NexLiving communities inc.

Consolidated Financial Statements
December 31, 2023 and 2022
(expressed in Canadian dollars)

April 23, 2024

Management's Report

The accompanying consolidated financial statements of NexLiving Communities Inc. are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards). The consolidated financial statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparation of the consolidated financial statements. The Audit Committee of the Board of Directors reviewed and approved the Company's consolidated financial statements and recommended their approval by the Board of Directors.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, have examined these consolidated financial statements and their report follows.

(signed) *"Stavro Stathonikos"*
Chief Executive Officer
Toronto, Ontario

(signed) *"Glenn Holmes"*
Chief Financial Officer
Halifax, Nova Scotia

Independent auditor's report

To the Shareholders of NexLiving Communities Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of NexLiving Communities Inc. and its subsidiaries (together, the Company) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of (loss) income and comprehensive (loss) income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

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 consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Fair value of investment properties *Refer to note 3 – Material accounting policy information and note 5 – Investment properties to the consolidated financial statements.* The Company's investment properties at December 31, 2023 were $240,618,000. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. The fair value of investment properties is determined using the capitalized net operating income method, with the 12-month forward net operating income divided by a market capitalization rate. The 12-month forward net operating income is based on the Company's operating budget and stabilized for any non-recurring expenses. Management uses the assistance of an independent appraiser to determine an appropriate market capitalization rate for individual properties at period ends. The capitalized net operating income method requires certain key assumptions and estimates to be made by management, including forecasted rental income and vacancies, forecasted property operating expenses and capitalization rates. We considered this a key audit matter due to (i) the significance of the investment properties balance; (ii) the significant judgments made by management in determining the fair values of the investment	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the fair values of its investment properties, which included the following: – Evaluated the appropriateness of the valuation method used. – Tested the underlying data used in the method. – Evaluated the reasonableness of key assumptions such as forecasted rental income and vacancies and forecasted property operating expenses by comparing them to current and historical leasing activity and results. – Professionals with specialized skill and knowledge in the field of real estate valuations assisted us in assessing the reasonableness of the capitalization rates. – Tested the disclosures made in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
properties; and (iii) the high degree of complexity in assessing audit evidence related to the key assumptions and estimates made by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of real estate valuations.	

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
April 23, 2024

NexLiving Communities Inc.

Consolidated Statements of Financial Position

As at December 31, 2023 and 2022

(expressed in Canadian dollars)

	2023 $	2022 $
Assets		
Current assets		
Cash	5,340,476	813,765
Accounts receivable	180,341	587,065
Deposits and prepaids	1,088,355	1,243,253
	6,609,172	2,644,083
Investment properties (note 5)	240,618,000	203,071,000
	247,227,172	205,715,083
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,307,784	1,279,884
Current portion of mortgages payable (note 6)	40,985,242	34,030,964
	42,293,026	35,310,848
Mortgages payable (note 6)	129,400,704	99,907,410
Deferred income taxes (note 8)	900,000	600,000
	172,593,730	135,818,258
Equity (note 7)	74,633,442	69,896,825
	247,227,172	205,715,083

Subsequent events (note 13)

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

NexLiving Communities Inc.

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

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

	2023 $	2022 $
Revenue		
Rental income	18,475,666	11,864,526
Property operating expenses		
Operating expenses	(7,439,150)	(5,194,082)
Net property operating income	11,036,516	6,670,444
Expenses		
Administrative expenses	(1,554,492)	(1,488,013)
Stock-based compensation (note 7)	(303,600)	(334,500)
	(1,858,092)	(1,822,513)
Finance costs		
Interest expense	(5,955,579)	(2,593,905)
Amortization of finance costs (note 6)	(410,708)	(478,602)
Accretion expense	-	(310,315)
	(6,366,287)	(3,382,822)
Other income (loss)		
Fair value adjustments to investment properties (note 5)	(4,741,690)	6,563,657
Interest income	25,750	84,422
	(4,715,940)	6,648,079
Net (loss) income before income taxes	(1,903,803)	8,113,188
Deferred income tax expense (note 8)	(300,000)	(600,000)
Net (loss) income and comprehensive (loss) income for the years	(2,203,803)	7,513,188
Net (loss) income per share – basic (notes 2 and 10)	(0.13)	0.51
Net (loss) income per share – diluted (notes 2 and 10)	(0.13)	0.51

