

A wide-angle photograph of a resort complex, likely Parkpool, nestled at the base of a large, densely forested hill. The resort features several large, modern buildings with dark roofs and light-colored walls, interspersed with green lawns and trees. In the foreground, there's a parking area with several vehicles, including what appear to be golf carts. The background shows rolling hills under a clear sky.

Parkpool Financial Statements

DECEMBER 2022

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

British Columbia Investment Management Corporation ("BCI") manages Pooled Investment Portfolios on behalf of governing fiduciaries such as pension fund trustees and other public sector clients. QuadReal Property Group Limited Partnership and affiliates ("QuadReal") manage the Mortgage and Real Estate programs pursuant to asset management agreements as agreed to between BCI and QuadReal. This report contains the financial statements for the Parkpool Pooled Investment Portfolio for the year ended December 31, 2022.

The financial statements of this Pooled Investment Portfolio have been prepared by QuadReal and approved by the BCI Chief Investment Officer/Chief Executive Officer. All of the financial statements have been prepared in accordance with International Financial Reporting Standards. The significant accounting policies used in the preparation of these statements are disclosed in note 3 to the financial statements. The statements include certain amounts that are based on management's judgement and best estimates.

BCI's Board has established an Audit Committee. The BCI Audit Committee's mandate includes oversight of the financial statements of the Pooled Investment Portfolio managed by QuadReal through a governance framework established with QuadReal's Board and Audit Committee. Through this governance framework, the BCI Committee mandate is executed through oversight from QuadReal's Audit Committee and includes making recommendations on the appointment of the external auditor for the Pooled Investment Portfolio, reviewing the external audit plan; reviewing BCI's Service Organization Controls Report for the Investment System of British Columbia Investment Management Corporation, including QuadReal related controls, and reviewing the annual audited financial statements of the Pooled Investment Portfolios. The BCI Committee and QuadReal Committee reviews the recommendations of the internal and external auditors with respect to internal controls and the responses of management to those recommendations, and also meets with management and the internal and external auditors to review annual audit plans.

BCI and QuadReal maintain a system of internal control and supporting processes to provide reasonable assurance that assets are safeguarded; that transactions are appropriately authorized and recorded; and that there are no material misstatements in the financial statements. BCI's and QuadReal's internal control framework includes: a strong corporate governance structure; a code of conduct that includes conflict of interest guidelines; an organizational structure that provides for appropriate segregation of duties and accountability for performance; an enterprise-wide risk management framework that identifies, monitors and reports on key risks; and adherence to BCI Board-approved Pooled Investment Portfolio Policies and client-approved investment mandates. BCI's and QuadReal's system of internal control is supported by external auditors who review and evaluate internal controls and report directly to the BCI and QuadReal Audit Committees.

The Pooled Investment Portfolio's external auditors, KPMG LLP, have full and unrestricted access to the BCI and QuadReal Audit Committees and BCI and QuadReal management. KPMG LLP discusses with management and the Committees the results of their audit of the Pooled Investment Portfolio financial statements and related findings with respect to such audit. The Pooled Investment Portfolio financial statements are audited by KPMG LLP in accordance with Canadian generally accepted auditing standards. KPMG LLP has performed such tests and other procedures as they considered necessary to express an opinion on the Pooled Investment Portfolio financial statements.

[S] Gordon J. Fyfe

Gordon J. Fyfe
Chief Executive Officer, BCI
Chief Investment Officer, BCI

[S] Dennis Lopez

Dennis Lopez
Chief Executive Officer, QuadReal

[S] Tamara Lawson

Tamara Lawson
Chief Financial Officer, QuadReal



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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Parkpool

Opinion

We have audited the financial statements of Parkpool (the "Fund"), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of comprehensive income for the year then ended
- the statement of changes in net assets attributable to holders of redeemable units for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit 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 auditor's report.

