R&R Real Estate Investment Trust

Consolidated Financial Statements

(in US dollars)

For the years ended December 31, 2021 and 2020

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For the years ended December 31, 2021 and 2020

Independent Auditor's Report

To the Unitholders of R&R Real Estate Investment Trust:

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 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.

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.

The engagement partner on the audit resulting in this independent auditor's report is Jo-Ann Lempert.

Montréal, Québec

MNP LLP [1]

April 29, 2022

[1] FCPA auditor, FCA, public accountancy permit no. A122514

R&R Real Estate Investment Trust

Consolidated Statements of Financial Position

(in US dollars)		December 31, 2021		December 31, 2020
Assets				
Current assets				
Cash	$	**9,251,946**	$	9,453,868
Accounts receivable, net of allowance for expected credit losses (Note 9)		**434,991**		510,512
Income taxes receivable		**409,995**		365,319
Prepaid expenses		**684,149**		749,044
Assets held for sale (Note 4)		**-**		3,442,140
		10,781,081		14,520,883
Non-current assets				
Restricted cash (Note 5)		**5,149,018**		5,150,759
Properties, buildings and equipment (Note 6)		**91,627,172**		95,830,122
	$	**107,557,271**	$	115,501,764
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (Notes 15 and 16)	$	**3,359,904**	$	4,414,663
Deferred revenue		**268,622**		191,648
Current portion of lease and other liabilities (Note 10)		**-**		1,004,448
Current portion of mortgages payable (Note 11)		**1,922,571**		6,779,974
Current portion of vendor takeback mortgage (Note 12)		**2,500,000**		5,167,114
Liabilities held for sale (Note 4)		**-**		2,829,044
		8,051,097		20,386,891
Non-current liabilities				
Exchangeable units (Notes 7 and 9)		**9,802,833**		7,352,125
Lease and other liabilities (Note 10)		**2,893,142**		3,190,085
Mortgages payable (Note 11)		**64,979,255**		65,440,639
		85,726,327		96,369,740
Unitholders' equity (Note 13)		**21,830,944**		19,132,024
	$	**107,557,271**	$	115,501,764

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Trustees

(signed) "Graham Blyth"

(signed) "Irfan Lakha"

R&R Real Estate Investment Trust

Consolidated Statements of Income and Comprehensive Income

(in US dollars)

	Year Ended December 31, 2021	Year Ended December 31, 2020
Revenues		
Room	**$ 33,429,574**	$ 30,087,858
Other	**750,816**	558,842
	34,180,390	30,646,700
Operating costs and expenses		
Operating, net (Note 10)	**(11,593,776)**	(11,740,365)
Energy	**(2,626,584)**	(2,630,559)
Property maintenance	**(2,384,331)**	(2,213,464)
Management and service fees (Note 16)	**(4,052,106)**	(3,270,107)
Property taxes and insurance	**(1,849,925)**	(1,947,118)
	(22,506,722)	(21,801,613)
Hotel operating income	**11,673,668**	8,845,087
Other expenses		
Corporate and administrative	**(584,898)**	(591,003)
Interest expense, net (Notes 11, 16 and 17)	**(4,145,490)**	(4,753,215)
Depreciation (Note 6)	**(4,444,187)**	(4,706,128)
Unrealized (loss) gain on liabilities presented at fair value (Notes 7 and 9)	**(2,450,708)**	12,253,543
Unrealized foreign exchange loss	**(397)**	(548)
Reversal of impairment (impairment) (Note 6)	**1,881,064**	(10,820,405)
Gain on disposal of properties, buildings and equipment (Note 3)	**732,437**	-
	(9,012,179)	(8,617,756)
Income before income taxes	**2,661,489**	227,331
Current income taxes (Note 18)	**(48,994)**	129,928
Net income and comprehensive income	**$ 2,612,495**	$ 357,259
Income per unit		
Basic	**$ 0.074**	$ 0.010
Diluted	**$ 0.009**	$ 0.001
Weighted average number of units outstanding		
Basic	**35,448,721**	34,182,925
Diluted	**280,519,578**	279,346,269

The accompanying notes are an integral part of these consolidated financial statements.

R&R Real Estate Investment Trust

Consolidated Statements of Changes in Unitholders' Equity

(in US dollars)

	Number of units	Amount	Contributed Surplus	(Deficit)	Total
Balance, January 1, 2021	**35,351,428**	**$ 4,425,286**	**$ 15,834,566**	**$ (1,127,828)**	**$ 19,132,024**
Units issued (Note 13)	**1,972,890**	**72,198**	**14,227**	**-**	**86,425**
Net income and comprehensive income	**-**	**-**	**-**	**2,612,495**	**2,612,495**
Balance, December 31, 2021	**37,324,318**	**$ 4,497,484**	**$ 15,848,793**	**$ 1,484,667**	**$ 21,830,944**

	Number of units	Amount	Contributed Surplus	(Deficit) Retained earnings	Total
Balance, January 1, 2020	34,090,438	$ 4,388,600	$ 15,819,827	$ (1,485,087)	$ 18,723,340
Units issued (Note 13)	1,260,990	36,686	14,739	-	51,425
Net income and comprehensive income	-	-	-	357,259	357,259
Balance, December 31, 2020	35,351,428	$ 4,425,286	$ 15,834,566	$ (1,127,828)	$ 19,132,024

The accompanying notes are an integral part of these consolidated financial statements.