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

NexLiving Communities Inc.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

	Number of shares (note 2)	Share capital $	Warrants $	Contributed surplus $	Retained earnings $	Total $
Balance – December 31, 2022	14,664,133	56,391,078	913,537	3,738,742	8,853,468	69,896,825
Net loss and comprehensive loss for the year	-	-	-	-	(2,203,803)	(2,203,803)
Shares issued pursuant to acquisitions, net of issue costs (notes 5 and 7)	1,875,000	7,465,006	-	-	-	7,465,006
Repurchase of common shares (note 7)	(74,650)	(288,217)	-	120,293	-	(167,924)
Expiration of warrants (note 7)	-	-	(913,537)	913,537	-	-
Dividends paid	-	-	-	-	(660,262)	(660,262)
Stock-based compensation (note 7)	-	-	-	303,600	-	303,600
Balance – December 31, 2023	16,464,483	63,567,867	-	5,076,172	5,989,403	74,633,442

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

NexLiving Communities Inc.

Consolidated Statements of Changes in Equity (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

	Number of shares (note 2)	Share capital $	Warrants $	Convertible debentures $	Contributed surplus $	Retained earnings $	Total $
Balance – December 31, 2021	14,077,474	53,900,266	1,951,592	1,042,729	1,985,900	1,921,398	60,801,885
Net income and comprehensive income for the year	-	-	-	-	-	7,513,188	7,513,188
Shares issued for cash, net of issue costs (note 7)	300,000	1,160,583	-	-	-	-	1,160,583
Shares issued pursuant to exercise of warrants (note 7)	200,625	999,729	(297,542)	-	-	-	702,187
Shares issued pursuant to settlement of DSUs (note 7)	86,034	330,500	-	-	(364,900)	-	(34,400)
Expiration of warrants (note 7)	-	-	(740,513)	-	740,513	-	-
Dividends paid	-	-	-	-	-	(581,118)	(581,118)
Repayment of convertible debentures	-	-	-	(1,042,729)	1,042,729	-	-
Stock-based compensation (note 7)	-	-	-	-	334,500	-	334,500
Balance – December 31, 2022	14,664,133	56,391,078	913,537	-	3,738,742	8,853,468	69,896,825

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

NexLiving Communities Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

	2023 $	2022 $
Cash provided by (used in)		
Operating activities		
Net (loss) income and comprehensive (loss) income for the years	(2,203,803)	7,513,188
Charges to income not affecting cash		
Interest on mortgages payable	477,074	288,802
Stock-based compensation expense	303,600	300,100
Change in fair value of investment properties (note 5)	4,741,690	(6,563,657)
Amortization expense	410,708	478,602
Accretion expense	-	310,315
Deferred income tax expense	300,000	600,000
	4,029,269	2,927,350
Net changes in non-cash working capital balances related to operations		
Accounts receivable	406,724	(497,498)
Deposits and prepaids	154,898	(431,939)
Accounts payable and accrued liabilities	(449,174)	282,590
	4,141,717	2,280,503
Financing activities		
Proceeds from issuance of common shares and warrants	-	1,862,770
Share issue costs	(34,994)	-
Repurchase of shares for cancellation	(167,924)	-
Repayments of convertible debentures	-	(3,674,000)
Proceeds from mortgage financing, net of deferred financing costs	63,857,860	23,306,816
Repayments of mortgage principal	(27,820,996)	(2,186,071)
Payment of dividends	(660,262)	(581,118)
	35,173,684	18,728,397
Investing activities		
Acquisition of investment properties (note 5)	(32,508,177)	(37,161,158)
Additions to investment properties (note 5)	(2,280,513)	(729,814)
	(34,788,690)	(37,890,972)
Change in cash during the year	4,526,711	(16,882,072)
Cash – Beginning of year	813,765	17,695,837
Cash – End of year	5,340,476	813,765

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

(expressed in Canadian dollars)

1 Nature of operations

NexLiving Communities Inc. (the Company) was incorporated under the Canada Business Corporations Act on August 9, 2011. Its registered office is located at 45 Alderney Drive, Dartmouth, Nova Scotia, B2Y 2N6, Canada. The Company's business is the ownership and management of multi-unit residential real estate with a focus on low and mid-rise properties in bedroom communities in Canada. The common shares of the Company are listed on the TSX Venture Exchange (TSXV or the Exchange) under the symbol NXLV.