We are independent of the Fund 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 (IFRS) 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund'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 the 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 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 Fund'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 Fund'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 Fund 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.
- 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants

Vancouver, Canada
April 11, 2023

PARKPOOL

Statement of Financial Position

(Expressed in thousands of Canadian dollars, except number of units)

December 31, 2022, with comparative information from 2021

	Notes	2022	2021
Assets			
Cash		\$ 5,279	\$ 12,839
Interest and other receivables		4,311	—
Investments at fair value through profit and loss	4, 8 & 9	1,791,489	1,686,311
Total assets		1,801,079	1,699,150
Liabilities			
Fund manager cost recoveries payable	5	988	99
Other accounts payable and accruals		130	247
Due to related party	5	38	—
Loan payable to related party	5	6,800	—
Total liabilities excluding net assets attributable to the holders of redeemable unit		7,956	346
Net assets attributable to holders of redeemable units			
		\$ 1,793,123	\$ 1,698,804
Number of redeemable units outstanding	6	1,414.476	1,414.476
Net assets attributable to holders of redeemable units per unit			
		\$ 1,268	\$ 1,201
Commitments and contingencies	11		
Subsequent events	12		

See accompanying notes to financial statements.

[S] Gordon J. Fyfe

Gordon J. Fyfe
Chief Executive Officer, BCI
Chief Investment Officer, BCI

PARKPOOL

Statement of Comprehensive Income

(Expressed in thousands of Canadian dollars, except number of units)

Year ended December 31, 2022, with comparative information from 2021

	Notes	2022	2021
Revenue:			
Investment income		\$ 51,229	\$ 50,767
Change in fair value of investments:	9		
Net change in unrealized appreciation		45,178	156,470
		96,407	207,237
Expenses:			
Fund manager cost recoveries	5	1,920	1,159
Interest expense and other		35	313
Loan payable to related party interest	5	38	—
Administrative and professional fees		95	134
		2,088	1,606
Increase in net assets attributable to holders of redeemable units from operations excluding distributions		94,319	205,631
Distribution to holders of redeemable units		(49,141)	(49,161)
Increase in net assets attributable to holders of redeemable units		\$ 45,178	\$ 156,470

See accompanying notes to financial statements.

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Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

(Expressed in thousands of Canadian dollars, except number of units)

Year ended December 31, 2022, with comparative information from 2021

	Note	2022	2021
Balance, beginning of year	\$	1,698,804	\$ 1,543,173
Increase in net assets attributable to holders of redeemable units		45,178	156,470
Redeemable unit transactions:	6		
Proceeds from units issued		30,790	14,406
Reinvestment of distributions		49,141	49,161
Amounts paid for units redeemed		(30,790)	(64,406)
		49,141	(839)
Balance, end of year	\$	1,793,123	\$ 1,698,804

See accompanying notes to financial statements.

PARKPOOL

Statements of Cash Flows

(Expressed in thousands of Canadian dollars, except number of units)

Year ended December 31, 2022, with comparative information from 2021

	2022	2021
Cash flows provided by (used in):		
Operations:		
Increase in net assets attributable to holders of redeemable units	\$ 45,178	\$ 156,470
Adjustments for:		
Interest revenue	(51,229)	(50,767)
Interest collected	46,918	50,767
Net change in unrealized appreciation from investments	(45,178)	(156,470)
Interest expense	73	313
Interest paid	(35)	(313)
Non-cash distributions	49,141	49,161
Amounts paid for purchase of investments	(60,000)	—
Fund manager cost recoveries payable	889	(194)
Other accounts payable and accruals	(117)	55
	(14,360)	49,022
Financing:		
Advances on loan payable to related party	6,800	—
Proceeds from issuance of redeemable units	30,790	14,406
Payments on redemption of redeemable units	(30,790)	(64,406)
	6,800	(50,000)
Net decrease in cash during the year	(7,560)	(978)
Cash, beginning of year	12,839	13,817
Cash, end of year	\$ 5,279	\$ 12,839

See accompanying notes to financial statements.

