator. It is the intention of the Trust to declare distributions not less than the amount necessary to ensure the Trust will not be subject to tax. Accordingly, the Trust will not recognize any current tax or deferred tax assets or liabilities on temporary differences.

The address of the registered office of the Trust is 605, 999 – 8th Street SW, Calgary, Alberta, T2R 1J5.

2. Impact of global events

Global events, such as the COVID-19 pandemic and the conflict in Ukraine, have continued to impact operations in terms of the high rate of inflation, increasing interest rates and increasing commodity prices. The duration and impact of these events is unknown at this time. As such, it is not possible to estimate the length and severity of these developments and the impact on the financial results and condition of the Partnership and its operations in future periods.

Triumph Real Estate Investment Fund II

Notes to the Financial Statements

December 31, 2022 and 2021

2. Impact of global events (continued)

Estimates and assumptions that are most subject to increased uncertainty relate to the valuation of investment properties and the assessment of collectability of contractual rents receivable due to the forward-looking nature of the information. The amounts recorded in these financial statements are based on the latest reliable information available to management at the time the financial statements were prepared where such information reflects conditions at the date of the financial statements. However, given the heightened level of uncertainty caused by these events, these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts in future periods.

3. Basis of preparation

Statement of compliance

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

The financial statements were authorized for issue by the Administrator of the Trust on May 18, 2023.

Basis of measurement

The financial statements have been prepared on the historical cost basis except as follows:

The Trust has adopted the investment entity amendments to IFRS 10, Consolidated Financial Statements. In addition to defining an investment entity, IFRS 10 requires that investments in subsidiaries (other than those that provide investment-related services) be accounted for at fair value through profit or loss rather than by consolidating them. The Trust has determined that it became an investment entity as a result of its investment in Class A limited partnership units ("Class A units") in the Partnership. The Trust owns all of the outstanding Class A units in the Partnership.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Trust's functional currency.

Use of estimates and judgments

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

Triumph Real Estate Investment Fund II

Notes to the Financial Statements

December 31, 2022 and 2021

3. Basis of preparation (continued)

Use of estimates and judgments (continued)

i) Judgments

Assessment of control

In determining whether the Trust controls the entities in which it invests, management is required to consider and assess the definition of control in accordance with IFRS 10 *Consolidated Financial Statements*. The Trust has assessed that while the limited partnership agreement between the Partnership and the General Partner provides the General Partner with the ability to direct all relevant activities of the Limited Partnership, and the General Partner can only be removed as General Partner of the Partnership if it enters bankruptcy or receivership, or the occurrence of any gross negligence, willful misconduct or fraud on the part of the General Partner, and the limited partners pass a special resolution to remove the General Partner as the general partner of the Partnership, the Trust controls the Partnership by virtue of the fact that the General Partner is acting as an agent of the limited partners. There is judgment required to determine whether the rights of the Trust result in control of the Partnership, and whether the General Partner meets the definition of an agent.

Determination of investment entity

In determining that the Trust is an investment entity, there is a requirement that management consider and assess whether it met the criteria to be an investment entity in accordance with IFRS 10 *Consolidated Financial Statements*. In accordance with IFRS 10, an investment entity is an entity that: “obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income (including rental income), or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis.” In addition, IFRS 10 clarifies that an investment entity may earn fee income from the provision of investment-related services to external parties.

In determining its status as an investment entity, the Trust considered that it invests funds from unitholders solely in limited partnership units in the Partnership for the purposes of managing this investment on behalf of the unitholders to generate returns sufficient to repay the capital contribution and accrued distributions to unitholders. In determining its status as an investment entity, the Trust has determined that fair value is the primary measurement attribute used to monitor and evaluate its investments and that its participation in the Partnership is as an investor, rather than as an operator or developer of properties. The Trust does not meet the typical characteristics of an investment entity, in that it does not have more than one investment; however the Trust has considered that the Partnership may participate in more than one investment property on behalf of limited partners, and therefore the Trust indirectly participates in more than one investment.