2 Basis of presentation and statement of compliance

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

Effective August 3, 2023, the Company completed a consolidation of all of the issued and outstanding common shares of the Company on the basis of one post-consolidation common share for every 20 pre-consolidation common shares. Common shares, and per common share and share-related amounts, disclosed herein reflect the post-consolidation common shares, and prior periods have been adjusted retrospectively.

The Board of Directors approved the consolidated financial statements for issue on April 23, 2024.

3 Material accounting policy information

Basis of consolidation

The consolidated financial statements of the Company consolidate the accounts of the Company and all subsidiaries.

All subsidiaries are 100% owned. Inter-group transactions and balances are eliminated in preparing the consolidated financial statements.

Property acquisitions

Where property is acquired, management considers the substance of the agreement in determining whether the acquisition represents the acquisition of property or a business combination.

Where such acquisitions are not judged to be a business combination, they are treated as asset acquisitions. The cost to acquire the property, including transaction costs, is allocated between the identifiable assets acquired and liabilities assumed based on the relative fair values at the acquisition date. Otherwise, acquisitions are accounted for as a business combination.

Investment properties

Investment properties are comprised of properties held to earn rental revenue or for capital appreciation or both but not for the sale in the normal course of business. Investment properties are measured initially at cost, including transaction costs. Transaction costs include transfer taxes and professional fees for legal services.

(expressed in Canadian dollars)

3 Material accounting policy information (continued)

Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in fair value of investment properties are included in profit or loss in the period in which they arise.

Subsequent expenditures are capitalized to the investment property's carrying value only when it is probable that future economic benefits associated with the expenditures will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

An investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of (loss) income and comprehensive (loss) income in the year of retirement or disposal.

Revenue recognition

The Company enters as a lessor into lease agreements that fall within the scope of IFRS 16, Leases, which are classified as operating leases. The Company's revenues are earned from lease contracts with tenants and the Company recognizes contractual revenue from lease contracts on a straight-line basis over the lease term.

Cash

Cash includes cash held with banks. Interest income earned on the Company's cash is included in other income.

Share options, deferred share units (DSUs) and warrants

The Company has a share option plan and a deferred share unit plan available for officers, employees and consultants (note 7).

The fair value of share options and warrants granted is estimated on the date of grant using the Black-Scholes option pricing model and is recorded as an expense over the applicable vesting period based on the number of awards expected to vest. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. On the exercise of share options, the consideration received and the grant date fair value of the option is credited to share capital. Issuances of share options and warrants related to private placements or public offerings of shares are treated as share issue costs.

The fair value of DSUs granted is estimated on the date of grant using the prior day closing price on the TSXV. Compensation expense for DSUs is recognized over the vesting period.

Pursuant to the terms of the share option and DSU plans, the share options and DSUs awarded can only be equity settled.

Transaction costs related to the issuance of the shares are recognized directly in shareholders' equity as a reduction of the proceeds received.

(expressed in Canadian dollars)

3 Material accounting policy information (continued)

Income or loss per share

The calculations of income or loss per share and diluted income or loss per share are based on the weighted average number of common shares outstanding during the year. Diluted income or loss per share is determined by adjusting the weighted average number of common shares for the dilutive effect, if any, of share options, warrants and DSUs using the treasury stock method. Under this method, share options whose exercise price is less than the average market price of the Company’s common shares are assumed to be exercised and the proceeds used to repurchase common shares at the average market price for the year. The incremental number of common shares issued on the assumed exercise and repurchased from proceeds is included in the calculation of diluted income or loss.

Income taxes

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive (loss) income or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive (loss) income or directly in equity, respectively.

- Current income taxes

  The income tax expense or credit for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

  The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Canada, where the Company and its subsidiaries operate. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

- Deferred income taxes

  Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

  Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

(expressed in Canadian dollars)

3 Material accounting policy information (continued)

Financial instruments

- Financial assets and liabilities

Initial measurement and classification

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through profit and loss (FVTPL) or fair value through other comprehensive income (FVOCI).

