Nexus Industrial REIT

Consolidated Financial Statements

Year Ended December 31, 2023

Independent auditor's report

To the Unitholders of Nexus Industrial REIT

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Nexus Industrial REIT and its subsidiaries (together, the REIT) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards.

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

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in unitholders' 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 policies 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 REIT 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.

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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 valuation of investment properties *Refer to note 2 - Summary of significant accounting policies and note 4 - Investment properties to the consolidated financial statements.* The REIT measures its investment properties at fair value. Management evaluates the fair value of the entire real estate portfolio annually. The fair value of the investment properties as at December 31, 2023 was $2,364 million. Fair value is generally determined with reference to external valuations and internal valuations based on the direct income capitalization method. In applying the direct income capitalization method, the stabilized net rental income of each property is divided by a capitalization rate appropriate for the property based on the market in which the property is located and the specific details of the property. Internal valuations are prepared by management, and external valuations are prepared by qualified external valuation professionals. The REIT obtains external valuations to supplement internal management valuations in support of the determination of the fair market value of investment properties. The application of the direct income capitalization method by management and its qualified external valuation professionals is subject to significant judgments, estimates and assumptions about market conditions as at the valuation date.	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the fair value of investment properties, which included the following: – Evaluated the reasonableness of the capitalization rates by comparing them to industry data for the same type of property in the same geographic area. – Evaluated whether stabilized net rental income was reasonable considering (i) the current and past leasing activity of the investment properties, (ii) the comparability with external market and industry data as applicable, and (iii) whether these assumptions were aligned with evidence obtained in other areas of the audit. • For a sample of investment properties: – Professionals with specialized skills and knowledge in the field of real estate valuations further assisted us in evaluating the appropriateness of the direct income capitalization method and in evaluating the reasonableness of the capitalization rates and stabilized net rental income as applicable, by comparing to externally available market data. – Tested the underlying data used in the direct income capitalization method.

Key audit matter	How our audit addressed the key audit matter
The significant assumptions and estimates used by management when determining the fair value of investment properties are stabilized net rental income and capitalization rates. We considered this a key audit matter due to the significant judgments made by management when determining the fair values of the investment properties and the high degree of complexity in assessing audit evidence related to the significant assumptions and estimates made by management. In addition, the audit effort involved the use of professionals with specialized skills 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 REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the REIT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the 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 Frédéric Lepage.

/s/PricewaterhouseCoopers LLP[1]

Montréal, Quebec
March 13, 2024

[1] CPA auditor, public accountancy permit No. A123475

Nexus Industrial REIT

Consolidated Statements of Financial Position
As at December 31, 2023 and 2022
(In thousands of Canadian dollars)

	Note(s)	December 31, 2023 $	December 31, 2022 $
Non-current assets			
Investment properties	3,4	2,364,027	1,822,639
Equity investment in joint venture	6	11,038	10,975
Restricted cash		1,444	1,473
Derivative financial instruments	19	10,194	17,073
Right-of-use assets	7	1,183	993
Other investment	10	7,950	6,500
Other assets	9	373	167
		2,396,209	1,859,820
Current assets			
Cash		5,918	11,533
Tenant and other receivables	8	11,142	5,944
Deposits		3,000	8,300
Prepaid expenses		2,713	2,186
Derivative financial instruments	19	1,747	-
Other assets	9	13,188	8,833
Assets held for sale	5	29,150	70,885
		66,858	107,681
Total assets		2,463,067	1,967,501
Non-current liabilities			
Mortgages payable	3,11	601,796	633,624
Credit Facilities	12	453,563	112,532
Lease liabilities	7	10,715	10,495
Derivative financial instruments	19	10,399	-
Class B LP Units	13	199,105	195,857
Unit-based compensation liabilities	14	300	351
Other liabilities	15b	8,022	9,224
		1,283,900	962,083
Current liabilities			
Mortgages payable	3,11	57,508	70,410
Credit Facilities	12	64,981	-
Lease liabilities	7	64	46
Distributions payable		3,658	3,590
Accounts payable and other liabilities	15a,19	37,822	25,941
Liabilities associated with assets held for sale	5,7,11	14,805	32,891
		178,838	132,878
Total liabilities		1,462,738	1,094,961
Equity			
Unitholders' equity	16	648,171	636,776
Retained earnings		352,158	235,764
Total unitholders' equity		1,000,329	872,540
Total liabilities and unitholders' equity		2,463,067	1,967,501
Commitments	20		
Subsequent events	24		

On behalf of the Board:

"Benjamin Rodney" Trustee   "Floriana Cipollone" Trustee

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

Nexus Industrial REIT

Consolidated Statements of Income and Comprehensive Income
For the years ended December 31, 2023 and 2022
(In thousands of Canadian dollars)