PARKPOOL

Schedule of Investments

(Expressed in thousands of Canadian dollars, except number of units)

December 31, 2022, with comparative information for 2021

	December 31, 2022		December 31, 2021	
	Fair value	Cost	Fair value	Cost
Real estate investments ¹	\$ 1,791,489	\$ 1,585,469	\$ 1,686,311	\$ 1,525,469
Total investments	\$ 1,791,489	\$ 1,585,469	\$ 1,686,311	\$ 1,525,469

¹ Real estate investments are held through either a private corporation, a trusts and a limited partnership (note 4, note 8, note 9 and note 10).

See accompanying notes to financial statements.

PARKPOOL

Notes to the Financial Statements

(Amounts expressed in thousands of Canadian dollars, except number of units or where indicated)

Year ended December 31, 2022

1. The portfolio

British Columbia Investment Management Corporation ("BCI") was established under the Public Sector Pension Plans Act as a trust company authorized to carry on trust business and investment management services. The address of BCI's registered office is at 750 Pandora Avenue, Victoria, British Columbia, Canada.

QuadReal Property Group Limited Partnership ("QuadReal") and affiliates manage Parkpool (the "Fund") pursuant to an Asset Management Agreement between BCI and QuadReal. These financial statements have been prepared by QuadReal.

Under the Public Sector Pension Plans Act and the Pooled Investment Portfolios Regulation, B.C. Reg. 447/99 (the "Regulations"), BCI may establish and operate pooled investment portfolios "...in which money from trust funds, special funds or other funds, other public money and the money of government bodies and designated institutions may be combined in common for the purpose of investment by means of investment units of participation in a pooled investment portfolio." In addition, pooled investment portfolios previously established under the Financial Administration Act and the Pooled Investment Portfolios Regulation, B.C. Reg. 84/86, were continued under the Pooled Investment Portfolios Regulation, B.C. Reg. 447/99, to be held in trust by BCI and invested by the Chief Investment Officer ("CIO") of BCI.

The Fund was established on October 11, 2019 and holds an investment in Parkbridge Lifestyle Communities Inc.

PARKPOOL

Notes to the Financial Statements

(Amounts expressed in thousands of Canadian dollars, except number of units or where indicated)

Year ended December 31, 2022

2. Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"). These financial statements were authorized for issue by the BCI Chief Executive Officer / Chief Investment Officer on April 11, 2023.

(b) Basis of consolidation

Real estate investments are held through subsidiaries of the Fund, which include a private corporation, a trust and a limited partnerships funded by equity and debt. The Fund is an investment entity, and as such, does not consolidate the entities it controls. Instead, interests in subsidiaries are classified at fair value through profit or loss, and measured at fair value.

The Fund qualifies as an investment entity as it meets the following definition of an investment entity outlined in IFRS 10, Consolidated Financial Statements ("IFRS 10"):

- obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

(c) Basis of measurement

These financial statements have been prepared on a cost basis except for investments held at fair value through profit or loss ("FVTPL"), which are measured at fair value.

(d) Functional and presentation currency

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

PARKPOOL

Notes to the Financial Statements

(Amounts expressed in thousands of Canadian dollars, except number of units or where indicated)

Year ended December 31, 2022

(e) Use of estimates and judgement

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. In determining the fair value of some of its investments, management reviews and assesses the estimates and assumptions provided by managers regarding investment industry performance and prospects, as well as general business and economic conditions that prevail. By nature, these asset valuations are subjective and do not necessarily result in precise determinations. Financial results as determined by actual events could differ from those estimates and assumptions, and the difference could be material.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected. Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment within the next fiscal year is included in note 9 and relate to the determination of fair value of investments with significant unobservable inputs.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments

(i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") or FVTPL. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities are recognized initially on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset is measured at amortized cost if it meets both of the following conditions:

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

PARKPOOL

Notes to the Financial Statements

(Amounts expressed in thousands of Canadian dollars, except number of units or where indicated)

Year ended December 31, 2022

A financial asset is measured at FVOCI if it meets both of the following conditions:

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

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Fund may irrevocably elect to measure financial assets that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL when doing so results in more relevant information.

Financial assets are not reclassified subsequent to their initial recognition, unless the Fund changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Fund has not classified any of its financial assets as FVOCI.