Trust units

The Trust has issued Trust units to a unitholder. In determining whether these should be classified as liabilities or equity, management has assessed whether the Trust units contain a contractual agreement to deliver cash or another financial asset to another entity, whether the units are puttable, and whether the criteria in IAS 32 *Financial Instruments: Presentation* which permit the classification of a puttable instrument, or an instrument where there is a contractual obligation to deliver cash as equity has been satisfied.

Triumph Real Estate Investment Fund II

Notes to the Financial Statements

December 31, 2022 and 2021

3. Basis of preparation (continued)

Use of estimates and judgments (continued)

i) Judgments (continued)

Trust units (continued)

The Trust's units are redeemable at the option of the holder and, therefore are considered puttable instruments. Puttable instruments are required to be presented as financial liabilities, except where certain conditions are met in accordance with IAS 32 in which case the puttable instruments may be presented as equity. The Trust's units were determined to meet the conditions of IAS 32 and are accordingly presented as equity in the financial statements. Distributions on Trust accounts will be deducted from unitholder's equity. Transaction costs relating to the issuance of trust units are deferred and recognized as unit issuance costs in the period in which the financing transaction is completed.

ii) Estimates

Fair value and measurement of investments not quoted in an active market

Management uses appropriate valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are provided in Note 8. In applying valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with the observable data the market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

In measuring financial instruments held or issued by the Trust, management is required to make estimates of expected future cash flows of those instruments. The most significant estimate is of the expected future cash flows from the investment in Class A limited partnership units.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

4. Significant accounting policies

Cash and cash equivalents

Cash consists of bank balances. There are no cash equivalents as at December 31, 2022 and December 31, 2021.

Triumph Real Estate Investment Fund II

Notes to the Financial Statements

December 31, 2022 and 2021

4. Significant accounting policies (continued)

Financial instruments

Financial instruments are comprised of investment in Class A limited partnership units, bank indebtedness and due from partnership. Financial assets and liabilities are recognized when the Trust becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Trust has transferred all risks and rewards of ownership.

Financial assets

Non-derivative financial assets within the scope of IFRS 9 *Financial instruments* are classified as financial assets at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI"), and financial assets at amortized cost. The Trust determines the classification of financial assets at the time of initial recognition based on the Trust's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value, and in the case of financial assets not at FVTPL, directly attributable transaction costs on the trade date at which the Trust becomes a party to the contractual provisions of the instrument.

The Trust has classified cash and due from partnership as financial assets at amortized cost and investments in Class A limited partnership units as a financial asset at FVTPL.

Financial assets measured at FVTPL includes financial assets management intends to sell in the short term, and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVTPL are carried at fair value in the statement of financial position with changes in fair value recognized in net income.

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and that the Trust has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. After initial measurement, financial assets measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss. When the financial asset is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the effective interest rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or cost that are an integral part of the EIR. EIR amortization is included in the statements of net income (loss) and comprehensive income (loss).

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or the Trust no longer retains substantially all the risks and rewards of ownership.

Triumph Real Estate Investment Fund II

Notes to the Financial Statements

December 31, 2022 and 2021

4. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL, such as held for trading or derivative instrument, or the Trust has opted to measure the financial liability at FVTPL. All financial liabilities are recognized initially at fair value, net of applicable transaction costs unless they are classified as FVTPL.

After initial recognition, financial liabilities measured at amortized cost are measured at the end of each reporting period at amortized cost using the EIR method.

The Trust has classified its bank indebtedness and accounts payable as financial liabilities at amortized cost. The Trust has no financial liabilities measured at FVTPL.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires, with any associated gain or loss recognized in net income.

Equity instruments

The Trust's units were determined to meet the conditions of IAS 32 and are accordingly presented as equity in the financial statements. Distributions on Trust units will be deducted from unitholder's equity.