R&R Real Estate Investment Trust

Consolidated Statements of Cash Flows

(in US dollars)

	Year Ended December 31, 2021	Year Ended December 31, 2020
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income	$ 2,612,495	$ 357,259
Adjustments for items not involving cash:		
Unrealized foreign exchange loss	397	548
Gain on disposal of property, building and equipment (Note 3)	(732,437)	-
Depreciation (Note 6)	4,444,187	4,534,531
Depreciation related to assets held for sale	-	171,597
Amortization of deferred financing costs (Note 17)	217,383	451,074
Reversal of impairment (impairment) (Note 6)	(1,881,064)	10,820,405
Unrealized loss (gain) liabilities presented at fair value (Notes 7 and 9)	2,450,708	(12,253,543)
Securities-based compensation expense (Note 13)	86,425	51,425
Forgiveness of government grant liability (Note 10)	(1,336,247)	-
Net changes in non-cash working capital (Note 14)	(847,187)	534,372
Net changes in non-cash working capital related to assets held for sale	(105,770)	11,104
	4,908,890	4,678,772
Investing activities		
Restricted cash (Note 5)	1,741	163,669
Net proceeds on disposal of property, building and equipment (Note 3)	8,308,321	-
Additions to properties, buildings and equipment (Note 6)	(2,527,607)	(3,144,157)
Additions to properties, buildings and equipment related to assets held for sale (Note 6)	-	(129,401)
	5,782,455	(3,109,889)
Financing activities		
Principal repayments of lease liability (Note 10)	-	(9,534)
Proceeds from government grant liability (Note 10)	-	1,336,247
Repayment of mortgage payable	(12,707,079)	-
Proceeds from mortgage payable	6,450,000	-
Principal repayments on mortgages payable (Note 11)	(1,696,045)	(1,224,970)
Principal repayments on mortgages payable related to assets held for sale	-	(43,133)
Deferred financing costs	(272,632)	-
Principal repayment on vendor takeback mortgage	(2,667,114)	(1,832,886)
	(10,892,870)	(1,774,276)
Decrease in cash during the year	(201,525)	(205,393)
Effect of exchange rate changes on cash	(397)	(548)
Cash, beginning of year	9,453,868	9,659,809
Cash, end of year	$ 9,251,946	$ 9,453,868

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION

R&R Real Estate Investment Trust (the "REIT") is the successor to WestCap Investments Corp. (the "Corporation") following the conversion of the Corporation to a real estate investment trust. The Corporation was incorporated under the Business Corporations Act (Ontario) on October 15, 2013 and was classified as a Capital Pool Company ("CPC") as defined by the TSX Venture Exchange Inc. (the "Exchange"). On August 15, 2014, shareholders of the Corporation voted to approve a plan of arrangement (the "Arrangement") providing for the conversion of the Corporation into the REIT. The Arrangement became effective August 25, 2014. Further details of the Arrangement are contained in the information circular dated July 18, 2014 which can be found at www.sedar.com.

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to the Declaration of Trust ("DOT") dated July 16, 2014, and is governed by the laws of the province of Ontario.

Units of the REIT trade on Tier 1 of the Exchange under the symbol RRR.UN.

The head office, principal address and records office of the REIT is located at 5090 Explorer Drive, Suite 500, Mississauga, Ontario, L4W 4T9.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Government agencies throughout the United States imposed travel restrictions, social distancing measures and shelter-in-place rules, all of which had an immediate effect on the REIT'S operations as future guest bookings and occupancy levels started to significantly decline during the second half of March which has resulted in impairment write-downs on some of the REIT's properties. Operating performance continued to improve throughout 2021 with occupancy levels trending upwards toward pre-COVID-19 levels which has resulted in impairment reversals (Note 6).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements for the years ended December 31, 2021 and 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Board of Trustees of the REIT on April 29, 2022.

Principles of consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries. Subsidiaries are all entities over which the REIT has control. Control is achieved when the REIT is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the REIT. They are deconsolidated from the date that control ceases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of consolidation (continued)

Intra-group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of the REIT and its subsidiaries.

The REIT consolidates the subsidiaries it controls directly or indirectly.

Functional and presentation currency

The functional and presentation currency of the REIT and its subsidiaries is United States dollars.

The REIT translates monetary assets and liabilities at the rate of exchange in effect at the reporting date and non-monetary assets and liabilities at historical exchange rates. Revenues and expenses are translated at average rates in the month they occur. Gains and losses on translation are recorded in the consolidated statements of income and comprehensive income.

Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amount of expenses during the period. Actual results may differ materially from these estimates.

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

Given the continuously evolving circumstances surrounding COVID-19, it is difficult to predict with certainty the nature, extent and duration of COVID-19, and the duration and intensity of resulting business disruptions and related financial, social and public health impacts. Such effects could be adverse and material, including their potential effects on the REIT’s business, operations and financial performance both in the short-term and long-term. Estimates and assumptions that are most subject to increased uncertainty caused by the COVID-19 pandemic relate to the future revenues and profitability, impairment of assets, and liquidity. The amounts recorded in these consolidated financial statements are based on the latest reliable information available to management at the time the consolidated financial statements were prepared where that information reflects conditions at the date of the consolidated financial statements. However, given the heightened level of uncertainty caused by COVID-19, these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

The estimates and judgments used in determining the recorded amount for assets, liabilities and equity in the consolidated financial statements include the following:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgments, estimates and assumptions (continued)

i. Business combinations

Business combinations are accounted for using the acquisition method. The consideration for an acquisition is measured at the aggregate of the fair values of assets transferred, liabilities incurred or assumed. The identifiable assets, liabilities and contingent liabilities acquired are recognized at their fair values at the acquisition date. The REIT obtains third-party valuations to support management's determination of the fair value of properties, buildings and equipment. IFRS 3, Business Combinations ("IFRS 3"), requires management to determine whether a hotel acquisition meets the definition of a business combination. Judgment is involved in determining if the acquiree constitutes a business and whether the REIT obtained control over the acquiree. IFRS 3 also requires management to determine whether a hotel acquisition is one of common control. Judgment is involved in determining if the acquiree is controlled by the same group of individuals before and after the acquisition.

ii. Impairment of long-lived assets

Management reviews long-lived assets on a quarterly basis for impairment triggers to determine if events or changes in circumstances exist that would indicate that the carrying amount of an asset may not be recoverable over time. Impairment assessments are conducted at the level of a cash generating unit ("CGU"), with an individual hotel representing a CGU.