Financial liabilities are generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at FVTPL such as derivative financial liabilities. The Fund may, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

(ii) Fair value through profit and loss:

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the Statement of Comprehensive Income in the period in which they occur. The Fund's investments and redeemable units are designated as FVTPL.

Fair value is 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. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market, is determined using valuation techniques. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of management, be inaccurate, unreliable or not readily available, the fair value is estimated based on the most recently reported information of a similar financial asset or liability.

PARKPOOL

Notes to the Financial Statements

(Amounts expressed in thousands of Canadian dollars, except number of units or where indicated)

Year ended December 31, 2022

(iii) Amortized cost:

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus or minus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Fund classifies cash, interest and other receivables, due to related party, fund manager cost recoveries payable, loan payable to related party and other accounts payable and accruals as amortized cost.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(b) Redeemable units

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. In accordance with the Regulations, the Fund is required to distribute, to holders of the Fund's redeemable units, the taxable income and taxable capital gains of the Fund at least annually. The units are classified as financial liabilities at FVTPL and measured at the redemption amount. Distributions to holders of redeemable units are recognized in comprehensive income when they are authorized.

(c) Issuance and redemption of units

Participation in the Fund is expressed in units. The initial value of a unit on inception was \$1,000. For each subsequent unit issuance and redemption, the unit value is determined by dividing the fair value of the net assets of the Fund by the total number of units outstanding. Where one Fund invests in another Fund, the unit issuances and redemptions are transacted on the same basis as client transactions. All unit transactions are recorded on a trade date basis. The Fund is an open participation fund where eligible clients may increase or reduce their proportionate ownership annually or on special opening dates.

(d) Income recognition

Investment income is recognized on an accrual basis using the effective interest method. Portfolio transactions are recorded on the trade date. Dividend income is recognized on the date that the right to receive payment is established. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments. The year-over-year change in the difference between the fair value and the cost of the investments held at year-end is recognized as a net change in unrealized appreciation (depreciation) of investments. Commissions, stock exchange fees and other identifiable transaction costs that are directly attributable to the acquisition or disposal of an investment are expensed as incurred. Pursuit costs are charged to expenses of the Fund in the period incurred.

(e) Income taxes

The Fund is established in accordance with the Pooled Investment Portfolios Regulation and its assets are held in trust by BCI; it is immune from taxation by virtue of BCI being a provincial Crown agent.

PARKPOOL

Notes to the Financial Statements

(Amounts expressed in thousands of Canadian dollars, except number of units or where indicated)

Year ended December 31, 2022

4. Investments at fair value through profit and loss

The real estate investments consist of equity investments in and debt investments from either a private corporation, a partially owned limited partnership, and a trust. The fair value of subsidiary entities (note 10) is determined by the net asset value of the entities which is defined as the fair value of the real estate properties and underlying entities, net of the fair value of issued debt and other short-term assets and liabilities (note 9).

5. Related party transactions

The Fund's related parties include QuadReal, BCI, the Province of British Columbia and related entities, investments where the Fund has a controlling interest or significant influence, entities with common ownership, and other related entities for which BCI and QuadReal provides investment management services. The Fund had the following transactions with related parties during the year.

(a) Fund manager cost recoveries

The Fund is charged cost recoveries from BCI and QuadReal for fund management costs paid by BCI and QuadReal. BCI and QuadReal cost recoveries and the related payable are disclosed as Fund manager cost recoveries in the Fund's Statement of Comprehensive Income and Statement of Financial Position, respectively.

(b) Loan payable to related party

On October 26, 2022, the Fund entered into a promissory note with BCI QuadReal Realty ("BQR"), another pooled investment portfolio, which allows the Fund to draw up to \$200,000 to fund its general obligations. As at December 31, 2022, the outstanding balance totaled \$6,800 (2021 - \$0). The promissory note accrues interest at a rate of BA plus a margin of 1.00% and matures on October 26, 2025. The accrued interest is recorded in due to related parties. Included in due to related parties is accrued interest on the loan of \$38 (2021 - \$0) and is payable on demand.