Provisions and contingent liabilities

Provisions are recognized when there is a present legal or constructive obligation arising as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. Timing or exacted amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the possibility of outflow of resources is remote.

Revenue recognition

Preferred return revenue is recognized as earned based on the terms of the limited partnership agreement (Note 6), when collection is reasonably assured.

Income (loss) from partnership is recognized annually based on the allocation to the Trust as outlined in Note 6.

Triumph Real Estate Investment Fund II

Notes to the Financial Statements

December 31, 2022 and 2021

4. Significant accounting policies (continued)

Newly adopted accounting standards and pronouncements

The following accounting standards and amendments are effective January 1, 2022:

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

There was no impact to the financial statements as a result of the adoption of these amendments.

Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use

The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

There was no impact to the financial statements as a result of the adoption of these amendments.

Annual Improvements (2018-2020 cycle): IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities

The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

There was no impact to the financial statements as a result of the adoption of this amendment.

Triumph Real Estate Investment Fund II

Notes to the Financial Statements

December 31, 2022 and 2021

4. Significant accounting policies (continued)

Future accounting standards and pronouncements

The following accounting standards and amendments are effective for future periods.

Amendments to IAS 8 – Definition of Accounting Estimates

These amendments clarify how companies distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The distinction between the two is important because changes in accounting policies are applied retrospectively, whereas changes in accounting estimates are applied prospectively. Further, the amendments clarify that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

These amendments continue the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures. These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

These amendments clarify how companies account for deferred taxes on transactions such as leases and decommissioning obligations, with a focus on reducing diversity in practice. They narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendment to IAS 1 – Non-current Liabilities with Covenants

The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. This amendment is effective for reporting periods beginning on or after January 1, 2024.

Triumph Real Estate Investment Fund II

Notes to the Financial Statements

December 31, 2022 and 2021

4. Significant accounting policies (continued)

Future accounting standards and pronouncements (continued)

Amendments to IFRS 16 — Lease Liability in a Sale and Leaseback

These amendments require a seller-lessee to account for variable lease payments that arise in a sale-and-leaseback transaction as follows: (i) on initial recognition, include variable lease payments when measuring a lease liability arising from a sale-and-leaseback transaction; (ii) after initial recognition, apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognized. Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation of IFRS 16 in 2019. These amendments are effective for reporting periods beginning on or after January 1, 2024.

The adoption of these amendments is not expected to have a significant impact on the financial statements.

5. Related party transactions

	2022	2021
Due to Partnership	\$ (268,358)	\$ (184,062)
Due from US Holding LP II	297,216	184,216
	\$ 28,858	\$ 154

The Due to Partnership is unsecured, non-interest bearing, with no set terms of repayment, and is incurred under the funding agreement between the partnership and the Trust (Note 10). The Partnership is a subsidiary to the Trust, and the Trust is the sole Class A limited partnership unitholder.

The Trust entered into the following transactions with related parties:

- Redeemed 67,440 Class A units in the Partnership for gross payment of \$64,059 (2021 – nil Class A units for gross payment of \$nil). Of this amount, \$28,790 was due from the Partnership at December 31, 2022 (2021 – \$nil).
- Acquired 2,083,388 (2021 – 2,394,947) limited partnership units in the Partnership for gross proceeds of \$2,083,388 (2021 - \$2,394,947).
- Preferred returns of \$831,821 (2021 - \$637,855) are accrued and owing from the Partnership on the Class A limited partnership units.
- Distributions of \$418,823 (2021 - \$368,905) were received from the Partnership as return of capital on contributions. Of this amount, \$161,438 (2021 - \$105,176) was reinvested in Class A Limited Partnership Units.
- Net loss of \$819,551 (2021 – net income of \$293,550) was allocated to the Trust from the Partnership under the terms of the limited partnership agreement.

