



## **Management's Discussion and Analysis For the Period Ended June 30, 2023**

### **Background**

This Management's Discussion and Analysis (MD&A) of NexLiving Communities Inc. ("NexLiving" or "the Company") is dated August 17, 2023, and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes for the periods ended June 30, 2023 and June 30, 2022 and the audited consolidated financial statements and accompanying notes for the years ended December 31, 2022, and December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (IFRS). All amounts are in Canadian dollars unless otherwise specified. The financial statements and additional information, including news releases referenced herein, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR+) at [www.sedarplus.ca](http://www.sedarplus.ca) under the Company's profile. The common shares of NexLiving are traded on the TSX Venture Exchange (the "Exchange" or "TSXV") under the symbol "NXLV".

### **Forward-Looking Information**

Certain statements in this MD&A are forward-looking statements or information (collectively forward-looking statements). NexLiving is hereby providing cautionary statements identifying important factors that could cause the actual results to differ materially from those projected in the forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "may", "is expected to", "anticipates", "estimates", "intends", "plans", "projection", "could", "vision", "goals", "objective" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. In making these forward-looking statements, NexLiving has assumed that the risks listed below will not adversely impact the business of NexLiving.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes may not occur or may be delayed. The risks, uncertainties and other factors, many of which are beyond the control of NexLiving, that could influence actual results include, but are not limited to: limited operating history; operating risks; regulatory risks; substantial capital requirements and liquidity; financing risks and dilution to shareholders; competition; reliance on management and dependence on key personnel; uninsurable risks; exposure to potential litigation; dividends; and other factors beyond the control of NexLiving.

Furthermore, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, NexLiving undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors and to assess in advance the impact of each such factor on the business of NexLiving or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Refer to the section titled "Risk and Uncertainties".

### **Non-IFRS Financial Measures**

This MD&A contains several non-IFRS financial measures and ratios that management believes provide relevant supplementary information to both management and investors in measuring the operating and financial performance of the Company. These measures are commonly used by entities in the real estate industry, however, they do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar metrics presented by other publicly traded entities. These metrics should be considered as supplemental in nature and not as a substitute for related financial information prepared in accordance with IFRS.

“FFO” is defined as net income adjusted for fair value gains (losses), deferred tax expense and accretion expense. The Company’s method of calculating FFO may differ from other issuers’ methods and, accordingly, these measures may not be comparable to measures used by other issuers.

“FFO (cents per share) - diluted” is defined as FFO for the applicable period divided by the diluted weighted average shares outstanding during the period, measured in cents per share.

“FFO payout ratio” is calculated by dividing the dividend paid per share, measured in cents per share, by FFO for the corresponding period measured in cents per share.

“Debt to GBV” is defined as the ratio of outstanding mortgages payable and convertible debentures to the fair value of the Company’s investment properties. The use of Debt to GBV has been included for the purpose of improving the understanding of the Company’s current financial position.

“Same Property” results are used to evaluate performance of investment properties owned and operated by the Company continuously since January 1, 2022. Same property results are supplementary financial measures as defined in National Instrument 52-112. The Company believes same property results represent a meaningful measure of operating and financial performance as it allows the Company to gauge the leasing and operating performance of its portfolio on a consistent basis period-over-period. Same property results exclude the impact from acquisitions and dispositions completed during the comparative periods. As at June 30, 2023, the Company’s same property portfolio comprised of 705 units, representing 55% of the fair value of the Company’s investment property portfolio.

## **Company Overview**

NexLiving Communities Inc. business is the ownership and management of multi-unit residential real estate with a focus on low and mid-rise properties in bedroom communities across Canada. The common shares of the Company are listed on the TSXV Venture Exchange (“TSXV”) under the symbol “NXLV”.

## **Description of Business and Strategy**

The Company specializes in owning, operating and managing multi-residential properties in bedroom communities located in Atlantic Canada and Ontario. The Company’s primary focus is on acquiring recently built or refurbished, highly leased multi-residential properties that offer attractive and convenient living options for residents. As at June 30, 2023, the Company owned 1,166 units in New Brunswick and Ontario.

The Company aims to deliver exceptional living experiences to our residents and provide comfortable, affordable housing solutions that cater to a wide range of demographics. The properties offer a range of modern and updated suites with one to three bedrooms, with a variety of amenities and features that allow residents to experience a hassle-free and maintenance-free lifestyle. Property management is currently handled by third party providers on a contract basis. A condo or hospitality style level of service is part of the business model, with third party providers consistently delivering a high level of service.