	Note(s)	2023 $	2022 $
Net rental income			
Property revenues	18	157,652	137,121
Property expenses		(45,679)	(41,313)
Net rental income		111,973	95,808
General and administrative expense		(8,655)	(6,517)
Fair value adjustment of investment properties	4,5	95,970	(12,605)
Fair value adjustment of Class B LP Units	13	27,765	61,658
Fair value adjustment of unit options	14	-	378
Fair value adjustment of restricted share units	14	160	250
Fair value adjustment of derivative financial instruments	19	(15,531)	17,528
Fair value adjustment of investments	10	1,450	3,500
Income from equity accounted investment in joint venture	6	63	1,797
Loss on disposal of investment properties	3	(807)	(710)
Unrealized foreign exchange loss		202	(634)
Other income	9	2,831	2,586
		215,421	163,039
Finance expense			
Net interest expense	11,12	(41,545)	(29,120)
Distributions on Class B LP Units	13	(13,846)	(13,051)
		(55,391)	(42,171)
Net income and comprehensive income		160,030	120,868

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

Nexus Industrial REIT

Consolidated Statements of Changes in Unitholders' Equity
For the years ended December 31, 2023 and 2022
(In thousands of Canadian dollars)

	Note	Units	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2023		67,322,644	636,776	235,764	872,540
Net income and comprehensive income		-	-	160,030	160,030
Distributions		-	-	(43,636)	(43,636)
Units issued under distribution reinvestment plan	17	729,051	5,865	-	5,865
Units issued under Incentive Plan	14	65,692	651	-	651
Units issued under Employee Purchase Plan	14	12,108	104	-	104
Units cancelled		(375)	(4)		(4)
Unit issuance costs	16	-	(75)	-	(75)
Class B LP Units exchanged for REIT Units	13	460,486	4,854	-	4,854
Balance – December 31, 2023		68,589,606	648,171	352,158	1,000,329

	Note	Units	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2022		57,302,629	536,883	152,601	689,484
Net income and comprehensive income		-	-	120,868	120,868
Distributions		-	-	(37,705)	(37,705)
Units issued under distribution reinvestment plan	17	277,649	2,847	-	2,847
Units issued under Option Plan	14	144,714	1,551	-	1,551
Units issued under Incentive Plan	14	35,755	461	-	461
Units issued under Employee Purchase Plan	14	19,419	220	-	220
Units issued for cash		8,225,000	84,718	-	84,718
Unit issuance costs		-	(4,208)	-	(4,208)
Class B LP Units exchanged for REIT Units	13	1,317,478	14,304	-	14,304
Balance – December 31, 2022		67,322,644	636,776	235,764	872,540

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

Nexus Industrial REIT
Consolidated Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(In thousands of Canadian dollars)

	Note(s)	2023 $	2022 $
Operating activities			
Net income for the year		160,030	120,868
Adjustment for items not involving cash:			
Restricted share unit expense	14	1,184	1,030
Share of net income from equity accounted investment in joint venture	6	(63)	(1,797)
Loss on disposals	3	807	710
Amortization of deferred financing costs	11,12	1,185	731
Amortization of mortgage fair value adjustments	11	(72)	(178)
Amortization of right-of-use assets	7	91	93
Amortization of tenant incentives and leasing costs	4	1,171	988
Straight-line adjustments of rent		(4,728)	(3,418)
Fair value adjustments		(109,814)	(70,709)
Unrealized foreign exchange (gain)/loss		(202)	634
Changes in non-cash operating items	23	1,426	(7,422)
Total cash generated by operating activities		51,015	41,530
Investing activities			
Acquisition of income-producing properties	3,4	(302,028)	(290,786)
Additions to income-producing properties	4	-	(11,277)
Acquisition of properties held for development	3,4	(4,600)	(8,356)
Additions to properties held for development	4	(47,980)	(1,814)
Net proceeds on disposal of investment properties	3	27,552	7,719
Capital expenditures, tenant incentives and leasing costs	4	(18,933)	(11,213)
Total cash used in investing activities		(345,989)	(315,727)
Financing activities			
Proceeds from new mortgage financing	11	-	168,520
Financing costs	11,12	(1,772)	(1,455)
Lease principal repayments	7	(59)	(46)
Mortgage principal repayments	11	(78,157)	(57,754)
Net borrowing on the Credit Facilities	12	407,125	48,000
Units issued for cash	16	-	84,718
Unit issuance costs	16	(75)	(4,208)
Distributions to unitholders		(37,703)	(34,324)
Total cash generated by financing activities		289,359	203,451
Change in cash during the year		(5,615)	(70,746)
Cash - beginning of year		11,533	82,279
Cash - end of year		5,918	11,533

Supplemental cash flow and non-cash information	23	

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

1 Organization

Nexus Industrial REIT is an unincorporated, open-ended real estate investment trust governed by the laws of the Province of Ontario pursuant to an amended and restated declaration of trust dated March 7, 2022. Nexus Industrial REIT and its subsidiaries, (together, “the REIT”) own and operate commercial real estate properties across Canada. The registered office of the REIT is located at 105-586 Argus Road, Oakville, ON, L6J 3J3.