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or if it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Subsequent measurement

- Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

- Financial liabilities at amortized cost

These financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Company's financial instruments include cash, deposits, accounts receivable, accounts payable and accrued liabilities and mortgages payable, all of which are subsequently measured at amortized cost.

(expressed in Canadian dollars)

3 Material accounting policy information (continued)

- Fair value measurement

  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 fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value.

  - Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
  - Level 2 – inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts, volatility measurements used to value option contracts and observable credit default swap spreads to adjust for credit risk where appropriate), or inputs that are derived principally from or corroborated by observable market data or other means.
  - Level 3 – inputs are unobservable (supported by little or no market activity).

  The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

- Impairment of financial assets

  The Company recognizes loss allowances for expected credit losses (ECLs) on financial assets measured at amortized cost. The Company measures loss allowances at an amount equal to the lifetime ECLs in accordance with the simplified approach.

  When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment and includes forward-looking information.

  The Company assumes that the credit risk on financial assets has increased if it is more than 30 days past due. The Company considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade.

(expressed in Canadian dollars)

3 Material accounting policy information (continued)

Critical accounting judgments and estimates

Judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets, liabilities and equity components are reviewed on an ongoing basis. Actual results may differ from these estimates. Management has made the following critical judgments, estimates and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements:

- Asset acquisitions

  At the time of acquisition of real estate properties, the Company considers whether or not the acquisition represents the acquisition of a business. The Company accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property and when it does not meet the optional concentration test in IFRS 3, Business Combinations. When the acquisition of a property does not represent a business, it is accounted for as an asset acquisition. The cost of the acquisition, including transaction costs, is allocated to the assets and liabilities acquired based on their relative fair values, and no goodwill or deferred tax is recognized.

  The acquisition of each of the Company's investment properties to date was determined to be an asset acquisition.

- Investment properties

  The fair value of investment properties is determined using the capitalized net operating income method, with the 12-month forward net operating income divided by a market capitalization rate. The 12-month forward net operating income is based on the Company's operating budget and stabilized for any non-recurring expenses. Management uses the assistance of an independent appraiser to determine an appropriate market capitalization rate for individual properties at period ends.

  Key assumptions and estimates made by management in the determination of the fair value of the investment properties include forecasted rental income and vacancies, forecasted property operating expenses and capitalization rates.

(expressed in Canadian dollars)

4 Changes in accounting policies and disclosures and future accounting policy changes

New accounting standards adopted during the year

On January 1, 2023, the Company adopted the amendments to the requirements of IAS 1, Presentation of Financial Statements, in relation to disclosing material accounting policies and replacing the requirements for disclosing significant accounting policies. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies. The new requirements add guidance on applying the concept of materiality in making decisions about accounting policy disclosures.

Accounting standards issued but not yet adopted

The International Accounting Standards Board (IASB) issued a number of standards and interpretations that have not been applied in preparing these consolidated financial statements as their effective date falls within periods beginning subsequent to the current reporting period. Set out below are only those standards and amendments that may have a material impact on the consolidated financial statements in future periods. The Company is currently assessing the financial impact of these future policies on its consolidated financial statements.

The IASB issued an amendment to IAS 1, providing a more general approach to the classification of liabilities on January 23, 2020. The amendment clarifies that the classification of liabilities as current or non-current depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendment further clarifies that settlement refers to the transfer of cash, equity instruments, other assets or services to the counterparty. On October 31, 2022, the IASB issued new amendments to the requirements for classification of debt with covenants. The 2022 amendments introduce additional disclosure requirements that apply to liabilities with covenants that an entity is required to comply with on or before the reporting date, which would affect its classification as either current or non-current. In addition, the amendments require the disclosure of information in the notes that enables users of financial statements to understand the risk that the liability could become repayable within 12 months of the reporting date. Both amendments will be effective for annual periods beginning on or after January 1, 2024 and will applied retrospectively.