The Company is committed to investing in its properties to ensure that they are modern and up-to-date. For certain properties in its Ontario portfolio, the Company has undertaken a targeted value-add capital program to modernize and reposition large 1- and 2-bedroom suites.

The Company has developed a robust pipeline of qualified properties for potential acquisition. By screening properties identified to match the criteria set out in the Company business plan (proximity to healthcare, amenities, services and recreation), management has identified a number of attractive acquisition targets. The Company intends to acquire a minimum of 500 additional suites in the coming twelve months.

NexLiving has a highly scalable business model and is executing a growth strategy by quickly acquiring properties that meet our target criteria. The resulting revenue will allow the Company to spread fixed public company and other corporate costs across a larger revenue base, achieving economies of scale. The Company believes that properly managed execution of its growth strategy, with a focus on strong operational results, will help create a successful publicly listed real estate company, and value for our shareholders.

## Selected Financial Information

The following tables contain a summary of selected operating and financial performance measures:

As at	30-Jun-23	31-Dec-22	Change
Number of suites	1,166	1,016	150
Occupancy	98.2%	96.8%	145 bps
Debt to total assets	67.7%	66.0%	166 bps
Debt to GBV*	67.8%	66.0%	188 bps
Weighted average term to debt maturity (years)	4.3	2.8	1.5 yrs
Weighted average contractual interest rate	3.62%	2.99%	63 bps
Investment properties	246,998,000	203,071,000	21.6%
Total assets	250,604,182	205,715,083	21.8%
Total liabilities	169,604,363	135,818,258	24.9%
Net asset value	80,999,819	69,896,825	15.9%
Net asset value per share	0.242	0.238	1.7%

For the three months ended June 30	2023	2022	Change
Rental income	4,711,653	2,921,829	61.3 %
NOI	2,838,998	1,787,610	58.8 %
NOI margin	60.3%	61.2%	(93) bps
Net income	1,200,790	962,621	24.7 %
FFO*	592,596	594,532	(0.3)%
FFO (cents per share) - diluted*	0.18	0.19	(8.2)%
Dividends declared (cents per share)	0.05	0.05	-
FFO payout ratio*	28%	26%	232 bps
Weighted average units outstanding - diluted	334,812,746	308,348,730	8.6 %
Same property revenue*	2,745,479	2,533,202	8.4 %
Same property operating expenses*	1,076,630	984,434	9.4 %
Same property NOI*	1,668,849	1,548,768	7.8 %
Same property NOI margin*	60.8%	61.1%	(35) bps

For the six months ended June 30	2023	2022	Change
Rental income	8,916,862	5,475,174	62.9%
NOI	5,168,162	3,065,699	68.6%
NOI margin	58.0%	56.0%	197 bps
Net income	3,845,571	2,141,603	79.6%
FFO*	1,148,209	865,047	32.7%
FFO (cents per share) - diluted*	0.36	0.28	26.0%
Dividends declared (cents per share)	0.10	0.10	0.0%
FFO payout ratio*	28%	35%	(728) bps
Weighted average units outstanding - diluted	322,244,880	305,787,502	5.4%
Same property revenue*	5,450,934	5,086,547	7.2 %
Same property operating expenses*	2,335,747	2,259,691	3.4 %
Same property NOI*	3,115,187	2,826,856	10.2 %
Same property NOI margin*	57.1%	55.6%	157 bps

\*Refer to section "Non-IFRS Financial Measures"

## Quarterly Highlights

On May 25, 2023, the Company refinanced its maturing mortgage on the Findlay Estates property and entered into a new \$18.2 million CMHC insured mortgage for the property at a five year fixed interest rate of 3.78%. The new mortgage replaced the maturing \$15.2 million mortgage.

On May 25, 2023, the Company announced a Normal Course Issuer Bid (“NCIB”) pursuant to which the Company may repurchase for cancellation up to 26 million public float common shares in its own capital stock. The purchases are to be made through the facilities of the TSX Venture Exchange, other designated exchanges and/or alternative Canadian trading systems during the period from May 30, 2023 to May 30, 2024. Purchases pursuant to the bid will be made by Independent Trading Group Inc. on behalf of the Company.

On May 25, 2023, the board of directors, in accordance with the terms of the company's DSU plan, approved the issuance of 2,779,000 DSUs to directors, management and consultants of the company. The DSUs vest over three years in accordance with the provisions of the company's DSU plan.