2 Material accounting policies

Statement of compliance

The consolidated financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (“IFRS Accounting Standards”).

Basis of presentation

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, except for the revaluation of investment properties, unit options, restricted share units and financial instruments classified as fair value through profit or loss (“FVTPL”), which are presented at fair value. These consolidated financial statements are presented in thousands of Canadian dollars, which is the functional currency of the REIT. The consolidated financial statements were authorized for issue by the board of trustees of the REIT on March 13, 2024.

Principles of consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries. Subsidiaries are all entities over which the REIT has control. The REIT controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All inter-entity transactions between the REIT and its subsidiaries have been eliminated in the consolidated financial statements.

Joint arrangements

The REIT enters joint arrangements via joint operations and joint ventures. Joint arrangements that involve the establishment of a separate entity in which each venture has rights to the net assets of the arrangement are referred to as joint ventures. The REIT reports its interests in joint ventures using the equity method of accounting. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities. Co-ownership arrangements represent joint operations. For co-ownerships, the REIT’s consolidated financial statements reflect only the REIT’s proportionate share of the assets, its share of any liabilities incurred directly, its share of any revenues earned, or expenses incurred by the joint operation and any expenses incurred directly.

Segment reporting

The REIT owns and operates investment properties in Canada. In measuring performance, the REIT does not distinguish its operations on a geographic or any other basis and, accordingly, the REIT has a single reportable segment for disclosure purposes.

Financial instruments

Classification and measurement of financial assets and financial liabilities

The REIT's financial instruments are initially recognized at fair value. Subsequent to initial recognition, financial assets and liabilities are classified and measured based on three categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). Financial assets are not reclassified subsequent to their initial recognition, unless the REIT identifies changes in its business model in managing financial assets that necessitate reassessment of the classification of financial assets.

The following table summarizes the measurement of the REIT's financial instruments:

Financial instrument	**Measurement**
Restricted cash	Amortized cost
Cash	Amortized cost
Tenant and other receivables	Amortized cost
Deposits	Amortized cost
Other assets	Amortized cost
Class B LP Units	FVTPL
Interest rate swaps and swaptions – not designated as hedges	FVTPL
Other Investment	FVTPL
Mortgages payable	Amortized cost
Credit Facilities	Amortized cost
Accounts payable and other liabilities	Amortized cost

Impairment of financial assets

For amounts receivable measured at amortized cost, the REIT applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized on initial recognition of the receivables. To measure the expected credit losses, the REIT has established a provision matrix that is based on its historical credit loss experience based on days past due, adjusted for forward-looking factors specific to the tenant and the economic environment. The REIT may also consider a financial asset to be in default when internal or external information indicates that it is unlikely to receive the outstanding contractual amounts in full. The REIT assumes that there is no significant increase in credit risk for instruments that have a low credit risk. The methodology is applied principally to cash and related bank deposits.

A provision for impairment is recorded through an allowance account, and the amount of the loss is recognized in the consolidated statement of income and comprehensive income within property expenses. Bad debt write-offs occur when the REIT determines collection is not possible. Any subsequent recoveries of amounts previously written off are credited against property expenses in the consolidated statement of income and comprehensive income.

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

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

Transaction costs relating to financial instruments measured at amortized cost are included in the carrying value of the financial instrument and amortized over the expected useful life of the instrument using the effective interest method. Financial assets are derecognized when contractual rights to the cash flow from the assets expire. Financial liabilities are derecognized when its contractual obligations are discharged, cancelled or expired.

Investment properties

Investment properties include income-producing properties and properties held for development that are principally held to earn rental income or for capital appreciation, or both. The REIT has selected the fair value method to account for its investment properties. Investment properties are initially recognized at the purchase price, including directly attributable costs. Subsequent to initial recognition, investment properties are carried at fair value. Fair value is determined with reference to external valuations and internal valuations. External valuations are obtained from qualified external professional appraisers on a rotational basis for select properties. Internal valuations of income-producing properties are prepared primarily through the application of the direct capitalization method, with certain adjustments for the present value of rents determined to be above or below market rents and with reference to external appraisals. The fair value of properties held for development is determined with reference to external valuations of the developments as completed. The difference between the fair value of the properties not considering development returns and the as completed fair value is recognized pro rata with costs incurred to date (excluding the cost of land) as compared to total budgeted development costs (excluding the cost of land). Gains or losses in the fair value of the investment properties are recognized in the consolidated statement of income and comprehensive income in the period in which they arise.