Triumph Real Estate Investment Fund II

Notes to the Financial Statements

December 31, 2022 and 2021

6. Investment in Class A limited partnership units

Changes in the fair value of the limited partnership units are as follows:

	2022	2021
Balance, beginning of year	\$ 9,023,290	\$ 6,181,301
New units acquired	2,083,388	2,394,947
Units redeemed	(64,058)	-
Preferred return	831,821	637,855
Distributions	(418,823)	(368,905)
(Loss) Income from Partnership	(819,551)	293,550
Change in fair value of limited partnership units	(204,468)	(115,458)
Balance, end of period	\$ 10,431,599	\$ 9,023,290

The Partnership may issue up to 50,000,000 Class A Limited Partnership Units (“Class A Unit”) having a capital contribution amount of not less than \$1 per Class A and up to 1,000,000 Class B units having a capital contribution amount of not less than \$0.001 per Class B unit.

Each unitholder shall be entitled to require the Trust to redeem all or part of their Units, and shall be entitled to receive a price equal to the following: (i) within 12 months from the date of issuance of the Trust unit certificate, an amount equal to 90% of the Unit subscription price paid by the unitholder; and (ii) at any time after the anniversary of the date of the issuance of the Trust certificate, an amount equal to 95% of the Unit subscription price paid by the unitholder.

The Redemption Price for Units may not be paid in cash in certain circumstances but instead may be paid through the issue of Redemption Notes by the Trust. Where the Redemption Price is paid in cash, the maximum aggregate redemption proceeds shall not exceed \$75,000 during any Fiscal Quarter (each respectively a “Quarterly Limit”); provided that the General Partner may, in its sole discretion, waive the limitation in respect of all Class A Units tendered for redemption in any fiscal quarter. When the total amount payable in respect of all Class A units tendered for redemption exceeds the Quarterly Limit, Units will be redeemed for cash on a pro rata basis up to the Quarterly Limit and thereafter, subject to regulatory approvals, shall be paid and satisfied by the Partnership distributing Redemption Notes having an interest rate that is equal to 5% simple interest per annum, subject to a maximum term of three years from the date of issue, the applicable interest shall accrue from the date of issue and shall be paid annually in each year the note is outstanding.

The Partnership is not required to redeem Class A units in the form of cash if such Class A units are redeemed within the first 24 months of the anniversary of the date of issuance. The Partnership also may not be required to redeem Class A units in the form of cash if in the sole opinion of the General Partner, the payment would not be in the best interest of the Partnership having regard to the then current cash position of the Partnership.

During the term of the Partnership, the Class A unitholders shall be entitled to an amount equal to 7% per annum, calculated on the capital contribution of the Units (the “Preferred Return”). The Preferred Return shall be cumulative from the first day of the month immediately following the month in which the capital contribution occurred until the date the unitholders capital contribution is returned through distributions. During fiscal 2022, \$831,821 (2021 - \$637,855) was accrued for the Preferred Return.

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6. Investment in Class A limited partnership units (continued)

Net income or net loss of the Partnership is allocated as follows:

- a) Firstly, 100% to the limited partners holding Class A units in accordance with their proportionate shares until they have received distributions to the extent of unreturned capital contributions and equal to the amount of any cumulative Preferred Return deficiencies;
- b) 70% to the limited partners holding Class A units and 30% to the limited partners holding Class B units in accordance with their proportionate shares until the limited partners holding Class A units have received distributions equal to a 12% annualized return on their capital contributions, calculated during the period commencing when the capital contribution was received by the Partnership until the date on which the capital contribution has been returned to the limited partner; and
- c) Thirdly, if at any time there are no limited partners then any amount which would have been allocated to the limited partners will be allocated to the General Partner.