## Subsequent Events

The shares of the Company commenced trading on the TSX Venture Exchange on a one-new-for-20-old consolidated basis effective August 3, 2023. As a result, the number of issued and outstanding shares was reduced to 16,539,133 from 330,782,648. Unless otherwise specified, all share, per share and share-related amounts disclosed herein reflect the pre-consolidation shares for all periods presented.

Subsequent to June 30, 2023, the Company repurchased 34,850 common shares under its Normal Course Issuer Bid at a weighted average price of \$2.49 per share on a post-consolidation basis.

## Summary of Quarterly Operating Results

The following table presents the quarterly operating results for the Company for the last eight quarters.

Three month period ended	30-Jun 2023	31-Mar 2023	31-Dec 2022	30-Sep 2022	30-Jun 2022	31-Mar 2022	31-Dec 2021	30-Sep 2021
Rental revenue	4,711,653	4,205,209	3,300,364	3,088,988	2,921,829	2,553,345	2,056,306	1,997,351
Operating costs	(1,872,655)	(1,876,045)	(1,492,279)	(1,292,328)	(1,134,219)	(1,275,256)	(893,860)	(800,601)
<b>Net property operating income</b>	<b>2,838,998</b>	<b>2,329,164</b>	<b>1,808,085</b>	<b>1,796,660</b>	<b>1,787,610</b>	<b>1,278,089</b>	<b>1,162,446</b>	<b>1,196,750</b>
<b>Administrative expenses</b>	<b>(570,063)</b>	<b>(430,745)</b>	<b>(385,116)</b>	<b>(513,069)</b>	<b>(488,676)</b>	<b>(435,852)</b>	<b>(382,799)</b>	<b>(411,104)</b>
Interest expense	(1,583,465)	(1,237,515)	(849,311)	(680,088)	(579,571)	(484,935)	(493,820)	(446,732)
Amortization expense	(92,878)	(105,832)	(108,257)	(126,939)	(139,397)	(104,009)	(130,510)	(83,772)
Accretion expense	-	-	-	(119,005)	(104,864)	(86,446)	(242,758)	(284,607)
<b>Total finance costs</b>	<b>(1,676,343)</b>	<b>(1,343,347)</b>	<b>(957,568)</b>	<b>(926,032)</b>	<b>(823,832)</b>	<b>(675,390)</b>	<b>(867,088)</b>	<b>(815,111)</b>
Interest income	4	541	34,417	18,217	14,566	17,222	-	-
Fair value gain (loss) on investment properties	808,194	2,239,168	2,466,785	2,629,006	472,953	994,913	4,076,195	3,257,650
Loss on modification of convertible debentures	-	-	-	-	-	-	-	(88,000)
Gain on sale of investment properties	-	-	-	-	-	-	-	-
<b>Other income</b>	<b>808,198</b>	<b>2,239,709</b>	<b>2,501,202</b>	<b>2,647,223</b>	<b>487,519</b>	<b>1,012,135</b>	<b>4,076,195</b>	<b>3,169,650</b>
<b>Net income before income taxes</b>	<b>1,400,790</b>	<b>2,794,781</b>	<b>2,966,603</b>	<b>3,004,782</b>	<b>962,621</b>	<b>1,178,982</b>	<b>3,988,754</b>	<b>3,140,185</b>
Deferred income tax expense	(200,000)	(150,000)	(600,000)	-	-	-	-	-
<b>Net income for the quarter</b>	<b>1,200,790</b>	<b>2,644,781</b>	<b>2,366,603</b>	<b>3,004,782</b>	<b>962,621</b>	<b>1,178,982</b>	<b>3,988,754</b>	<b>3,140,185</b>
Basic net income per share	0.004	0.009	0.008	0.010	0.003	0.004	0.020	0.020
Diluted net income per share	0.004	0.009	0.008	0.010	0.003	0.004	0.019	0.018

## Results of Operations

### *Revenue and NOI Growth*

For the three months ended June 30, 2023 property revenue increased by \$1.8 million (+61%) to \$4.7 million and net property operating income (“NOI”) increased by \$1.1 million (+59%) to \$2.8 million during the period, representing a 60.3% NOI margin (2022 – 61.2%). The increase in property revenue and NOI was a result of acquisitions completed during 2022 and 2023 (1,166 suites owned at June 30, 2023, compared to 827 suites at June 30, 2022). Rent increases on tenant turnover and renewals also contributed to the increase in revenue over the period.