Leasing costs include commissions paid to external leasing agents in negotiating and arranging tenant leases. Leasing costs are added to the carrying amount of investment properties. Tenant incentives, such as lessor improvements, may be provided to lessees to enter a lease. Tenant incentives are added to the carrying amount of investment properties. Leasing costs and tenant incentives are amortized on a straight-line basis over the term of the lease as a property expense.

The application of the direct income capitalization method results in these measurements being classified as Level 3 in the fair value hierarchy. In applying the direct income capitalization method, the stabilized net rental income of each property is divided by a capitalization rate appropriate for the property based on the market in which the property is located and the specific details of the property. Investment properties are valued based on the highest and best use for the properties. For all the REIT's investment properties, the current use is considered to be the highest and best use. The significant unobservable inputs used in the Level 3 valuation of the investment properties are the capitalization rate and the stabilized net rental income used in the calculations.

The REITs properties held for development are classified as such until the property is substantially completed and available for occupancy. The cost of properties held for development includes the acquisition cost of the land, direct development expenditures, consulting and legal fees, property taxes, management fees, insurance fees, construction costs, and borrowing costs directly attributable to the properties held for development. The amount of capitalized borrowing costs is determined by reference to the borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures.

Capitalization of borrowing costs commences when the activity necessary to prepare an asset for development begins and ceases once the asset is substantially complete or if there is a prolonged period where development activity is interrupted. The REIT considers substantial completion to have occurred when the property can operate in the manner intended by management. Capitalization of costs to properties held for development continues until all the activities necessary to prepare the property for use as an income-producing property are complete, at which point it is transferred from properties held for development to income-producing properties at its fair value.

Derivative financial instruments

From time to time, the REIT enters into derivative financial instruments such as interest rate swap agreements in order to reduce the impact of fluctuating interest rates of certain mortgages and the Credit Facilities. These interest rate swaps usually require periodic exchanges of payments without the exchange of the notional principal amount on which the payments are based on and expire coterminous with the maturities of the corresponding debt. The interest rate swaps are not designated as hedging instruments under IFRS Accounting Standards. The interest rate swaps are measured at fair value on initial recognition and are subsequently measured and classified at fair value through profit and loss, with changes in fair value presented in the consolidated statement of income and comprehensive income.

Assets held for sale

Investment properties are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction rather than from continuing use. The condition is met when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property, management is committed to the sale, and it is highly probable to occur within one year. Investment properties classified as held for sale continue to be measured at fair value and are presented separately on the consolidated statements of financial position.

Leases

The REIT leases mainly land and buildings as a lessee. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants.

At inception of a contract, the REIT assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The REIT has chosen to account for each lease component. The REIT recognizes a right-of-use asset and a lease liability at the commencement date, which is the date the leased asset is available for use. Each lease payment is allocated between lease liabilities and financing costs. Financing costs are charged to the consolidated statement of income and comprehensive income over the lease period to produce a constant periodic rate of interest on the remaining balance of lease liabilities for each period. The right-of-use asset is initially measured at cost comprised of the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The right-of-use asset is subsequently depreciated over the shorter of the underlying asset's useful life and the lease term on a straight-line basis. The lease term includes periods covered by an option to extend if the REIT is reasonably certain to exercise that option. Also, the lease term includes periods covered by an option to terminate if the REIT is reasonably certain not to exercise that option. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the REIT's incremental borrowing rate. Generally, the REIT uses its incremental borrowing rate as the discount rate.

The lease liability includes the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or rate, initially measured using the index or the effective rate at the commencement date;
- amounts expected to be payable by the REIT under residual value guarantees;
- the exercise price of a purchase option if the REIT is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease if the lease term reflects the exercise of that option by the REIT.

The REIT has classified the right-of-use-assets in respect of land leases as investment property at fair value. Land lease related expense is recorded as net interest expense in the consolidated statements of income and comprehensive income.

The REIT has classified the right-of-use-assets in respect of office leases as non-current assets at amortized cost. Office lease related expense is recorded partially as general and administrative expense, resulting from the amortization of right-of-use assets, and partially as net interest expense in the consolidated statements of income and comprehensive income.

Lease principal repayments are classified as financing cash flows in the consolidated statements of cash flows.

Unit equity

The REIT is an open-ended real estate investment trust, and units of the REIT are redeemable (puttable) at the option of the REIT's unitholders. IAS 32, *Financial Instruments: Presentation*, requires puttable instruments to be accounted for as financial liabilities, except where certain conditions as detailed in IAS 32 are met. This exemption is known as the Puttable Instrument Exemption. The units of the REIT meet the Puttable Instrument Exemption criteria and, accordingly, are classified and presented as equity in the consolidated statements of financial position. In addition to REIT Units, Class B LP Units may be issued. These units do not qualify for the Puttable Instrument Exemption and are classified as liabilities on the consolidated statements of financial position. They are remeasured at each reporting date to fair value with gains and losses reported within the consolidated statements of income and comprehensive income.