If the carrying value exceeds the estimated recoverable amount, the asset is written-down to its recoverable amount. The recoverable amount is the greater of (i) fair value less costs of disposal and (ii) value-in-use. Value-in-use is assessed based on estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairments are reversed if there has been an improvement in the condition that caused the impairment which would result in the recoverable amount exceeding the carrying value.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized.

Impairment testing of hotel properties requires management to assess the property's ability to recover its book value through the normal course of operations and evaluate the value-in-use of the property. Significant assumptions are used in the assessment of fair value and impairment including estimates of future operating cash flows, the time period over which they will occur, an appropriate discount rate, appropriate growth rates (revenues and costs) and changes in market valuation parameters. Management considers various factors in its assessment including the historical performance of hotel properties, expected trends in each specific market including new or expected new hotel supply as well as local and macroeconomic conditions.

The COVID-19 pandemic and its impact on the economy is constantly changing in an unpredictable manner and presents many variables and contingencies for impairment testing. In future periods, the effects of the pandemic may have material impacts on the REIT's anticipated revenue levels and the recoverable amount of the CGUs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

i. Classification and measurement

Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVOCI"), and fair value through profit and loss ("FVTPL"). Financial liabilities are classified and measured on two categories: amortized cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, unless the REIT identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

The REIT has classified its financial instruments as follows:

Financial instrument	Classification under IFRS 9
Cash	Amortized cost
Restricted cash	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Vendor takeback mortgage	Amortized cost
Exchangeable units	Fair value
Lease and other liabilities	Amortized cost
Mortgages payable	Amortized cost

The REIT determines the fair value measurement based on the following hierarchy:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

ii. Impairment

An allowance for expected credit losses ("ECL") is recognized at each reporting date for all financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

Impairment losses, if incurred, would be recorded as expenses in the consolidated statements of income and comprehensive income with the carrying amount of the financial assets or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss would be reversed through the consolidated statements of income and comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

ii. Impairment (continued)

The impairment reversal would be limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm’s length transaction at the reporting date.

Cash and cash equivalents

The REIT considers all liquid investments with original terms to maturity of three months or less when acquired to be cash equivalents. Cash consists of cash on hand and cash held in bank accounts.

Restricted cash

Restricted cash consists of cash reserves on deposit with lenders primarily in respect of future capital expenditures, cash collateral, property taxes and insurance premiums.

Accounts receivable

Accounts receivable are measured at cost less any allowance for expected credit loss. The allowance for expected credit loss reflects expected credit losses and is based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. If there is deterioration in a major customer's creditworthiness or if actual and expected defaults are higher than the historical experience, management's estimates of the recoverability of amounts due to the REIT could be adversely affected.

Prepaid expenses

Prepaid expenses consist of payments made for goods and services to be received in the near future, are initially recorded as assets, and are expensed over the period of benefit.

Properties, buildings and equipment

Properties, buildings and equipment, consisting of land and land improvements, buildings and improvements, furniture, fixtures and equipment, and right-of-use land lease are stated at cost less accumulated depreciation. Hotel properties are reviewed periodically for impairment as described above under the section “Impairment of long-lived assets”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation

Depreciation is provided on a straight-line basis over the estimated useful life:

Land improvements	15 years
Buildings and improvements	5 to 39 years
Furniture, fixtures, and equipment	3 to 10 years
Right-of-use land lease	Lease term

Borrowing costs

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the period end date. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, or assets that take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government loans

In accordance with IAS 20, the REIT classifies forgivable loans from the government as a government grant when there is reasonable assurance that the REIT will meet the terms of forgiveness on the loan. If this threshold is not met, the REIT classifies forgivable loans as other liabilities, measured at fair value in accordance with IFRS 9. The REIT nets these forgivable government loans classified as liabilities against operating expenses in the consolidated statements of income and comprehensive income during the period in which the loan is forgiven.

Assets held for sale

Assets held for sale are presented in current assets at the lower of their carrying amount and fair value less the costs to sell. Assets are not depreciated from the time when they are classified as “held for sale”. The liabilities related to these assets are reclassified to current liabilities once the assets are classified as held for sale. A held-for-sale asset is a non-current asset that is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable management must be committed to a plan to sell the asset and an active effort to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to be consummated within one year from the date of classification as held-for-sale.

Unit equity

The REIT is an open-ended real estate investment trust, and units of the REIT are redeemable (puttable) at the option of the REIT’s unitholders. IAS 32 requires puttable instruments to be accounted for as financial liabilities, except where certain conditions as detailed in IAS 32 are met. This exemption is known as the Puttable Instrument Exemption.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unit equity (continued)

The units of the REIT meet the Puttable Instrument Exemption criteria and, accordingly, are classified and presented as equity in the consolidated statements of financial position. In addition to the REIT units, exchangeable units were issued. These units do not qualify for the Puttable Instrument Exemption, and are classified as liabilities in the consolidated statements of financial position. They are re-measured at each reporting date at their fair value and are included in 'Unrealized (loss) gain on liabilities presented at fair value' in the consolidated statements of income and comprehensive income.

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 DUs and RUs 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. 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 income and comprehensive income for the period.

Treasury units

Units that are reacquired (treasury units) are recognized at cost and deducted from equity. No gain or loss is recognized in income and comprehensive income on the purchase, sale, issue or cancellation of the Units. Any difference between the carrying amount and the consideration, if reissued, is recognized in share premium.

Revenue recognition

The REIT's performance obligation is to provide accommodation and other goods and services to guests. Room revenue is recognized on a daily basis based on an agreed upon daily rate after the guest has stayed at the hotel for a day, used its lodging facility and received related lodging services and amenities. Customer incentive discounts and cash rebates or refunds are also recognized as a reduction of revenue as incurred during the guest's stay. Other revenue primarily consists of parking income, in-room movie commissions, in-room safe commissions and vending income. Other revenue is recognized when the related services have been received by the guest, with discounts and cash rebates or refunds recognized as a reduction of revenue as incurred during the guest's stay. Management believes the credit risk with respect to trade receivables is limited because the significant majority of revenue is settled through cash receipts and credit card transactions, which are typically reimbursed within two to five days.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current and deferred income taxes

The REIT currently qualifies as a "mutual fund trust" under the Income Tax Act (Canada). 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 September 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 a return of capital should generally not be subject to tax. Under the SIFT rules, the 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 has reviewed the SIFT rules and has assessed their interpretation and application to the REIT's assets and revenue.