For the six months ended June 30, 2023 property revenue increased by \$3.4 million (+63%) to \$8.9 million and net property operating income (“NOI”) increased by \$2.1 million (+69%) to \$5.2 million during the period, representing a 58.0% NOI margin (2022 – 56.0%). The increase in property revenue and NOI was a result of acquisitions completed during 2022 and 2023 (1,166 suites owned at June 30, 2023, compared to 827 suites at June 30, 2022). Rent increases on tenant turnover and renewals also contributed to the increase in revenue over the period.

### *NOI Margin*

For the three months ended June 30, 2023, NOI margin decreased by 93 basis points from a year ago, as Q2 2022 included the one-time reversal of approximately \$108,000 in previously recorded property tax provisions due to the announcement of a property assessment cap by the province of New Brunswick. The higher tax expenses from the prior period were partially offset by rent increases on tenant renewals and turnovers during the period.

For the six months ended June 30, 2023, NOI margin increased by 197 basis points from a year ago, primarily due to higher revenues from rent increases on tenant renewals and turnovers. The increase was partially offset by higher operating expenses from the prior year, primarily related to higher insurance, cleaning, and repairs and maintenance expenses.

### *Same Property NOI*

For the three months ended June 30, 2023, same property NOI increased by 7.8%, driven by a 8.4% increase in same property revenue, partially offset by a 9.4% increase in same property expenses. Same property revenue growth was driven by higher rental rates over the prior period. The increase in operating expenses was primarily attributable to the aforementioned reversal of property tax provisions in Q2 2022.

For the six months ended June 30, 2023, same property NOI increased by 10.2%, driven by a 7.2% increase in same property revenue, partially offset by a 3.4% increase in same property expenses. Same property revenue growth was driven by higher rental rates over the prior period. The increase in operating expenses was primarily attributable to higher insurance, cleaning, and repairs and maintenance expenses over the prior period.

### *Administrative Expenses*

For the three months ended June 30, 2023, administrative expenses of \$570,063 increased by 17% from last year (2022 – \$488,676). For the six months ended June 30, 2023, administrative expenses of \$1,000,808 increased by 8% from last year (2022 – \$924,528). The increase in both the three month and six month periods was attributable to the timing of cash incentive compensation payments, partially offset by lower stock-based compensation.

### *Fair Value Adjustment on Investment Properties*

The fair value gains of \$808,194 (2022 – \$472,953) and \$3,047,362 (2022 – \$1,467,866) for the three month and six month periods ended June 30, 2023 respectively were primarily driven by a higher NOI forecast, due to higher rental rates across the Company’s portfolio. Refer to section “Fair Value of Investment Properties” for more detail.

### Finance Costs

Finance costs incurred for the three month period ended June 30, 2023, totaled \$1,676,343, an increase of 103% from last year (2022 – \$823,832). Finance costs incurred for the six month period ended June 30, 2023, totaled \$3,019,690, an increase of 101% from last year (2022 – \$1,499,222). The increase in finance costs in both periods was due to mortgage debt placed in connection with property acquisitions completed during 2022 and 2023, and higher interest rates during the period. Partially offsetting the increase, was lower accretion expense due to the repayment of the Company’s convertible debentures balance in 2022.

### Net income and net income per share

For the three months ended June 30, 2023, net income of \$1,200,790 (2022 – \$962,621) and diluted net income per share of \$0.004 (2022 – \$0.003) represented a 25% increase and 10% increase from last year respectively. For the six months ended June 30, 2023, net income of \$3,845,571 (2022 – \$2,141,603) and diluted net income per share of \$0.012 (2022 – \$0.007) represented a 73% increase and a 64% increase from last year respectively. The increase in both periods was due to higher net operating income from property acquisitions and fair value gains on investment properties, partially offset by higher finance costs and administrative expenses. Per share results were impacted by the issuance of shares in 2023 as part of a property acquisition.

### Fair Value of Investment Properties

Capitalization Rates	Total Portfolio		Same Property Portfolio	
	30-Jun-23	31-Dec-22	30-Jun-23	31-Dec-22
New Brunswick	4.72%	4.77%	4.84%	4.79%
Ontario	4.35%	4.15%	4.35%	4.00%
	<b>4.68%</b>	<b>4.69%</b>	<b>4.81%</b>	<b>4.74%</b>

The Company’s weighted average capitalization rate as at June 30, 2023, decreased to 4.68% from 4.69% at December 31, 2022. The decrease in the Company’s weighted average capitalization rate was primarily due to the acquisition of new properties.