Revenue recognition

The REIT earns revenue from its tenants from various sources consisting of base rent for the use of space leased, recoveries of property taxes and insurance and service revenue from utilities, cleaning and property maintenance costs.

Revenue from lease components is recognized on a straight-line basis over the lease term and includes the recovery of property taxes and insurance (rental income).

Revenue related to the service component of the REIT's leases is accounted for in accordance with IFRS 15, *Revenue from Contracts with Customers*. These services consist primarily of utilities, cleaning and property maintenance costs for which the revenue is recognized over time, typically as the costs are incurred, which is when the services are rendered (revenue from services).

Current and deferred income taxes

The REIT currently qualifies as a "mutual fund trust" under the *Income Tax Act* (Canada). The REIT expects to distribute or designate all its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes.

The legislation relating to the federal income taxation of a Specified Investment Flow Through ("SIFT") trust or partnership was enacted on June 22, 2007. Under the SIFT rules, certain distributions from a SIFT will not be deductible in computing the SIFT's taxable income and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as a return of capital should generally not be subject to tax. Under the SIFT rules, the taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the REIT Conditions). The REIT has reviewed the SIFT rules and has assessed its interpretation and application to the REIT's assets and revenue. While there are uncertainties in the interpretation and application of the SIFT rules, the REIT believes it meets the REIT Conditions and accordingly, no net current income tax expense or deferred income tax expense has been recorded in the consolidated statements of income and comprehensive income in respect of the REIT.

Distributions

Distributions to unitholders are recognized as a liability in the period in which the distributions are approved by the Board of Trustees and are recorded as a reduction of retained earnings.

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ materially from these estimates. The estimates and judgments used in determining the recorded amounts for assets, liabilities and equity in the financial statements include the following:

Valuation of investment properties

Fair value is determined with reference to external valuations and internal valuations. Internal valuations are primarily based on the direct income capitalization method. The critical assumptions and estimates used by management when determining the fair value of investment properties are stabilized net rental income and capitalization rates (see note 4). Management determines fair value internally utilizing financial information, external market data and capitalization rates determined by reference to third party appraisals and reports published by industry experts including commercial real estate brokerages.

Allowance for expected credit losses

The REIT recognizes an allowance for expected credit losses for financial assets measured at amortized cost at each balance sheet date. The REIT's assessment of expected credit losses is subjective and is based upon forward looking assessments of collectability. As a result, any expected credit loss is uncertain and the assumptions upon which it is based may change due to several factors. The REIT reviews receivables on a continuous basis and determines potentially uncollectible accounts on a tenant-by-tenant basis, considering their credit risk and records an allowance based on expected credit losses as a property expense in the consolidated statement of income and comprehensive income.

New accounting standards adopted by the REIT

The accounting policies used in the preparation of the consolidated financial statements are consistent with those of the prior year, except for the adoption of new standards and interpretations effective January 1, 2023, as follows:

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 in which it provided guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments require the disclosure of material accounting policy information rather than disclosing significant accounting policies and provided guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are applicable for annual periods beginning on or after January 1, 2023, with early adoption permitted. Since the amendments to IFRS Practice Statement 2 provide non-mandatory guidance, an effective date for these amendments is not necessary.

The amendments have resulted in the disclosure of only material accounting policy information in the REIT's disclosures, but did not impact the measurement, recognition or presentation of any items in the REIT's consolidated financial statements.

Standards issued but not yet effective

There are pending changes to IFRS Accounting Standards which are not yet effective for the current period and have not been applied in the preparation of the REIT's consolidated financial statements:

IAS 1, Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants

On January 23, 2020, the IASB issued "Classification of Liabilities as Current or Non-current (Amendments to IAS 1)". The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. The amendments also clarify the definition of "settlement" and provide situations which would be considered as a settlement of a liability. In October 2022, the IASB issued "Amendments to IAS 1 - Non-current Liabilities with Covenants". These further amendments clarify how to address the effects on classification and disclosure of covenants currently applicable and covenants that will apply in future periods. These amendments are effective January 1, 2024, with earlier application permitted and are to be applied retrospectively. The REIT is currently evaluating the impact of these amendments on its consolidated financial statements.