While there are uncertainties in the interpretation and application of the SIFT rules, the REIT believes that it is not subject to the SIFT rules as it does not meet the definition of a SIFT trust and accordingly, no net current income tax expense or deferred income tax expense has been recorded in the consolidated statements of income and comprehensive income in respect of the REIT, except as described below.

Some of the subsidiaries are corporations. For these entities, the REIT follows the asset and liability method of accounting for income taxes. Income tax is recognized within net income in the statements of comprehensive income except to the extent it relates to items recognized in other comprehensive income or equity, in which case the income tax is also recognized in equity. Current tax assets and liabilities are recognized at the amount expected to be paid or received from tax authorities using rates enacted or substantively enacted at the date of the statements of financial position.

Deferred tax assets and liabilities are recognized at the tax rates enacted or substantively enacted at the date of the statements of financial position for the years that an asset is expected to be realized or a liability is expected to be settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be generated and available for the asset to be utilized against. As at December 30, 2021 and 2020, no deferred tax asset has been recognized.

Income per unit

Basic income per unit is calculated by dividing net income and comprehensive income for the period attributable to unit holders of the REIT by the weighted average number of units outstanding during the period. The weighted average number of units outstanding during the period takes into account the weighted average effect of changes in treasury units' transactions during the period. The diluted weighted average number of units is calculated by applying the treasury method. The treasury method assumes that any proceeds on exercise of options and warrants are used to purchase units at the average market price during the period. Diluted income per unit excludes the impact of the exercise of unit options and warrants if the exercise would be anti-dilutive.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognized in the consolidated statements of financial position when the REIT has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required and a reliable estimate of the amount payable can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Leases

In accordance with IFRS 16, the REIT assesses at inception of a contract whether a contact is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The REIT recognizes a right-of-use asset and a lease liability at the lease commencement date.

At inception of a contract, the REIT assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The REIT recognizes a right-of-use asset and a lease liability at the lease commencement date.

Where a lease has two or more separate lease components, the REIT has accounted for each lease component within the contract as a lease separately from non-lease components of the contract. The non-lease components are accounted for by applying other applicable standards.

The right-of-use asset is initially measured at cost which comprises of the lease liability, lease payments made at or before the commencement date, initial indirect costs and asset retirement obligations, less any lease incentives. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the REIT is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the REIT's incremental borrowing rate. Generally, the REIT uses its incremental borrowing rate as the discount rate. Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the REIT's estimate of the amount expected to be payable under a residual value guarantee, or if the REIT changes its assessment of whether it will exercise a purchase, extension or termination option.

The most significant effect of the new standard is the recognition of the initial present value of unavoidable future lease payments as right-of-use assets and lease liabilities on the consolidated statement of financial position, including those for most leases that would be currently accounted for as operating leases. Leases with durations of 12 months or less and leases for low-value assets may be exempted. The REIT did not take any exemptions, and has a land lease with a discount rate of 5.45% (Note 10).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the REIT

The following new Standards and Interpretations, which are yet to become mandatory, have not been adopted early by the REIT.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (issued in January 2020)

The amendments clarify that the classification of a liability as current or non-current is based only on rights existing at the end of the reporting period and the classification is not affected by expectations about whether rights to settle or defer a liability will be exercised. Further, the amendments clarify that the settlement of a liability refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. This amendment only affects presentation. The amendment is effective for financial years beginning on or after January 1, 2023. The REIT does not expect a material impact on its consolidated financial statements from these amendments.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (issued in May 2020).

The amendments clarify that the cost of fulfilling a contract are costs that relate directly to that contract. Such costs can be the incremental costs of fulfilling that contract or an allocation of other costs directly related to fulfilling that contract. The amendment is effective for financial years beginning on or after January 1, 2022. The REIT does not expect a material impact on its consolidated financial statements from these amendments.

3. SALE OF ASSETS

On February 22, 2021, the REIT completed the sale of one property from the 2017 Acquisition Properties for net proceeds after closing costs of $3,408,450 and recognized a net gain of $27,788 which was included in 'Gain on disposal of properties, buildings and equipment' in the consolidated statements of income and comprehensive income.

On September 28, 2021, the REIT completed the sale of one property from the 2019 Acquisition Properties for net proceeds after closing costs of $4,899,871 and recognized a net gain of $704,649 which was included in 'Gain on disposal of properties, building and equipment' in the consolidated statements of income and comprehensive income and the REIT repaid $4,855,626 of mortgage payable.

4. ASSETS HELD FOR SALE

During the prior year, the REIT classified one property to assets held for sale on the consolidated statements of financial position. All assets and liabilities relating to this property were classified to current assets and current liabilities and outlined in the table below:

December 31, 2021 (US dollars)

4. ASSETS HELD FOR SALE (CONTINUED)

Prepaid expenses	$	33,690
Property, building and equipment		3,408,450
Current assets held for sale	$	3,442,140
Accounts payable and accrued liabilities	$	122,226
Deferred revenue		17,235
Mortgages payable		2,689,583
Current liabilities held for sale	$	2,829,044

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The net book value of $3,517,160 was reclassified from properties, buildings and equipment (Note 6) and were written-down by $108,710 to $3,408,450. Once the property, building and equipment have been classified as held for sale, depreciation ceases. The sale of this property occurred on February 22, 2021 (Note 3).

The operation of this property is not presented as discontinued operation on the consolidated statements of income and comprehensive income as it does not represent a separate major line of business.