For the Company’s same property portfolio, the weighted average capitalization rate was 4.81% as at June 30, 2023 (2022 – 4.74%). The increase in capitalization rates reflects the decline in market activity levels due to the uncertain macroeconomic environment and the current interest rate level. The gain in fair value recorded by the Company in the three month and six month periods primarily reflects forecasted NOI growth due to expected rent increases, which more than offset the impact of higher capitalization rates.

### Occupancy

Region	30-Jun-23		31-Dec-22	
	Suites (#)	Occupancy (%)	Suites (#)	Occupancy (%)
New Brunswick	1,048	99.0%	898	97.9%
Ontario	118	90.7%	118	88.1%
	<b>1,166</b>	<b>98.2%</b>	<b>1,016</b>	<b>96.8%</b>

The Company’s occupancy increased 144 basis points to 98.2% at June 30, 2023. The Company’s New Brunswick portfolio saw its occupancy increase by 115 basis points during 2023, which was a result of the Company leasing up vacancies at its recently acquired properties. The Company’s Ontario occupancy increased by 258 basis points during the quarter, as the Company experienced strong demand for its repositioned units in the province.

## Reconciliation of FFO

For the three months ended June 30	2023	2022
Net income	1,200,790	962,621
Fair value adjustments on investment properties	(808,194)	(472,953)
Deferred tax expense	200,000	-
Accretion expense	-	104,864
<b>FFO*</b>	<b>592,596</b>	<b>594,532</b>
FFO (cents per share) - diluted*	0.18	0.19
Weighted average shares outstanding - diluted	334,812,746	308,348,730

For the six months ended June 30	2023	2022
Net income (loss)	3,845,571	2,141,603
Fair value adjustments on investment properties	(3,047,362)	(1,467,866)
Deferred tax expense	350,000	-
Accretion expense	-	191,310
<b>FFO*</b>	<b>1,148,209</b>	<b>865,047</b>
FFO (cents per share) - diluted*	0.36	0.28
Weighted average shares outstanding - diluted	322,244,880	305,787,502

\*Refer to section "Non-IFRS Financial Measures"

## Liquidity and Capital Resources

At June 30, 2023, the Company reported cash of \$1.6 million, total current assets of \$3.6 million, total current liabilities of \$40.0 million and a working capital deficiency of \$36.4 million. The working capital deficiency includes \$37.1 million of mortgages payable maturing within twelve months from June 30, 2023. Although the Company expects to continue to renew upcoming mortgage maturities, there can be no assurance that it will have access to sufficient capital or access to capital on favourable terms.

## Capital Structure

As at	30-Jun-23	31-Dec-22
Investment Properties	246,998,000	203,071,000
Other assets	3,606,182	2,644,083
<b>Total assets</b>	<b>250,604,182</b>	<b>205,715,083</b>
Mortgages payable	167,554,275	133,938,374
Other liabilities	2,050,088	1,879,884
<b>Total liabilities</b>	<b>169,604,363</b>	<b>135,818,258</b>
<b>Net Asset Value</b>	<b>80,999,819</b>	<b>69,896,825</b>
<b>Net Asset Value per share</b>	<b>\$0.242</b>	<b>\$0.238</b>

At June 30, 2023, the Company's Debt to GBV ratio was 67.8% (December 31, 2022 – 66.0%). The increase in the ratio over 2023 was due to mortgage refinancing activity and mortgages on placed on acquired properties, partially

offset by principal repayments on the Company's outstanding debt and an increase in the fair value of the Company's investment properties.

### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

### Related Party Transactions

#### *Management Compensation*

Key management included the Company's President & Chief Executive Officer, Chief Financial Officer & Secretary and Executive Vice Chair.

<b>For the three months ended June 30</b>	<b>2023</b>	<b>2022</b>
Cash and accrued compensation	263,600	109,201
Stock-based compensation	60,300	72,100
	<b>323,900</b>	<b>181,301</b>

  

<b>For the six months ended June 30</b>	<b>2023</b>	<b>2022</b>
Cash and accrued compensation	409,883	279,125
Stock-based compensation	121,100	133,200
	<b>530,983</b>	<b>412,325</b>

### Outstanding Share Data

The Company had 330,782,648 common shares issued and outstanding at June 30, 2023. On August 3, 2023, the Company announced the consolidation of its common shares on the basis of one post-consolidation common share for every twenty pre-consolidation share. As a result, the number of issued and outstanding shares was reduced to 16,359,133 from 330,782,648.

The Company has 52,500 stock options outstanding on a post-consolidation basis, of which 15,000 have an exercise price of \$4.80 and an expiry date of May 15, 2030, and 37,500 have an exercise price of \$3.80 and an expiry date of April 20, 2031.