6. Redeemable units

The Fund is authorized to issue an unlimited number of redeemable units. Redeemable units issued and outstanding represent the capital of the Fund. The Fund is not subject to any internally or externally imposed restrictions on its capital. The capital of the Fund is managed in accordance with the Fund's investment objectives, including managing the redeemable units to ensure a stable base to maximize returns to all investors, and managing liquidity in order to meet redemptions.

PARKPOOL

Notes to the Financial Statements

(Amounts expressed in thousands of Canadian dollars, except number of units or where indicated)

Year ended December 31, 2022

The following is a summary of the changes in the number of redeemable units outstanding during the year:

	2022	2021
Outstanding, beginning of year	1,414.476	1,459.650
Issued	25.637	13.630
Issued on reinvestment of distributions	39.507	43.076
Consolidation of units	(39.507)	(43.076)
Redeemed	(25.637)	(58.804)
Outstanding, end of year	1,414.476	1,414.476

7. Credit facility

In June 2021, the Fund established a two-year \$100,000 senior unsecured committed credit facility to support letters of credit and general corporate purposes. BQR has provided an unconditional and irrevocable guarantee to the Fund. As at December 31, 2022, there is no amount outstanding under this facility (2021 – nil). Interest rates on the credit facility are based on Canadian Dollar Offered Rate plus a margin. On November 29, 2022, the facility was extended to June 25, 2024.

8. Financial risk management

(a) Risk management framework

The investment objective of the Fund is to provide clients with exposure to a portfolio of Canadian real estate and real estate-related investments. The Fund's holdings are highly diversified by property type, geographic location, investment size, and investment risk. The Fund primarily concentrates on high quality income producing land lease properties located in geographic regions that have strong and growing economies. The Fund's investment strategy is to be well diversified and to hold quality properties that will perform well across multiple economic cycles. Real estate investments are only made when there is a reasonable expectation that return objectives can be achieved over the longer term.

The Fund may hold the following assets:

- Real estate properties
- Real estate-related securities, including trust units, partnership interests, shares, debt instruments, and units in externally managed pooled investment portfolios;
- Derivative instruments for the purposes of synthetic indexing, risk control, lowering transactions costs, and/or liquidity management; and
- Units in BCI's Canadian Money Market Fund (ST1), Canadian Money Market Fund (ST2), US Dollar Money Market Fund (ST3), government debt securities with a maximum term to maturity of 1 year, and other BCI short-term fixed income pooled funds, for cash management.

PARKPOOL

Notes to the Financial Statements

(Amounts expressed in thousands of Canadian dollars, except number of units or where indicated)

Year ended December 31, 2022

The following restrictions apply to the Fund's investing activities:

- Debt financing may be used in a prudent manner. No debt will be assumed or created if, as a result, the debt to market value ratio of BCI's combined real estate program would exceed 55 percent;
- When entering into a new derivatives transaction, external counterparties must be financial institutions rated "A-" or higher by Standard & Poor's or have an equivalent rating from another credit rating agency; and
- Real estate investments must be eligible investments for pension plans under the Pension Benefits Standards Act, (B.C.).

BCI, as trustee of the Fund, has the power to vary the investments and assets of the Fund and reinvest proceeds realized from the investments of the Fund all within the bounds of the investment policies, rules and restrictions established for and governing the Fund.

The Fund's activities expose it to a variety of financial risks. For purposes of describing the financial risks of the Fund, the composition of the net assets held by the underlying corporations, limited partnerships, and trusts and their investing activities have been considered.

As of December 31, the limited partnerships, and trusts hold the following underlying net assets:

	2022		2021	
	Total	% of total	Total	% of total
Real estate properties	2,009,250	113	1,889,940	112
Mortgages	(8,119)	(1)	(16)	—
Other net assets	(209,642)	(12)	(203,613)	(12)
Total net assets of entities	\$ 1,791,489	100	\$ 1,686,311	100

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It arises principally from cash and other receivables due to the Fund. The carrying value of these financial instruments as recorded in the Statement of Financial Position reflects the Fund's maximum exposure to credit risk.

To avoid undue credit risk, the Fund has established specific investment criteria, such as minimum credit ratings for investees and counterparties.