5 Investment properties

The following table summarizes the changes in investment properties for the years ended December 31, 2023 and 2022:

	2023 **$**	**2022** **$**
Balance – Beginning of year	203,071,000	125,162,000
Acquisitions during the period	40,008,177	70,615,529
Additions during the period	2,280,513	729,814
Fair value adjustments	(4,741,690)	6,563,657
Balance – End of year	240,618,000	203,071,000

(expressed in Canadian dollars)

5 Investment properties (continued)

On February 28, 2023, the Company completed the acquisition of a 100% interest in Northpoint Management Inc. (Northpoint) from Sheaco Holdings Inc. for $40,008,177, including closing costs. Northpoint's assets consist of two multifamily buildings comprising 75 units each located at 2251 and 2261 Mountain Road, Moncton, New Brunswick.

On December 16, 2022, the Company completed the acquisition of a 67-unit building located at 5 Woodhollow Park and an 82-unit building (50 Calabria) located at 50 Via Calabria Street with an adjacent parcel of vacant land in Saint John, New Brunswick, for $35,350,481 including closing costs. As part of the acquisitions, the Company assumed mortgages with a balance of $24,253,124.

On August 9, 2022, the Company completed the acquisition of a 40-unit building in Strathroy, Ontario (294 Saulsbury) located at 294 Saulsbury Street for $9,683,090 including closing costs.

On April 14, 2022, the Company completed the acquisition of a 58-suite building in Lindsay, Ontario (35 Angeline) located at 35 Angeline Street for $13,746,804 including closing costs.

On April 5, 2022, the Company completed the acquisition of a 64-unit building in Riverview, New Brunswick (Findlay Tower) located at 1009 Cleveland Avenue for $11,835,154 including closing costs. As part of the acquisition, the Company assumed a mortgage balance of $9,254,248.

The fair value of investment properties is a Level 3 fair value measurement. The fair value represents the estimated 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. All investment properties acquired to date were arm's length transactions and the purchase prices were supported by independent appraisals. Fair value is estimated using the capitalized net operating income method with the 12-month forward net operating income stabilized for any non-recurring expenses divided by a market capitalization rate. Key assumptions include the capitalization rate, forecasted rental income and vacancies and forecasted operating expenses for each specific property.

The December 31, 2023 capitalization rates used to value the Company's investment properties ranged from 4.50% to 5.25%, and the weighted average capitalization rate was 4.79% (December 31, 2022 – ranged from 4.00% to 5.00% with a weighted average capitalization rate of 4.69%).

The following table summarizes the impact of changes in capitalization rates and stabilized net operating income on the fair value of the Company's investment properties.

		Change in stabilized NOI				
		(2.00)%	**(1.00)%**	**-%**	**1.00%**	**2.00%**
		$	**$**	**$**	**$**	**$**
	(0.50)%	22,699,000	25,386,000	28,073,000	30,760,000	33,447,000
Change in	(0.25)%	8,185,000	10,724,000	13,263,000	15,802,000	18,341,000
capitalization	-%	(4,812,000)	(2,406,000)	-	2,406,000	4,812,000
rate	0.25%	(16,519,000)	(14,233,000)	(11,946,000)	(9,659,000)	(7,373,000)
	0.50%	(27,119,000)	(24,941,000)	(22,762,000)	(20,583,000)	(18,405,000)

(expressed in Canadian dollars)

6 Mortgages payable

	2023 $	2022 $
Mortgages payable	173,951,858	135,267,371
Less: Unamortized deferred financing costs	3,565,912	1,328,997
	170,385,946	133,938,374
Less: Current portion	40,985,242	34,030,964
	129,400,704	99,907,410

As at December 31, 2023, all of the Company's investment properties had been pledged as security against the mortgages payable.

The Company has access to two variable rate non-revolving demand construction loans for the purpose of funding capital improvements totalling $2,175,000. As at December 31, 2023, $431,311 was drawn on the construction loans (2022 – $nil). Payments are to be made monthly on an interest-only basis. On completion of the Company's repositioning program, the construction loans are expected to be replaced with permanent mortgage financing.