The distributable cash of the Partnership is allocated as follows:

- a) Firstly, \$100 to the General Partner annually;
- b) Secondly to the limited partners holding Class A units in accordance with their proportionate shares to the extent of their unreturned capital contributions;
- c) Thirdly to the limited partners holding Class A units in accordance with their proportionate shares to the extent of any cumulative Preferred Return deficiencies;
- d) Fourthly, 70% to the limited partners holding Class A units and 30% to the limited partners holding Class B units in accordance with their proportionate shares until such time as the limited partners holding Class A units have received distributions equal to a 12% annualized return on their capital contributions calculated during the period commencing when the capital contribution was received by the Partnership until the date on which the capital contribution has been returned to the limited partner; and
- e) Fifthly, 50% to the limited partners holding Class A units and 50% to the limited partners holding Class B units in accordance with their proportionate shares.

The Limited Partnership Agreement provides for the payment of the following fees to the General Partner from the Partnership:

- a) a management fee ("Management Fee") equal to 2% of the total amount of funds received by the Partnership through the distribution of Class A units by the Partnership;
- b) commencing January 1, 2020, will pay a fee equal to 5% of the net operating income of the Partnership in each of the remaining years of the term of the Partnership (fee was waived for the years ended December 31, 2022, 2021 and 2020);
- c) an advisory service fee ("Advisory Fee") of up to 2% of gross rents. This fee is expected to be recoverable from the tenants of a property under the lease terms;
- d) may pay an acquisition fee equal to 1% of the purchase price of a property acquired; and
- e) may pay a disposition fee equal to 1% of the sale price of a property disposed of by the Partnership.

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7. Unitholders' capital

The Declaration of Trust provides that an unlimited number of Units may be issued. The Administrator, in its sole discretion, shall designate Units issued by the Trust into separate series based on the date of issue of such Units and the interest of each unitholder shall be determined by the number of Units registered in the name of the unitholder in each series. Units of each series represent an equal undivided beneficial interest in any distribution of the Trust and in the net assets of the Trust in the event of termination or winding up of the Trust to which a series of Units is entitled. Each Unit entitles the holder thereof to participate equally in the distributions and to one vote at all meetings of unitholders for each whole unit held.

The Administrator may declare a distribution to the holders of each series of Units out of the Trust's cash flow quarterly on March 31, June 30, September 30 and December 31 or such other periods as may be determined by the Administrator in each year of the Trust to which each series of Units is entitled. The distribution may be paid in full by the issuance of Units or cash or any combination of Units and cash. Each unitholder shall be entitled to require the Trust to redeem all or part of their Units, and shall be entitled to receive a price equal to the following: (i) within 12 months from the date of issuance of the Trust unit certificate equal to an amount per Unit of 90% of the subscription price paid by the unitholder, (ii) and at any time after the anniversary of the date of the issuance of the Trust certificate an amount per Unit of 95% of the subscription price paid by the unitholder.

The Trust may be required to redeem up to \$75,000 of Units in the form of cash in each fiscal quarter (the "Quarterly Limit") provided that the Administrator may, in its sole discretion, waive the limitation in respect of all Units tendered for redemption in any fiscal quarter. When the total amount payable in respect of all Units tendered for redemption in the same fiscal quarter exceeds the Quarterly Limit, Units will be redeemed for cash on a pro rata basis up to the Quarterly Limit and thereafter, subject to regulatory approvals, shall be paid and satisfied by the Trust distributing promissory notes for the balance. The promissory notes will be unsecured, bear interest from the issue date of each promissory note at a rate of 5%, payable annually in arrears, being due and payable on the third anniversary of the date of issuance, and being subject to the other standard terms and conditions as would be included in a promissory note of this kind, as may be approved by the Administrator. The Trust also may not be required to redeem Units in the form of cash if in the sole opinion of the Administrator, the payment would not be in the best interest of the Trust having regard to the then current cash position of the Trust, if Units are redeemed within the first 24 months of the anniversary of the date of issuance, or if the redemption of Units will result in the Trust losing its status as a mutual fund trust for the purposes of the Tax Act.