(In thousands of Canadian dollars, except unit and per unit amounts)

3 Acquisitions and dispositions

Acquisition of income-producing properties

The impact of the acquisition of income-producing properties completed during the year ended December 31, 2023 is as follows:

Property location	Note	Acquisition date	Contractual purchase price $	Fair value adjustment (1) $	Transaction costs $	Income-producing properties acquired $	Working capital acquired $	Mortgages assumed (2) $	Net assets acquired $
London, ON	a	November 1st	55,794	(11,112)	1,237	45,919	(324)	-	45,595
Burlington, ON		July 4th	48,370	-	2,218	50,588	(545)	-	50,043
London, ON	b	June 15th	56,358	(3,791)	1,290	53,857	(358)	(32,379)	21,120
Laval, QC		June 1st	64,701	-	2,553	67,254	(2,167)	-	65,087
London, ON		April 21st	36,000	-	808	36,808	(87)	-	36,721
Casselman, ON	c	March 7th	116,516	-	2,599	119,115	214	-	119,329
			377,739	(14,903)	10,705	373,541	(3,267)	(32,379)	337,895

(1) Fair value adjustment for Class B LP units issued and mortgage assumed on acquisition.
(2) Fair value of mortgages assumed

Consideration:	
Cash	302,028
Class B LP Units issued	35,867
	337,895

a) On November 1, 2023, the REIT acquired an industrial property located in London, Ontario, for a contractual purchase price of $55,794. The purchase price was partially satisfied through the issuance of 2,394,774 Class B LP Units at a deemed value of $11.30 per unit which are convertible to REIT Units on a one-to-one basis with the balance, net of closing adjustments, satisfied in cash. The fair value of the units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on November 1, 2023, of $6.66 per unit. The property was initially recorded at $44,682, the fair value of the consideration paid. The carrying amount of the property was subsequently adjusted to the acquisition date fair value of the property of $55,794.

b) On June 15, 2023, the REIT acquired an industrial property located in London, Ontario, for a contractual purchase price of $56,358. The purchase price was partially satisfied through the issuance of 2,359,978 Class B LP Units at a deemed value of $10.30 per unit which are convertible to REIT Units on a one-to-one basis with the balance, net of closing adjustments, satisfied in cash. The fair value of the units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on June 15, 2023, of $8.44 per unit. The property was initially recorded at $51,968, the fair value of the consideration paid. The carrying amount of the property was subsequently adjusted to the acquisition date fair value of the property of $56,358.

c) On March 7, 2023, the REIT acquired an industrial property located in Casselman, Ontario for a contractual purchase price of $116,800. The REIT received a vendor rent obligation payment from the vendor of $284 to subsidize the lower base rent until March 7, 2025, which reduced the carrying value of the property of $116,516.

(In thousands of Canadian dollars, except unit and per unit amounts)

The impact of the acquisitions completed during the year ended December 31, 2022 is as follows:

Property location	Note	Acquisition date	Contractual purchase price $	Fair value adjustment (1) $	Transaction costs $	Income-producing properties acquired $	Working capital acquired $	Mortgages assumed (2) $	Net assets acquired $
Windsor, ON and Tilbury, ON	d	November 1st	38,875	-	939	39,814	(3)	-	39,811
Cornwall, ON		September 30th	4,850	-	127	4,977	(20)	-	4,957
Baie-D'Urfé, QC		September 8th	17,800	-	485	18,285	(468)	-	17,817
St-Augustin-de-Desmaures, QC		July 11th	18,875	(460)	529	18,944	(616)	(9,080)	9,248
Edmonton, AB		March 1st	14,600	-	51	14,651	(141)	-	14,510
London and Chatham, ON	e	March 1st	35,694	1,736	1,052	38,482	(256)	(2,664)	35,562
Edmonton, AB	f	February 22nd	91,000	-	192	91,192	(59)	-	91,133
Edmonton, AB	g	February 8th	38,161	-	154	38,315	(119)	-	38,196
Mascouche, QC	h	February 2nd	28,914	-	976	29,890	(1,355)	-	28,535
Regina, SK		January 12th	28,000	-	147	28,147	(290)	-	27,857
Post-closing adjustments	i		-	-	2,524	2,524	-	-	2,524
			316,769	1,276	7,176	325,221	(3,327)	(11,744)	310,150

(1) Fair value adjustment for Class B LP units issued, and mortgage assumed on acquisition.
(2) Fair value of mortgages assumed.

Consideration:	
Cash	290,786
Class B LP Units issued	19,364
	310,150

d) On November 1, 2022, the REIT acquired a portfolio of four industrial properties for $38,875 ($28,500 USD). Three of the properties are located in Windsor, Ontario and one is located in Tilbury, Ontario.

e) On March 1, 2022, the REIT acquired three industrial properties, two of which are located in London, Ontario and one of which is located in Chatham, Ontario, for a contractual purchase price of $35,694. The purchase price was partially satisfied through the issuance of 1,565,394 Class B LP Units at a deemed value of $11.30 per unit which are convertible to REIT Units on a one-to-one basis with the balance, net of closing adjustments, satisfied in cash. The fair value of the units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on March 1, 2022 of $12.37 per unit. The property was initially recorded at $37,369, the fair value of the consideration paid. The carrying amount of the property was subsequently adjusted to the acquisition date fair value of the property of $35,694.

f) On February 22, 2022, the REIT acquired two industrial properties located in Edmonton, Alberta for a contractual purchase price of $91,000.

g) On February 8, 2022, the REIT acquired an industrial warehouse located in Edmonton, Alberta for a contractual purchase price of $38,161. Pursuant to the acquisition the REIT acquired a ground lease asset of $9,175 and an associated lease liability of $9,175.

h) On February 2, 2022, the REIT acquired a distribution centre located in the Montreal, Quebec area for a contractual purchase price of $28,914.

i) Post-closing adjustments relate to transaction costs for an industrial property acquired in December 2021.