The Company's mortgages bear interest at a weighted average effective rate of 3.71% (2022 – 2.99%) with a remaining weighted average term to maturity of 4.6 years (2022 – 2.8 years). The fair value of mortgages payable is approximately $177.5 million and has been determined by discounting the future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

The following table summarizes the changes in the aggregate mortgage values for the years ended December 31, 2023 and 2022:

	2023 $	2022 $
Balance – Beginning of year	133,938,374	78,941,598
Mortgages assumed (note 5)	-	33,454,371
Mortgage proceeds	66,505,483	23,093,878
Repayments	(27,820,996)	(2,186,071)
Additions to finance costs	(2,647,623)	155,996
Amortization of finance costs	410,708	478,602
Balance – End of year	170,385,946	133,938,374

(expressed in Canadian dollars)

6 Mortgages payable (continued)

The annual principal and interest payments in relation to the mortgages payable over the 12-month periods ending December 31 are as follows:

	Interest Payable $	Principal Repayment $	Maturing Weighted Average Interest Rate %
2024	6,224,257	40,985,242	5.05%
2025	4,247,646	9,499,034	1.76%
2026	4,022,902	16,619,116	2.21%
2027	3,714,994	36,119,588	3.36%
2028	2,332,950	18,343,209	3.78%
Thereafter	8,108,7666	52,385,669	3.70%

7 Share capital

a) Authorized capital stock

Unlimited number of common shares, without nominal or par value
Unlimited number of preferred shares, without nominal or par value, issuable in one or more series

Common shares issued and fully paid

	Number of shares (note 2)	Amount $
Balance – December 31, 2021	14,077,474	53,900,266
Shares issued for cash, net of issue costs	300,000	1,160,583
Shares issued pursuant to the exercise of warrants	200,625	999,729
Shares issued pursuant to settlement of DSUs	86,034	330,500
Balance – December 31, 2022	14,664,133	56,391,078
Shares issued pursuant to acquisitions	1,875,000	7,465,006
Shares repurchased for cancellation	(74,650)	(288,217)
Balance – December 31, 2023	16,464,483	63,567,867

(expressed in Canadian dollars)

7 Share capital (continued)

b) Share consolidation

The consolidation of the Company's common shares on the basis of one post-consolidation common share for every 20 pre-consolidation shares issued and outstanding was effective as of the opening of TSXV on August 3, 2023. The share consolidation was approved by the Company's shareholders at the annual and special meeting held on June 27, 2023. No fractional shares were issued as a result of the consolidation. Fractional interests were rounded to the nearest whole number of shares without any consideration payable therefor. All vested and unvested stock options and DSUs were adjusted on a pro-rata rata basis of one post-consolidation share to 20 pre-consolidation shares.

c) Equity financings

On February 28, 2023, the Company issued 1,875,000 common shares at a price of $4.00 per share as part of the acquisition of a 100% interest in Northpoint (note 5).

On January 7, 2022, the Company completed a $1,200,000 private placement and issued 300,000 common shares at a price of $4.00 per share.

d) Security-based compensation plans

The Company has a deferred share unit plan (DSU Plan) and a common share purchase option plan. Pursuant to the DSU Plan, participants may elect to receive all or a portion of their annual compensation or bonus compensation, if any, in DSUs. The election, if it is made, must be for a minimum of 10%, or a multiple thereof, of such compensation in DSUs. The number of DSUs received is equal to the amount of compensation elected to be received in DSUs, divided by the volume-weighted average trading price of the common shares on the TSXV for the five trading days immediately prior to the payment date. DSUs awarded under the DSU Plan in lieu of annual or bonus compensation will vest immediately.

In addition, the Board of Directors has the authority to make discretionary awards of DSUs to participants under the DSU Plan. DSUs granted pursuant to discretionary awards will vest in accordance with the vesting schedule determined by the Board of Directors. Generally, DSUs will vest equally over three years, with one-third of the awarded DSUs vesting on each of the first, second and third anniversaries of the date of the award. As at December 31, 2023, a total of 426,450 (December 31, 2022 – 257,500) DSUs were outstanding, of which 167,417 (December 31, 2022 – 110,833) DSUs have vested.

All unvested DSUs will vest immediately in the case of a change of control of the Company. In addition, in the event of the death or termination without cause of a participant who received DSUs, the participant's DSUs will vest immediately. The Board of Directors may at any time shorten the vesting period of any or all DSUs.

Each DSU held by a participant must be redeemed by the Company within ten years of grant for common shares issued from treasury. Each vested DSU held by a participant who ceases to be an eligible employee, director or officer shall be redeemed by the Company effective as at the separation date for DSU Plan shares issued from treasury.