A Trust unitholder, or his or her personal representative, as the case may be, shall be entitled to request the Trust redeem (a "Hardship Redemption") up to the entire amount of a Trust unitholder's Units for the subscription price per Unit at any time during the term of the Trust upon written notice (i) in the event of the death or permanent disability of an individual Trust unitholder holding Units (ii) in the event of the death or permanent disability of the spouse of an individual Trust unitholder holding Units, or (iii) upon any act whether voluntary or involuntary of bankruptcy by an individual Trust unitholder holding Units.

The approval of any request for a Hardship Redemption shall only occur when permitted by law and shall be at the sole discretion of the Administrator. When approved by the Administrator, the Administrator shall pay the aggregate of the Hardship Redemption amount in cash to a unitholder within 60 days of receipt of the Hardship Redemption notice. No distributions from the date a Hardship Redemption notice is provided by a unitholder shall be paid on the Units to which the notice applies.

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8. Financial instruments and financial risk management

Fair value

The fair value of a financial instrument is the estimated amount that the Trust would receive or pay to settle the financial assets and liabilities at the reporting date.

The fair value of cash, due from partnership, bank indebtedness and accounts payable approximates carrying amount due to their short term nature.

Fair value for the investment in Class A limited partnership units is determined by the Trust using valuation techniques. Such valuation techniques may include earnings multiples, and discounted cash flows. In determining fair value, the Trust relies on the financial data of the Partnership, and on estimates by the Partnership as to the effect of future developments. Although the Trust uses its best judgments, there are inherent limitations in any estimation techniques. The fair value estimates presented herein are not necessarily indicative of an amount the Trust could realize in a current transaction.

Risk management framework

The Trust employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Trust's business objectives and risk tolerance levels. While the Trustee has overall responsibility for the establishment and oversight of the Trust's risk management framework, the Administrator has the responsibility to administer and monitor these risks.

Credit risk

Credit risk is the risk of financial loss to the Trust if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Trust is exposed to credit risk through its cash balances, bank indebtedness and investment in Class A units. The Trust manages its credit risk in relation to the investment in Class A units by monitoring the financial results of the Partnership.

Cash consists of bank balances. The Trust manages the credit exposure related to cash by selecting financial institutions with high credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they become due. The Trust's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Trust's ongoing liquidity will be impacted by various external events and conditions, including the profitability of its investment in the Partnership. The Trust's ability to repay its payables and accruals, and redeem trust units is contingent upon the performance of the Partnership. Investments in limited partnerships can be relatively illiquid, with the degree of liquidity generally fluctuating in relation to the demand for, and perceived desirability of such investments.

If the Trust were required to liquidate its limited partnership units, the proceeds to the Trust may be significantly less than the aggregate carrying value of such investment.

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9. Capital management

The Trust considers its capital structure to be unitholder's equity. In order to maintain or adjust the capital structure, the Trust may from time to time issue Trust units, seek debt financing and adjust its capital spending to manage its current and projected capital structure.

The primary objectives of the Trust's capital management are to invest in Class A units in the Partnership, and loan a portion of such funds to a United States registered limited partnership which will be controlled by the Partnership to use for United States property acquisitions, with the objective of generating returns to unitholders. The Trust will manage its capital structure and make changes to it in light of changes in economic conditions and the risk characteristics of the nature of the business.

The Trust is not subject to externally imposed capital requirements.

10. Commitments

The Trustee entered into an agreement on behalf of the Trust, between the Trust and the Administrator whereby the Administrator will perform management and administrative services on behalf of the Trust. The fee is \$500 per annum, and the Trust will be required to reimburse the expenses incurred by the Administrator in performing its functions.

The Trust has entered into a funding agreement with the Partnership whereby the Partnership has agreed to pay for all costs, fees, selling commissions and wholesaling fees, together with all operating and administration expenses incurred by the Trust associated with offering memorandums and the ongoing administration of the Trust.