The Fund's activities may also give rise to settlement risk. Settlement risk is the risk of loss due to failure of an entity to honor its obligations to deliver cash, securities, or other assets prior to the settlement of the transaction as contractually agreed. The risk of default is considered minimal since the Fund's private corporation, trust and limited partnership hold real estate and typically have a diversified tenant base. QuadReal conducts financial reviews to assess potential tenants' ability to meet future lease obligations.

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Notes to the Financial Statements

(Amounts expressed in thousands of Canadian dollars, except number of units or where indicated)

Year ended December 31, 2022

(c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other assets as contractually agreed. QuadReal's approach to managing liquidity risk is to ensure, as far as possible, that the Fund has sufficient liquidity to meet its liabilities when due. The Fund has certain credit facilities and programs available to support general funding requirements.

The Fund is exposed to the liquidity risk associated with the requirement to redeem units. Redeemable units of the Fund may only be acquired by eligible clients or client groups in accordance with the Fund's purchasing limits that may be established by the CIO. In order to protect the interest of all clients, the CIO may also establish redemption limits for the Fund. The purchase and redemption limits may vary depending on market circumstances, client demand, and the liquidity of the underlying investments.

The Fund's remaining liabilities, including Fund manager cost recoveries payable and accounts payable, are due within three months of the year end of the Fund.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices, will affect the Fund's income or the fair value of its holdings of financial instruments.

(i) Real estate risk:

The Fund has identified the following risks associated with the real estate portfolio:

- The Fund's subsidiaries may undertake development activity to acquire properties that are not otherwise available in the marketplace or to enhance returns by accepting more manageable risk. Typical risks include the developer being unable to complete the project, the project is not completed on time or the project is not completed on budget. The Fund's subsidiaries generally use developers with strong expertise and reputation. The near-term focus for the Fund is to grow the portfolio through a combination of acquisitions and developments, which may result in higher development risk in the near term that will decline as projects are completed.
- The exposure of the fair values of the Fund to market and occupier fundamentals.

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(Amounts expressed in thousands of Canadian dollars, except number of units or where indicated)

Year ended December 31, 2022

(ii) Other valuation risk

As at December 31, real estate investment properties held by the Fund's private corporation, trust and limited partnership were diversified across the following geographic regions:

	2022		2021	
	Total	% of total	Total	% of total
British Columbia	\$ 269,700	13	\$ 357,620	19
Alberta	413,320	20	407,550	21
Ontario	1,201,160	60	1,004,670	53
Quebec	90,560	5	85,950	5
New Brunswick	13,620	1	13,410	1
Nova Scotia	20,890	1	20,740	1
	\$ 2,009,250	100	\$ 1,889,940	100

9. Fair value measurement

(a) Fair value hierarchy

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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Year ended December 31, 2022

The table below shows investments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. All fair value measurements are recurring.

	December 31, 2022			
	Quoted prices in active markets [Level 1]	Significant observable inputs [Level 2]	Significant unobservable inputs [Level 3]	Total
Financial assets:				
Real estate investments	\$ —	\$ —	\$ 1,791,489	\$ 1,791,489
	\$ —	\$ —	\$ 1,791,489	\$ 1,791,489

	December 31, 2021			
	Quoted prices in active markets [Level 1]	Significant observable inputs [Level 2]	Significant unobservable inputs [Level 3]	Total
Financial assets:				
Real estate investments	\$ —	\$ —	\$ 1,686,311	\$ 1,686,311
	\$ —	\$ —	\$ 1,686,311	\$ 1,686,311

During 2022 and 2021, there were no transfers between Levels 1, 2, or 3.

The following table shows a reconciliation from the beginning balances to the ending balances for level 3 real estate investments of the fair value hierarchy.