(expressed in Canadian dollars)

7 Share capital (continued)

d) Security-based compensation plans (continued)

On August 17, 2023, the Board of Directors approved the issuance of 30,000 DSUs to an officer of the Company. The DSUs vest over three years in accordance with the provisions of the Company's DSU Plan. The fair value per DSU granted was $2.15.

On May 25, 2023, the Board of Directors approved the issuance of 138,950 DSUs to directors and management of the Company. The DSUs vest over three years in accordance with the provisions of the Company's DSU Plan. The fair value per DSU granted was $2.50.

On May 16, 2022, the Board of Directors approved the issuance of 113,000 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. The fair value per DSU granted was $2.90.

The Company charged $303,600 in non-cash stock-based compensation to operations for the year ended December 31, 2023 (December 31, 2022 – $334,500), of which $297,800 (December 31, 2022 – $273,400) related to DSUs issued to officers and directors of the Company.

The following table summarizes the changes in the Company's DSUs for the years ended December 31, 2023 and 2022.

	Number of DSUs (note 2)
Balance – December 31, 2021	242,000
Issued during the year	113,000
Settled during the year	(97,500)
Balance – December 31, 2022	257,500
Issued during the year	168,950
Balance – December 31, 2023	426,450

The Company has a share option plan for directors, officers, employees and consultants. The exercise price of the stock options is determined by the Board of Directors when the options are granted, but it cannot be less than the closing price of the Company's shares on the TSXV on the business day immediately preceding the day on which the option is granted. The maximum exercise period of the stock options is ten years.

In determining the stock-based compensation expense, the fair value of options issued is estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility.

(expressed in Canadian dollars)

7 Share capital (continued)

d) Security-based compensation plans (continued)

No options were issued during the years ended December 31, 2023 and 2022. Options granted and outstanding at December 31, 2023 and 2022 totalled 52,500, of which 15,000 have an exercise price of $4.80 and expire May 15, 2030, and 37,500 have an exercise price of $3.80 and expire April 20, 2031.

Options vested and exercisable as at December 31, 2023 totalled 52,500 with a weighted average exercise price of $4.09 per share.

The maximum number of common shares issuable under the two compensation plans is equal to 10% of the total issued and outstanding common shares. As at December 31, 2023, the maximum number of common shares remaining available for issuance under both compensation plans is 1,063,998.

e) Warrants

The following table summarizes the changes in the Company's warrants for the years ended December 31, 2023 and 2022:

	Expiry date	Exercise price $	Number # (note 2)	Ascribed value $
Balance – December 31, 2021			1,103,719	1,951,592
Warrants expired	March 16, 2022	3.50	(124,375)	(184,458)
Warrants exercised	March 16, 2022	3.50	(200,625)	(297,542)
Warrants expired	April 27, 2022	5.40	(175,000)	(353,055)
Warrants expired	May 5, 2022	5.00	(2,500)	-
Warrants expired	August 26, 2022	5.00	(14,544)	-
Warrants expired	December 11, 2022	4.80	(111,675)	(203,000)
Balance – December 31, 2022			475,000	913,537
Warrants expired	March 16, 2023	5.40	(350,000)	(641,555)
Warrants expired	August 31, 2023	5.40	(125,000)	(271,982)
Balance – December 31, 2023			-	-

f) Share repurchases

Pursuant to a notice of intention to make a normal course issuer bid (NCIB) filed with the TSXV, the Company may repurchase for cancellation up to 1,300,000 common shares in its own capital stock during the period from May 30, 2023 to May 30, 2024.

(expressed in Canadian dollars)

7 Share capital (continued)

f) Share repurchases (continued)

The price that the Company will pay for any such common shares will be the prevailing market price at the time of acquisition. All common share purchases under the NCIB will be made on the open market through the facilities of the TSXV, other designated exchanges and/or alternative Canadian trading systems and will be purchased for cancellation. The funding for any purchase pursuant to the NCIB will be financed out of the working capital of the Company.

During the year ended December 31, 2023, the Company purchased for cancellation 74,650 shares at a cost of $167,924. The excess of the historical book value of the shares over the purchase price of $120,293 has been recorded to contributed surplus, and $288,217 has been charged to share capital.