5. RESTRICTED CASH

		December 31, 2021		December 31, 2020
Furniture, fixture and equipment reserve ("FF&E Reserves")	$	2,811,890	$	3,101,418
Property tax and insurance reserve		534,308		600,817
Other reserves		1,802,820		1,448,524
Total	$	5,149,018	$	5,150,759

Certain related mortgages require the REIT to deposit reserves for FF&E Reserves, property taxes, insurance and cash management. These amounts are released to the REIT as the expenditures are incurred or paid directly to the service provider.

6. PROPERTIES, BUILDINGS AND EQUIPMENT

		Land and improvements		Buildings and improvements		Furniture, fixtures and equipment		Right-of-use - land lease		Total
Cost										
Opening balance at January 1, 2021	$	17,731,976	$	77,085,587	$	9,005,580	$	3,665,307	$	107,488,450
Additions		991,631		792,380		743,596		-		2,527,607
Disposal (Note 3)		(788,252)		(3,120,648)		(562,551)		-		(4,471,451)
Impairment reversal		246,797		1,324,905		309,362		-		1,881,064
Closing balance at December 31, 2021		18,182,152		76,082,224		9,495,987		3,665,307		107,425,670
Accumulated depreciation										
Opening balance at January 1, 2021		311,188		6,500,734		4,740,285		106,121		11,658,328
Depreciation		128,492		2,447,012		1,783,937		84,746		4,444,187
Disposal (Note 3)		(16,308)		(146,592)		(141,117)		-		(304,017)
Closing balance at December 31, 2021		423,372		8,801,154		6,383,105		190,867		15,798,498
Carrying value at December 31, 2021	**$**	**17,758,780**	**$**	**67,281,070**	**$**	**3,112,882**	**$**	**3,474,440**	**$**	**91,627,172**

December 31, 2021 (US dollars)

6. PROPERTIES, BUILDINGS AND EQUIPMENT (CONTINUED)

	Land and improvements	Buildings and improvements	Furniture, fixtures and equipment	Right-of-use - land lease	Total
Cost					
Opening balance at January 1, 2020	$ 20,688,899	$ 85,264,525	$ 9,319,824	$ 3,665,307	$ 118,938,555
Additions	51,565	2,137,626	1,084,367	-	3,273,558
Held for sale (Note 4)	(767,054)	(2,704,120)	(540,794)	-	(4,011,968)
Impairment	(2,241,434)	(7,612,444)	(857,817)	-	(10,711,695)
Closing balance at December 31, 2020	17,731,976	77,085,587	9,005,580	3,665,307	107,488,450
Accumulated depreciation					
Opening balance at January 1, 2020	225,913	4,117,317	3,082,591	21,187	7,447,008
Depreciation	85,275	2,609,424	1,926,495	84,934	4,706,128
Held for sale (Note 4)	-	(226,007)	(268,801)	-	(494,808)
Closing balance at December 31, 2020	311,188	6,500,734	4,740,285	106,121	11,658,328
Carrying value at December 31, 2020	**$ 17,420,788**	**$ 70,584,853**	**$ 4,265,295**	**$ 3,559,186**	**$ 95,830,122**

The carrying amounts of the REIT's CGUs are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the CGU's recoverable amount is estimated. As at December 31, 2021, the recoverable amount for CGUs with an indicator of impairment was estimated based on updated cash flow projections based on known information, or reasonably could have been known, in light of the COVID-19 pandemic. The cash flows were management's best projections based on current and anticipated market conditions covering the 5-year forecast period. However, these projections are inherently uncertain due to the evolving impact of the COVID-19 pandemic.

During the year ended December 31, 2021, the REIT reported an impairment reversal on four properties totaling $4,077,064 and a further impairment on one property of $2,196,000 for a net impairment reversal of $1,881,064 (2020 – impairment on five properties totaling $10,711,695 and impairment on held for sale property $108,710 (Note 4)), due to improvements in their operating performance. The impairment losses were reversed only to the extent that carrying amount did not exceed the amount that would have been determined net of depreciation, if no impairment had been recognized. The REIT estimated their recoverable amount as the value-in-use ("VIU") using a five year discounted cash flow analysis, and compared it to their carrying amount for each property to determine if an impairment charge or reversal was required (higher of VIU and fair value less costs of disposal ("FVLCD") compared to carrying amount in the prior year). Significant assumptions used in the estimated value-in-use calculations included discount rates ranging from 10.0% to 12.0% (2020 – 9.0% to 12.0%), cap rates from 8.0% to 10.0% (2020 – 8.5% to 10.5%) and revenue growth rates from 2.5% to 29.9% (2020 – 2.8% to 9.3%).

If all other assumptions were held constant,

a) A 1% increase in the discount rate would decrease the impairment reversals by $342,000 (2020 – increase $939,958);
b) A 1% decrease in the discount rate would increase the impairment reversals by $296,000 (2020 – decrease $1,200,323);
c) A 1% increase in the cap rate would decrease the impairment reversals by $699,000 (2020 – increase $1,659,784); and
d) A 1% decrease in the cap rate would increase the impairment reversals by $692,000 (2020 – decrease $2,589,908).

The COVID-19 pandemic and its impact on the economy is constantly changing in an unpredictable manner and presents many variables and contingencies for modeling. In future periods, the effects of the pandemic may have material impacts on the REIT's anticipated revenue levels and the recoverable amount of the CGUs.

December 31, 2021 (US dollars)

7. EXCHANGEABLE UNITS

Pursuant to the acquisition of a Red Roof Inn located in Maryland (“BWI”) which was completed on August 25, 2014, 51,408,895 Class B LP units of USLP were issued to satisfy $8,480,000 of the $8,500,000 purchase price to Red Roof Inns, Inc. (“Red Roof”). Red Roof and the REIT do not act at arm’s length, and are under common control.

On August 25, 2014, the 10,100,000 shares of the Corporation held by Westpac Industrial Properties Ltd. (“Westpac”) were converted to exchangeable units of the REIT. These exchangeable units were converted to REIT units on August 10, 2016.