	2022	2021
Balance, beginning of year	\$ 1,686,311	\$ 1,529,841
Purchases	60,000	—
Sales	—	—
Total unrealized gains for the year, included in profit or loss	45,178	156,470
Balance, end of year	1,791,489	1,686,311

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(b) Valuation models

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Fund uses widely recognized valuation methods for determining the fair value of common and simpler financial instruments that use only observable market data which requires little management judgment and estimation. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates and money market prices

Observable prices and model inputs are usually available in the market for equities. The availability of observable market prices and model input reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, such as real estate, equity investments and debt, the Fund uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instruments being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

The fair value of real estate is determined using recognized valuation techniques, including the income approaches (direct capitalization and discounted cash flow) and the direct comparison approach.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Fund believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Fund and the counterparties where appropriate.

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Year ended December 31, 2022

(c) Valuation framework

The Fund has an established framework with respect to the measurement of fair values and applies the following specific controls in relation to the determination of fair values:

- verification of observable pricing inputs;
- appraisal of domestic real estate properties annually by accredited independent appraisers;
- analysis and investigation of significant valuation movements for real estate investments; and
- review of unobservable inputs and valuation adjustments for real estate investments. Unobservable inputs include estimated future cash flows from assets, capitalization rates or discount rates applicable to those assets and recent real estate transactions with similar characteristics.

(d) Significant unobservable inputs used in measuring fair value:

December 31, 2022				
	Fair value	Valuation sources	Unobservable input	Range
Real estate investments	\$ 1,791,489	Direct capitalization	Overall capitalization rate	4.00%-8.50%
				Sensitivity to change in significant unobservable input
				The estimated fair value would increase (decrease) if the capitalization rate was lower (higher)

December 31, 2021				
	Fair value	Valuation sources	Unobservable input	Range
Real estate investments	\$ 1,686,311	Direct capitalization	Overall capitalization rate	4.00%-8.50%
				Sensitivity to change in significant unobservable input
				The estimated fair value would increase (decrease) if the capitalization rate was lower (higher)

(e) Effects of unobservable inputs on fair value measurement

The fair value of real estate fluctuates in response to changes in specific assumptions for that particular investee. Although the Fund believes its estimates of fair value in Level 3 are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value and net assets attributable to holders of redeemable units.

The following table shows how the net assets attributable to holders of redeemable units would change if the portion of real estate investments that are measured using the direct capitalization method and, therefore, are sensitive to basis point ("bps") changes in this rate:

	2022		2021	
	+25bps	-25bps	+25bps	-25bps
Weighted average overall capitalization rate	\$ (66,600)	\$ 72,760	\$ (63,630)	\$ 69,560

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10. Involvement with subsidiaries and associates

The Fund investments are held primarily through wholly-owned subsidiary entities. The Fund measures these investments at FVTPL.

The interests held by the Fund in these unconsolidated subsidiaries are as follows:

- Parkbridge Lifestyle Communities Inc.
- Realpool Holdings Trust
- DHL Hotels Limited Partnership

During 2022 and 2021, the Fund provided financial support to subsidiaries or associates for investment and operation activities and has committed to providing financial support under loan arrangements or shareholders' resolutions as needed.

11. Commitments and contingencies

- (a) the Fund has provided unconditional and irrevocable guarantees in support of BQR's funding programs and transactions including:
- i. \$1,900,000 in bonds issued under BQR's medium-term note program, with maturities ranging from March 2024 to July 2030 (December 31, 2021 - \$1,500,000);
 - ii. \$2,500,000 senior unsecured sustainability-linked credit facility which was undrawn at December 31, 2022 (December 31, 2021 - undrawn). This facility consolidated BQR's \$2,000,000 and \$500,000 senior unsecured committed credit facilities in March 2022 for a three-year term, maturing in March 2025. This facility also backstops BQR's commercial paper program;
 - iii. \$2,500,000 commercial paper program which was undrawn at December 31, 2022 (December 31, 2021 - undrawn);
 - iv. \$500,000 senior unsecured committed facility which was undrawn at December 31, 2022 and December 31, 2021.

In the event of BQR's default, the Fund guarantees payment of the principal and interest until all amounts are paid in full. Management has assessed that the likelihood of these contingent obligations materializing is highly unlikely.

12. Subsequent events

- (a) In March 2023, BQR cancelled the \$500,000 senior unsecured credit facility on which the Fund had provided an unconditional and irrevocable guarantee.