The Company has 125,000 warrants outstanding on a post-consolidation basis at August 17, 2023 that have an exercise price of \$5.40 and an expiry date of August 31, 2023.

The Company had no convertible debentures outstanding as of June 30, 2023.

The Company has 396,450 deferred share units outstanding as at August 17, 2023.

If all warrants and stock options were exercised, the number of common shares of the Company issued and outstanding would be 16,359,133 on a post-consolidation basis and the cash balance would increase by \$0.7 million.



## **Risks and Uncertainties**

The following are certain factors relating to the business of the Company. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems immaterial, may also impair the operations of the Company. If any such risks actually occur, the financial condition, liquidity and results of operations of the Company could be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected.

The following is a description of certain risks and uncertainties that may affect the business of the Company.

### **Operational Risks**

#### *Reliance on Management*

The ability of the Company to successfully implement its business strategy and operate its business will depend in large part on the continued involvement of the Company's current management team. Shareholders should realize that they are relying on the experience, judgment, discretion, integrity and good faith of the management team. If the Company loses the services of one or all of the members of its current management team, the business, financial condition and results of operations of NexLiving may be materially adversely affected.

#### *Internal Controls*

Effective internal controls are necessary for NexLiving to provide reliable financial reports and to help prevent fraud. Although management of NexLiving undertake a number of procedures and implement a number of safeguards in order to help ensure the reliability of NexLiving's financial reports, including those imposed on NexLiving under Canadian securities law, NexLiving cannot be certain that such measures will ensure that NexLiving will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and harm the trading price of the common shares.

#### *Volatility of Share Price*

Securities markets throughout the world are cyclical and, over time, tend to undergo high levels of price and volume volatility. A publicly traded company will not necessarily trade at values determined by reference to the underlying value of its business. The market price of the common shares could be subject to significant fluctuations in response to variations in quarterly and annual operating results, the results of any public announcements the Company makes, general economic conditions, and other factors. Increased levels of volatility and resulting market turmoil may adversely impact the price of the common shares. If the Company is required to access capital markets to carry out its business objectives, the state of domestic and international capital markets and other financial systems could affect its access to, and cost of, capital. Such capital may not be available on terms acceptable to the Company or at all, and this could have a material adverse impact on its business, financial condition, results of operations or prospects.

#### *Dilution*

NexLiving is authorized to issue an unlimited number of common shares and other securities for such consideration and on such terms and conditions as may be established by the Board without the approval of the Shareholders. It is currently anticipated that the Company may be required to conduct additional equity financings in order to finance additional property acquisitions and develop the business of the Company as currently planned and envisioned by management of the Company. Any further issuance of common shares pursuant to such equity financings will dilute the interests of existing Shareholders and such Shareholders will have no pre-emptive rights in connection with such future issuances.

### *Financing Risks*

The Company's business model is expected to be dependent on making investments in additional properties and the Company anticipates having to raise additional capital to fund these investments. While the Company may generate additional working capital through equity or debt offerings, or through the receipt of revenue or other payments from properties, there is no assurance that such funds will be sufficient to facilitate the development of NexLiving's business as envisioned or, in the case of equity financings, that such funds will be available on terms acceptable to the Company or at all. If available, future equity financing may result in substantial dilution to the Shareholders.

### *Conflicts of Interest*

Certain of the directors and officers of the Company will also serve as directors and/or officers of other companies. Consequently, there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers will be made in accordance with their duties and obligations under the Canada Business Corporation Act ("CBCA") and other applicable laws to deal fairly and in good faith with a view to the best interests of the Company and the Shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the CBCA, and other applicable laws.

### *Investment Concentration*

While the Company's intention is to negotiate and fund additional investments in properties in different communities, it could take many years to create a diversified portfolio of multi-family rental properties and there is no guarantee the Company will ever achieve a portfolio of sufficient diversification. The Company may have a significant portion of its assets dedicated to a single property or community for an extended period of time. In the event that any such property or community is unsuccessful or experiences a downturn, this could have a material adverse effect on the Company's business, results of operations and financial condition.

### *Ability to Negotiate Additional Investments*

A key element of the Company's growth strategy is expected to involve negotiating and finding investments in other multi-family rental properties. Achieving the benefits of future investments will depend in part on successfully identifying and capturing such opportunities in a timely and efficient manner and in structuring such arrangements to ensure a stable and growing stream of revenues. The Company's ability to identify investable multi-family rental properties and negotiate and fund additional investments in such a manner is not guaranteed.