On October 3, 2017, 58,035,650 Class B LP units were issued as part of the consideration for the acquisition of the 2017 Acquisition Properties.

On August 1, 2018, 72,031,112 Class B LP units were issued as part of the consideration for the acquisition of the 2018 Acquisition Properties.

On September 25, 2019, 63,595,200 Class B LP units were issued as part of the consideration for the acquisition of the 2019 Acquisition Properties.

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

	Exchangeable units		Amount
December 31, 2019	245,070,857	$	19,605,668
Unrealized gain	-		(12,253,543)
December 31, 2020	245,070,857		7,352,125
Unrealized loss	-		2,450,708
December 31, 2021	245,070,857	$	9,802,833

The unrealized loss of $2,450,708 for the year ended December 31, 2021 (2020 – unrealized gain $12,253,543) was included in ‘Unrealized (loss) gain on liabilities presented at fair value’ in the consolidated statements of income and comprehensive income.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital management

The REIT manages its capital, which is defined as the aggregate of unitholders’ equity and debt, under the terms of the DOT. The REIT’s capital management objectives are to ensure compliance with debt and investment restrictions outlined in its DOT.

The REIT is not permitted to exceed certain financial leverage amounts under the terms of the DOT. The REIT is permitted to hold indebtedness up to a level of 75% of gross book value. Indebtedness is computed as of the last day of each financial period excluding any indebtedness under trade accounts payables, security deposits, distributions payable to unitholders and accrued liabilities arising in the ordinary course of business, and exchangeable units. Management’s policy is not to exceed this leverage limit at any time during the year.

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

The REIT's indebtedness is comprised of a mortgage payable and a capital lease obligation. As at December 31, 2021 total indebtedness to gross book value was 53.9% (December 31, 2020 – 60.2%).

The DOT also includes guidelines that limit capital expended to, among other items, the following:

(a) Direct and indirect investments in lodging facilities and other hospitality related properties, including without limitation vacant land, located outside of Canada;
(b) Not hold property that would be taxable Canadian property for purposes of the Income Tax Act (Canada);
(c) Not hold any non-portfolio property as defined in the Income Tax Act (Canada);
(d) Temporary investments held in cash, deposits with a Canadian chartered bank or trust company, short-term government debt securities or in money market instruments maturing within a year;
(e) Not invest in rights to or interest in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;
(f) Not invest in raw land for development except for existing properties or the development of new properties. The aggregate value of such investments shall not exceed 15% of the gross book value of the REIT calculated at the time of such investment;
(g) Investments in mortgages or mortgage bonds, where the related security is a first mortgage on income producing real property which otherwise complies with (a) above and is subject to certain leverage limits and debt service coverage. The aggregate value of such investments shall not exceed 15% of the gross book value of the REIT calculated at the time of such investment; and
(h) Invest in properties under development including raw land for development, development financing, mortgage financing and mezzanine financing, provided that the aggregate value of such investments shall not exceed 20% of the gross book value of the REIT.

The REIT was in compliance with these guidelines as at December 31, 2021.

9. FINANCIAL INSTRUMENTS

Risk management

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

(a) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The REIT does not have cash equivalents and is therefore not exposed to the risk of changes in the fair value of the cash equivalents from interest rate fluctuations. Substantially all of the REIT's term loans as at December 31, 2021 have fixed interest rates.

December 31, 2021 (US dollars)

9. FINANCIAL INSTRUMENTS

Risk management (continued)

(b) Credit risk

Credit risk relates to the possibility that hotel guests, either individual or corporate, do not pay the amounts owed to the REIT. The REIT mitigates this risk by limiting its exposure to customers allowed to pay by invoice after check out ("direct bill"). The REIT reviews accounts receivable regularly and the allowance for expected credit losses is adjusted for any balances which are determined by management to be uncollectable. This provision adjustment is expensed in operating expenses.

The following summarizes accounts receivable related balances:

	December 31, 2021	December 31, 2020
Accounts receivable, net	$ 434,991	$ 510,512
Allowance for expected credit losses	$ 31,049	$ 24,560
Accounts receivable greater than 90 days not provided for	$ 57,648	$ 8,856
Allowance for doubtful accounts to total receivables	7.1%	4.8%

	Year Ended December 31, 2021	Year Ended December 31, 2020
Bad debts expense	$ 543,449	$ 183,747

(c) Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they become due. The REIT manages this risk by ensuring it has sufficient cash on hand to meet obligations as they become due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at December 31, 2021, the REIT had cash of $9,251,946 (December 31, 2020 – $9,453,868), restricted cash of $5,149,018 (December 31, 2020 – $5,150,759) and current liabilities of $8,051,097 (December 31, 2020 – $20,386,891).

(d) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The REIT had $344,325 (December 31, 2020 – $295,093) Canadian dollars deposited with major Canadian banking institutions at December 31, 2021.

The REIT does not enter into arrangements to hedge its foreign exchange risk. A 1% change in the Canadian dollar exchange rate would not have a significant impact on the consolidated statements of income and comprehensive income.

December 31, 2021 (US dollars)

9. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value

The fair values of the REIT's current financial assets and current financial liabilities approximate their recorded values at December 31, 2021 and 2020 due to their short-term nature. As at December 31, 2021 and 2020, the carrying value of other loans, excluding debt financing costs, approximated their fair value. The fair value of loans and borrowings was estimated based on discounted cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

The fair value hierarchy of financial liabilities measured at fair value on the statements of financial position is as follows:

	December 31, 2021				December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial Liabilities:								
Exchangeable units (Note 7)	**$ 9,802,833**	**$ -**	**$ -**	**$ 9,802,833**	$ 7,352,125	$ -	$ -	$ 7,352,125
Total financial liabilities	**$ 9,802,833**	**$ -**	**$ -**	**$ 9,802,833**	$ 7,352,125	$ -	$ -	$ 7,352,125

There were no transfers between Level 1 and Level 2 fair value measurements during the period and year presented and no transfer into and out of Level 3. There were no financial instruments measured at Level 3 at any of the dates presented.