8 Income taxes

As at December 31, 2023, the Company's effective income tax rate differed from the amount that would be computed from applying the federal and provincial statutory rate of 29% (2022 – 29%) to the pre-tax income for the year as follows:

	2023 **$**	**2022** **$**
Computed tax expense at the statutory rates	(552,100)	2,353,000
Changes in deductible temporary differences and unused tax losses not recognized	764,100	(1,850,000)
Tax effect of permanent differences	88,000	97,000
	300,000	600,000

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and (liabilities) are presented below.

	2023 **$**	**2022** **$**
Financing fees	1,198,000	907,000
Investment properties	(6,843,000)	(5,072,000)
Non-capital losses	4,745,000	3,565,000
Deferred tax liability	(900,000)	(600,000)

The non-capital losses expire between 2032 and 2042.

(expressed in Canadian dollars)

9 Related party transactions

Management compensation

Key management includes the Company's Chief Executive Officer, President, Chief Financial Officer, Executive Vice Chair, Vice President, Corporate Secretary and directors.

	2023 $	2022 $
Cash and accrued compensation	769,183	596,900
Stock-based compensation (note 7(d))	297,800	273,400
	1,066,983	870,300

10 Earnings per share

	2023			2022		
	Loss $	Weighted average shares # (note 2)	Per share amount $	Income $	Weighted average shares # (note 2)	Per share amount $ (note 2)
Net (loss) income per share – basic	(2,203,803)	16,360,921	(0.13)	7,513,188	14,687,148	0.51
Dilutive impact of stock options, warrants and DSUs	-	94,881	-	-	75,904	-
Net (loss) income per share – diluted	(2,203,803)	16,455,802	(0.13)	7,513,188	14,763,052	0.51

The Company's potentially dilutive instruments include the stock options, warrants and DSUs. For the years ended December 31, 2023 and 2022, the stock options and warrants were anti-dilutive and the DSUs were dilutive.

11 Capital management

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company. The Company considers capital to be shareholders' equity, which at December 31, 2023 totalled $74,633,442 (2022 – $69,896,825). The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to externally imposed capital requirements.

(expressed in Canadian dollars)

12 Financial instruments and other

Interest rate risk

The Company is exposed to interest rate risk on its borrowings and could be adversely affected if it were unable to obtain cost-effective financing. This risk is mitigated as approximately 95% of the Company's interest bearing financial liabilities have fixed rates of interest. Assuming a 100 basis point increase in interest rates, financing costs would increase by $1,737,500.

Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and will be unable to fulfill their lease commitments. The Company attempts to mitigate its credit risk by ensuring its tenant mix is heavily weighted to creditworthy tenants. The Company further manages credit risk by holding its cash with high quality financial institutions in Canada, where management believes the risk of loss to be low.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations. The Company has financed acquisitions of investment properties with mortgages, which are periodically required to be refinanced based on the prevailing market conditions at the end of the mortgage term. Within the next 12 months, mortgages totalling $39,045,580 will mature.

Management believes it has access, through its working capital, operating cash flows and expected mortgages renewals, to sufficient capital to meet the Company's obligations for the next 12 months.

13 Subsequent events

On January 21, 2024, the Company announced it had entered into an agreement to acquire a portfolio of multi-family assets in eastern Ontario and Quebec consisting of 16 properties and 991 units, and an appraised value of $224 million as of October 2023, from Devcore Group Inc. and related entities in exchange for share consideration and the assumption of existing mortgages. On April 3, 2024, the Company received shareholder approval for the transaction at the Company's special meeting.

On February 21, 2024, the Company declared a dividend of $0.01 per common share for the quarter ending March 31, 2024, representing $0.04 per share on an annualized basis. The dividend was paid on March 31, 2024, to shareholders of record on March 8, 2024.

On April 3, 2024, the Company refinanced its mortgage on the 5 Woodhollow Park property and entered into a new $9.3 million CMHC-insured mortgage for a ten-year term with a fixed interest rate of 4.40%. The new mortgage replaced the maturing $7.5 million mortgage.

On April 23, 2024, the Company refinanced its mortgage on the 49 Noel property and entered into a new $9.4 million CMHC-insured mortgage for a ten-year term with a fixed interest rate of 4.18%. The new mortgage replaced the maturing $8.7 million mortgage.