### *Ability to Manage Future Growth*

The Company's ability to achieve desired growth will depend on its ability to identify, evaluate and successfully negotiate and fund investments in other multi-family rental properties. As the Company grows, it will also be required to hire, train, supervise and manage new employees. Failure to manage any future growth or to successfully negotiate suitable investments effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

### *Effect of General Economic and Political Conditions*

The Company's business and the business of its properties are expected to be subject to the impact of changes in national or international economic conditions, including but not limited to, recessionary or inflationary trends, equity market conditions, consumer credit availability, interest rates fluctuations, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence. These economic conditions may be further affected by political events throughout the world that cause disruptions in the financial markets, either directly or indirectly. Adverse economic and political developments could have a material adverse effect on the Company and its financial condition, results of operations and cash flows.

### *Payment of Dividends*

The Company paid a quarterly dividend of \$0.0005 per common share for each of the previous four quarters, representing \$0.002 per share on an annualized basis on a pre-consolidation basis. On a post-consolidation basis, the Company paid a quarterly dividend of \$0.01 per common share for each of the previous four quarters, representing \$0.04 per share on an annualized basis.

The Company's ability to pay future dividends will depend on the Company's financial condition, operating results, capital requirements, contractual restrictions on the payment of dividends; prevailing market conditions and any other factors that the Board deems relevant.

### *Liquidity and Capital Resources*

There is no guarantee that cash flow from real property investments will be readily available or will provide the Company with sufficient funds to meet its ongoing financial obligations. The Company may therefore require additional equity or debt financing to meet its operational requirements. The Company also plans to rely on additional equity financing to make investments in properties to grow the Company's business to the level envisioned by its management. There can be no assurance that such financing will be available when required or available on commercially favourable terms or on terms that are otherwise satisfactory to the Company. The ability of the Company to arrange such financing in the future will depend in part upon prevailing capital market conditions as well as its business performance. Additionally, the Company will have to renew mortgages payable as they mature and there can be no assurance that it will otherwise have access to sufficient capital or access to capital on favorable terms.

### *Litigation*

To the Company's knowledge, as of the date of this MD&A, no material claims or litigation have been brought against NexLiving. However, the Company may become party to litigation from time to time in the ordinary course of business, which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the common shares, and could result in significant financial and management resources of the Company being expended in connection therewith. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

In addition to being subject to litigation in the ordinary course of business, in the future, the Company may be subject to class actions, derivative actions and other securities litigation and investigations. This litigation may be time consuming, expensive and may distract the Company from the conduct of its daily business. It is possible that the Company will be required to pay substantial judgments, settlements or other penalties and incur expenses that could have a material adverse effect on its operating results, liquidity or financial position. Expenses incurred in connection with these lawsuits, which would be expected to include substantial fees of lawyers and other professional advisors, and the Company's obligations to indemnify officers and directors who may be parties to such actions, could materially adversely affect the Company's reputation, operating results, liquidity or financial position.

### *Interest Rate Risk*

As market interest rates rise, the Company could see the cost of its borrowings rise during mortgage debt refinancing. The Company expects its well laddered debt maturity profile to minimize the impact to its earnings from fluctuations in market interest rates.

## **Real Estate Risks**

### *Indirect Investment in Real Estate*

An investment in the common shares is an investment in real estate through the Company's indirect interest in the investment properties it acquires. Investment in real estate is subject to numerous risks, including the factors listed below and other events and risk factors which are beyond the control of the Company.

### *General Real Estate Ownership Risks*

All real property investments are subject to a degree of risk and uncertainty. The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of such properties. The investment properties will generate revenue through rental payments made by the tenants thereof. The ability to rent vacant suites in the investment properties will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties and various other factors. If a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the investment properties becomes vacant and cannot be re-leased on economically favourable terms, the investment properties may not generate revenues sufficient to meet operating expenses, including debt service and capital expenditures, and the Company's net income will be adversely affected.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the year of ownership of real property regardless of whether the investment properties are producing any income. Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relationship with demand for and the perceived desirability of such investments. Such illiquidity will tend to limit the Company's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Company were to be required to quickly liquidate its real property investments, the proceeds might be significantly less than the aggregate carrying value of the investment properties or less than what could be expected to be realized under normal circumstances. The Company may, in the future, be exposed to a general decline of demand by tenants for space in the investment properties. As well, certain of the leases of the investment properties held by the Company may have early termination provisions which, if exercised, would reduce the average lease term.

Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the investment properties or revenues to be derived therefrom. There can be no assurance that, upon the expiry or termination of existing leases, the average occupancy rates and revenues will be higher than historical occupancy rates and revenues, and it may take a significant amount of time for market rents to be recognized by the Company due to internal and external limitations on its ability to charge these new market-based rents in the short-term.

### *Government Regulation*

Certain provinces in Canada may have enacted residential tenancy legislation which may impose, among other things, rent control guidelines that limit a landlord's ability to raise rental rates at its properties.

In addition to limiting a landlord's ability to raise rental rates, residential tenancy legislation in certain provinces may provide certain rights to tenants, while imposing obligations upon landlords. Residential tenancy legislation may also prescribe procedures which must be followed by a landlord in order to terminate a residential tenancy. As certain proceedings may need to be brought before the respective judicial or administrative body governing residential tenancies as appointed under a province's residential tenancy legislation, it may take several months to terminate a residential lease, even where the tenant's rent is in arrears.

Further, residential tenancy legislation in certain provinces may provide tenants with the right to bring certain claims to the respective judicial or administrative body seeking an order to, among other things, compel landlords to comply with health, safety, housing and maintenance standards. As a result, landlords may, in the future, incur capital expenditures which may not be fully recoverable from tenants.

Residential tenancy legislation may be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner which will materially adversely affect the ability of landlords to maintain the historical level of earnings of their properties.

### *Interest Rate Fluctuations*

The Company's financing arrangement may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the Company's cost of borrowing. Additionally, the Company's mortgages will need to be re-financed upon maturity at future rates that will fluctuate.

### *Environmental Matters*

Under various environmental and ecological laws, the Company could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in the investment properties or disposed of at other locations. The failure to deal effectively with such substances may adversely affect the Company's ability to sell the investment properties or to borrow using the investment properties as collateral, and could potentially also result in claims against the Company by third parties.

### *Uninsured Losses*

The Company will arrange for comprehensive insurance, including fire, liability and extended coverage, of the type and in the amounts customarily obtained for properties similar to investment properties to be owned by the Company and will endeavour to obtain coverage where warranted against earthquakes and floods. However, in many cases certain types of losses (generally of a catastrophic nature) are either uninsurable or not economically insurable. Should such a disaster occur with respect to the investment properties, the Company could suffer a loss of capital invested and not realize any profits which might be anticipated from the disposition of the investment properties.

### *Risk of Natural Disasters*

While the Company has insurance coverage for its existing investment property, the insurance coverage may not cover all natural disasters which may occur. Floods, hurricanes, storms, earthquakes, terrorism, or other natural disasters may significantly affect the Company's operations and the investment properties, and may cause the Company to experience reduced rental revenue, incur clean-up costs or otherwise incur costs in connection with these natural disasters. These events may have a material adverse effect on the Company's business, cash flows, financial condition and results of operations and ability to make dividend payments to its Shareholders, to the extent declared.

### *Reliance on Property Management*

The Company may rely upon independent management companies to perform property management functions in respect of its investment properties. To the extent the Company relies upon such management companies, the employees of such management companies will devote as much of their time to the management of the investment properties as in their judgment is reasonably required and may have conflicts of interest in allocating management time, services and functions among the investment properties and their other development, investment and/or management activities.

### *Competition for Real Property Investments or Tenants*

The Company will compete for suitable real property investments with individuals, corporations, real estate investment trusts and similar vehicles and institutions (both Canadian, U.S. and foreign) which are presently seeking or which may seek in the future real property investments or tenants similar to those sought by the Company. Such competition could have an impact on the Company's ability to lease suites in the investment properties and on the rents charged. An increased availability of investment funds allocated for investment in real estate would tend to increase competition for real property investments and increase purchase prices, reducing the yield on such investments. There is a risk that continuing increased competition for real property acquisitions may increase purchase prices to levels that are not accretive.

### *Revenue Shortfalls*

Revenues from the investment properties may not increase sufficiently to meet increases in operating expenses or debt service payments under the financing arrangements or to fund changes in the variable rates of interest charged in respect of such loans.

### *Fluctuations in Capitalization Rates*

As interest rates fluctuate in the lending market, generally capitalization rates will as well, which affects the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the year of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates.

### *Canadian Market Factors*

Any potential downturn in the national or regional economy could result in the loss of income and reduction in value of the investment properties.

### **Additional Information**

This document, as well as additional information relating to the Company, is available on SEDAR at [www.sedar.com](http://www.sedar.com).