Acquisitions of properties held for development

Year ended December 31, 2023

On June 5, 2023, the REIT acquired a parcel of land in St. Thomas, Ontario for a contractual purchase price of $4,500. The purchase price was settled in cash. The parcel acquired is adjacent to another property owned by the REIT.

(In thousands of Canadian dollars, except unit and per unit amounts)

Year ended December 31, 2022

On July 18, 2022, the REIT acquired an 80% interest in a property held for development located in Hamilton, Ontario for a contractual purchase price of $4,846. The purchase price was settled in cash.

On June 22, 2022, the REIT acquired an 80% interest in a property held for development located in Hamilton, Ontario for a contractual purchase price of $17,760. The vendor provided financing in the amount of $15,360 repayable within 18 to 24 months, with the balance of the purchase price settled in cash.

Dispositions of income-producing properties

Year ended December 31, 2023

On June 5, 2023, the REIT sold an industrial property located in Kamloops, British Columbia for a selling price of $4,200. Net of selling costs of $109, the REIT received net cash proceeds of $4,091. The sale generated a loss on disposal of $109.

On April 26, 2023, the REIT sold a retail property located in Victoriaville, Quebec for a selling price of $41,635. Net of selling costs of $698 and the repayment of a $17,476 mortgage against the property, the REIT received net cash proceeds of $23,461. The sale generated a loss on disposal of $698.

Year ended December 31, 2022

On December 19, 2022, the REIT sold a retail property located in Charlottetown, Prince Edward Island for a selling price of $955. Net of selling costs of $59, the REIT received net cash proceeds of $896. Upon the sale, a ground lease asset of $886 and an associated lease liability of $971 were derecognized. The sale generated a gain on disposal of $26.

On October 4, 2022, the REIT sold a retail property located in Longueuil, Quebec for a selling price of $11,850. Net of selling costs of $398 and the assumption by the purchaser of a $8,305 mortgage against the property, the REIT received net cash proceeds of $3,147. The sale generated a loss on disposal of $481, including the derecognition of a straight-line rent asset in the amount of $83.

On August 3, 2022, the REIT sold a retail property located in Châteauguay, Quebec for a selling price of $8,300. Net of selling costs of $255 and the assumption by the purchaser of the $4,369 mortgage against the property, the REIT received net cash proceeds of $3,676. Selling costs on the sale of the property generated a loss on disposal of $255.

4 Investment properties

	December 31, 2023 $	December 31, 2022 $
Income-producing properties	2,256,677	1,797,109
Properties held for development	107,350	25,530
Balance, end of year	2,364,027	1,822,639

(In thousands of Canadian dollars, except unit and per unit amounts)

	Note	Income-producing properties $	Properties held for development $	Investment properties $
Balance - January 1, 2023		1,797,109	25,530	1,822,639
Acquisitions	3	373,541	4,600	378,141
Additions - capital expenditures		14,354	-	14,354
Additions - tenant incentives and leasing costs		4,579	-	4,579
Additions - development		-	53,511	53,511
Amortization of tenant incentives and leasing costs		(1,171)	-	(1,171)
Investment properties reclassified as properties held for development		(8,600)	8,600	-
Investment properties reclassified as assets held for sale	5	(12,288)	-	(12,288)
Fair value adjustment		89,153	15,109	104,262
Balance – December 31, 2023		2,256,677	107,350	2,364,027

	Note	Income-producing properties $	Properties held for development $	Investment properties $
Balance – January 1, 2022		1,545,866	-	1,545,866
Acquisitions	3	325,221	23,716	348,937
Additions – capital expenditures		5,908	-	5,908
Additions – tenant incentives and leasing costs		5,305	-	5,305
Additions – development		-	1,814	1,814
Amortization of tenant incentives and leasing costs		(988)	-	(988)
Reclassified from prepaid development costs		198	-	198
Investment properties reclassified as assets held for sale	5	(95,039)	-	(95,039)
Disposal of investment property	3	(955)	-	(955)
Fair value adjustment		3,304	-	3,304
Ground lease addition	3d	9,175	-	9,175
Ground lease disposition	3	(886)	-	(886)
Balance - December 31, 2022		1,797,109	25,530	1,822,639

For the year ended December 31, 2023, acquisitions of income-producing properties include $10,705 of transaction costs (December 31, 2022 - $7,176) and acquisitions of properties held for development includes $1,110 of transaction costs (December 31, 2022 - $1,110).