A fair value loss of $2,450,708 has been included in 'Unrealized (loss) gain on liabilities presented at fair value' (2020 – $12,253,543 gain) in the consolidated statements of income and comprehensive income.

10. LEASE AND OTHER LIABILITIES

	December 31, 2021	December 31, 2020
Land lease	$ 2,893,142	$ 2,858,286
Government grant liability	-	1,336,247
	2,893,142	4,194,533
Current portion	-	(1,004,448)
	$ 2,893,142	$ 3,190,085

In September 2019, in connection with the acquisition of the 2019 Acquisition Properties, the REIT, through a subsidiary, assumed the land lease mortgage of $2,825,244 on one of the eight properties at a fixed rate of 5.45%. The land lease is payable in annual payments of $121,985 and increases over the term until maturity in December 2062.

During April 2020, various subsidiaries obtained loans under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The REIT received an aggregate total of $1,336,247 in loan proceeds that carry an interest rate of 1.00% per annum, and are repayable over two years. Under the terms of the loans, all or a portion of the loans may be forgiven if the loan proceeds are used for qualifying expenses and if other specific criteria are met. During the year, the loans were forgiven and as a result have been included in "Operating costs" in the consolidated statements of income and comprehensive income.

The present value of the contractual payments at December 31, 2021 is $2,893,142. The contractual payments to maturity on the land lease are as follows:

December 31, 2021 (US dollars)

10. LEASE AND OTHER LIABILITIES (CONTINUED)

2022	$	125,492
2023		136,014
2024		136,014
2025		136,014
2026		136,014
Thereafter		7,940,656
	$	8,610,204

11. MORTGAGES PAYABLE

		December 31, 2021		December 31, 2020
Mortgages payable	$	67,523,969	$	72,787,507
Unamortized portion of deferred financing costs		(622,143)		(566,894)
		66,901,826		72,220,613
Current portion		(1,922,571)		(6,779,974)
	$	64,979,255	$	65,440,639

Substantially all of the REIT's assets have been pledged as security under various loan agreements. At December 31, 2021, the REIT's loans had a weighted average interest rate of 4.96% (December 31, 2020 – 4.77%), and a weighted average effective interest rate of 5.20% (December 31, 2020 – 4.89%).

In March 2017, the REIT, through a subsidiary, completed financing of the Hotel, for $5,500,000 at a fixed interest rate of 5.45% for a 10-year term with a US financial institution. The mortgage is repayable in monthly payments of principal and interest totaling $33,611 until maturity in April 2027. At December 31, 2021, the effective interest rate was 5.97% (December 31, 2020 – 5.97%).

In August 2018, in connection with the acquisition of the 2018 Acquisition Properties, the REIT, through a subsidiary, assumed the mortgage of $20,500,000 at a fixed rate of 5.26%. The mortgage is repayable in monthly payments of interest until July 2020 and monthly payments of principal and interest totaling $122,906 on the remaining term of 10 years with a US financial institution. At December 31, 2021, the effective interest rate was 5.31% (December 31, 2020 – 5.31%).

In December 2018, the REIT, through a subsidiary, completed mortgage financing to replace the 2017 VTB on two of the 2017 Acquisition Properties for $6,100,000 at a fixed rate of 5.14% with a US financial institution. The mortgage is repayable in monthly payments of principal and interest totaling $36,159 until maturity in December 2028. At December 31, 2021, the effective interest rate was 5.22% (December 31, 2020 – 5.22%).

December 31, 2021 (US dollars)

11. MORTGAGES PAYABLE (CONTINUED)

In September 2019, in connection with the acquisition of the 2019 Acquisition Properties, the REIT, through subsidiaries, obtained mortgage loans of $37,180,000, which included $3,200,000 of proceeds for capital expenditures at a fixed rate of 4.34% with a US financial institution. The mortgage is repayable in monthly payments of principal and interest totaling $106,558 until maturity in October 2024 for four of the 2019 Acquisition Properties and $96,739 until maturity in October 2029 for the remaining four. At December 31, 2021, the effective interest rates were 4.46% (December 31, 2020 – 4.46%).

In January 2021, the REIT, through a subsidiary, completed mortgage financing to replace the mortgage on two of the 2017 Acquisition Properties for $6,450,000 at the New York prime rate + 3.25%. The mortgage is interest only for the first 6 months, and subsequently is repayable in monthly payments of principal and interest of $43,938 until maturity in January 2026. At December 31, 2021, the effective interest rate was 7.24%.

Principal repayments to maturity on the mortgages are as follows:

2022	$	1,922,571
2023		2,018,218
2024		13,586,963
2025		1,434,308
2026		7,299,505
Thereafter		41,262,404
	$	67,523,969

12. VENDOR TAKEBACK MORTGAGE

In September 2019, in connection with the acquisition of the 2019 Acquisition Properties, the REIT, through a subsidiary received a $7,000,000 interest-only VTB mortgage separated into two tranches. The first tranche of $3,500,000 with an interest rate of 5.0% per annum was repaid in March 2021. The second tranche of $3,500,000 with an interest rate of 6.0% per annum was repaid $1,000,000 in August 2021. The REIT exercised its option to extend the maturity date to September 30, 2022 for the remaining principal of $2,500,000.

13. UNITHOLDERS' EQUITY

The REIT is authorized to issue an unlimited number of REIT units and Special Voting Units. Each REIT unit entitles the holder to a single vote at any meeting of unitholders and entitles the holder to receive a pro-rata share of all distributions and in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. The REIT units are redeemable at any time at the demand of the holders to receive a price per REIT unit as determined by the REIT's DOT. Among other conditions for redemption, the total amount payable by the REIT in respect of units surrendered for redemption shall not exceed $50,000 in any one calendar month.

The DOT provides for the issuance of Special Voting Units which have no economic entitlement in the REIT or in the distribution of assets of the REIT, but are used to provide voting rights proportionate to the votes of the units to holders of securities exchangeable into units, including Class B LP units.

December 31, 2021 (US dollars)

13. UNITHOLDERS' EQUITY (CONTINUED)

On December 2, 2020, the REIT issued 976,750 REIT units at $0.03 ($0.04 Canadian dollars) to the Trustees for $30,000 ($39,070 Canadian dollars) as payment for their 2020 annual retainers.

On December 16, 2020, the REIT issued 284,240 vested DU's (Note 16) at $0.02 ($0.03 Canadian dollars) to an officer for $6,686 ($8,527 Canadian dollars). The REIT recognized a contributed surplus of $14,739.

On December 14, 2021, the REIT issued 1,525,200 REIT units at $0.04 ($0.05 Canadian dollars) to Trustees for $60,000 ($76,260 Canadian dollars) as payment for their 2020 annual retainers.

On December 14, 2021, the REIT issued 447,690 vested DU's (Note 16) at $0.03 ($0.03 Canadian dollars) to an officer for $12,198 ($15,669 Canadian dollars). The REIT recognized a contributed surplus of $14,227.

The trustees, directors and officers of the REIT beneficially own, directly or indirectly, or have control over 262,106,584 (December 31, 2020 – 259,445,960) or 92.8% (December 31, 2020 – 92.5%) of the issued and outstanding units and exchangeable units of the REIT.

14. SUPPLEMENTARY CASH FLOW INFORMATION

Cash generated from (utilized in)		Year Ended December 31, 2021		Year Ended December 31, 2020
Accounts receivable	$	75,521	$	(311,555)
Income taxes receivable		(44,676)		(218,444)
Prepaid expenses		64,895		(124,874)
Accounts payable and accrued liabilities		(1,019,903)		1,145,812
Deferred revenue		76,976		43,433
Changes in non-cash working capital	$	(847,187)	$	534,372

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2021		December 31, 2020
Accounts payable and accrued liabilities	$	2,423,908	$	3,446,763
Due to related parties (Note 16)		935,996		967,900
Total	$	3,359,904	$	4,414,663

16. RELATED PARTY DISCLOSURES

BWI and the 2019 Acquisition Properties have a property management agreement for hotel management, accounting and other services with R-West Management, LLC and the 2017 and 2018 Acquisition Properties have a similar agreement with a subsidiary of R-West Management, LLC, collectively "the Manager".

BWI and the 2017, 2018 and 2019 Acquisition Properties, collectively (the "Hotels") have a franchise agreement with Red Roof Franchising, LLC (the "Franchisor") which allows them to carry on business as a Red Roof Inn branded hotel.

The Manager and the Franchisor are owned by the same company that owns Red Roof, which in turn operates the hotels. A trustee has a direct or indirect controlling interest in Westpac, Red Roof, the Manager and the Franchisor and as such have a material interest in the agreements.

Services provided by the Manager include preparation of annual operating and capital budgets and marketing plans, accounting and financial reporting, supervision of sales and marketing, internal audit, human resource management, purchasing, management and supervision of construction and technical services, information technology, supervision of property repairs and maintenance, supervision of compliance with material contracts relating to the leasing, yield management and quality control.

The Manager is entitled to hotel management fees equal to 3.5% of revenues, fees based on a percentage of the cost of purchasing certain goods and supplies and certain construction costs and capital expenditures, fees for accounting and revenue management services, reasonable out-of-pocket costs and expenses and project management and general contractor service fees related to hotel renovations managed by the Manager. In addition, the Manager is entitled to an incentive fee up to 1.75% of the gross hotel revenue each year. Fees incurred to the Manager for the year ended December 31, 2021 totaled $1,838,116 (2020 – $1,448,903). Included in accounts payable and accrued liabilities was $526,503 owing at December 31, 2021 (December 31, 2020 – $240,317).

The Hotels also participate in various Red Roof agreements for vending, guest laundry, management, television programming and supplies. In the event Red Roof terminates these contracts without cause, there could be significant financial obligations due to the provider of these goods and services.

In accordance with the franchise agreements, the Hotels pay the Franchisor fees that increase over the term: royalty fees up to 3.5% of room revenue, a marketing fee up to 2.5% of room revenue and a reservations fee up to 1.5% of room revenue. In addition, the Hotels pay the Franchisor fees for information technology, revenue management and training services. Fees incurred to the Franchisor for the year ended December 31, 2021 totaled $2,213,990 (2020 – $1,821,204). Included in accounts payable and accrued liabilities was $334,331 owing at December 31, 2021 (December 31, 2020 – $528,865).

The REIT incurred interest expense of $206,244 (2020 – $315,976) on the VTB mortgage (Note 12). Included in accounts payable and accrued liabilities was $75,162 owing at December 31, 2021 (December 31, 2020 – $198,718).

During the year, the REIT awarded 382,290 DU's (2020 – 490,350) to an officer of the REIT. The REIT issued units from the vested DU's (Note 13).

December 31, 2021 (US dollars)

17. INTEREST EXPENSE, NET

		Year Ended December 31, 2021		Year Ended December 31, 2020
Interest expense	$	3,930,115	$	4,306,364
Interest income		(2,008)		(4,223)
Amortization of deferred financing costs (Note 11)		217,383		451,074
Total	$	4,145,490	$	4,753,215

18. INCOME TAXES

During the year, the REIT recorded an income tax expense of $48,994 (December 31, 2020 – recovery of $129,928 from net operating losses ("NOL") being carried back to prior years).

As of December 31, 2021, R&R LP has US federal NOL carryforwards of $1,230,582. These NOL can be carried forward indefinitely.

		NOL	Expire In
2019	$	629,391	Indefinitely
2020		601,191	Indefinitely
	$	1,230,582	

As of December 31, 2021, the REIT has accumulated NOL for Canadian tax purposes of $3,286,511 (December 31, 2020 – $3,215,824), which will expire as follows,

		NOL	Expire In
2017	$	816,340	2037
2018		564,048	2038
2019		1,621,067	2039
2020		214,369	2040
2021		70,687	2041
	$	3,286,511	