During the year ended December 31, 2023, the REIT capitalized $2,315 of borrowing costs (December 31, 2022 - $94) to qualifying properties held for development.

The REIT obtains third party appraisals to supplement internal management valuations in support of the determination of the fair market value of investment properties. Investment properties with an aggregate fair value of $880,350 were valued by qualified external valuation professionals during the year ended December 31, 2023.

The fair value of the investment properties as at December 31, 2023 represents the REIT’s best estimate based on available information as at the end of the reporting period.

(In thousands of Canadian dollars, except unit and per unit amounts)

The key valuation metrics used in determining the fair value of the investment properties are as detailed below:

	December 31, 2023	December 31, 2022
Weighted average capitalization rate	5.89%	5.72%
Range of capitalization rates	4.35% - 10.00%	4.25% - 9.75%
Stabilized net operating income	$136,278	$102,480

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at December 31, 2023, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately $94,200 in the determination of the fair value of the investment properties. A 0.25% decrease in the weighted average capitalization rate would result in an increase of approximately $102,600 in the determination of the fair value of the investment properties. Further, an increase (decrease) of 1% in stabilized net operating income would result in an increase (decrease) of approximately $23,100 in the determination of the fair value of the investment properties.

The calculation of the fair value of investment properties using the direct income capitalization method results in the measurement being classified as Level 3 in the fair value hierarchy. Significant unobservable inputs used in the Level 3 valuation of the investment properties are the capitalization rate and the stabilized net operating income applied in the valuations. Generally, an increase in stabilized net operating income or a decrease in capitalization rates will result in an increase in the fair value of investment properties. Conversely, a decrease in stabilized net operating income or an increase in capitalization rates will generally result in a decrease in the fair value of investment properties.

5 Assets held for sale

As at December 31, 2023, four investment properties with a combined fair value of $29,150 are classified as assets held for sale. The mortgages and a lease liability associated with these properties are classified as liabilities associated with assets held for sale. During the year ended December 31, 2023, a fair value adjustment loss of $8,125 was recognized directly in the statements of income and comprehensive income for the properties classified as assets held for sale. During the year ended December 31, 2023, the REIT disposed of two income-producing properties located in Victoriaville, Quebec, and Kamloops, British Columbia (see note 3).

The following table summarizes the fair value changes in properties classified as assets held for sale:

	Note	December 31, 2023 $	December 31, 2022 $
Balance, beginning of year		70,885	-
Investment properties classified as assets held for sale	4	12,288	95,670
Fair value adjustment		(8,125)	(4,635)
Disposal of an investment property	3	(46,002)	(20,150)
Other adjustments [1]		104	-
Balance, end of year		29,150	70,885

[1] Other adjustments comprise the reclassification of straight-line rent relating to assets held for sale from other current assets.

(In thousands of Canadian dollars, except unit and per unit amounts)

6 Equity investment in joint venture

The REIT has a 50% interest in Société en Commandite 2045 Stanley, the limited partnership that owns the office building located at 2039-2047 rue Stanley in Montreal.

The following table summarizes the equity investment in the joint venture:

	December 31, 2023 $	December 31, 2022 $
Balance, beginning of year	10,975	9,178
Share of net income from investment in joint venture	63	1,797
Balance, end of year	11,038	10,975

The following table summarizes the cumulative financial information of the joint venture:

	December 31, 2023 $	December 31, 2022 $
Investment property	34,533	34,400
Other non-current assets	1,723	1,915
Current assets	463	813
Non-current liabilities	(12,848)	(13,766)
Current liabilities	(1,795)	(1,413)
Net assets	22,076	21,949
The REIT's share of net assets	11,038	10,975

	December 31, 2023 $	December 31, 2022 $
Net rental income		
Property revenues	3,942	3,895
Property expenses	(1,887)	(1,843)
Net rental income	2,055	2,052
General and administrative expense	(232)	(192)
Fair value adjustment of investment properties	(1,002)	1,119
Fair value adjustment of derivative financial instruments	(227)	1,116
Net interest expense	(468)	(501)
Net income (loss) and comprehensive income	126	3,594
The REIT's share of net income and comprehensive income	63	1,797

(In thousands of Canadian dollars, except unit and per unit amounts)

7 Leases

The REIT has a leasehold interest in a property subject to a 25-year land lease, which commenced on May 25, 2012, and has two five-year options to renew. The REIT has the option to purchase the land subject to the land lease. Subsequent to the year end, on February 7, 2024, the REIT exercised this purchase option.

The REIT has a leasehold interest in a property subject to a 58-year land lease which commenced on January 1, 2015.

The REIT has the rights and obligations of a 20-year term lease of 7,170 square feet of office space in a property that the REIT owns at 50% through an investment in a joint venture. The lease commenced on January 1, 2018.

The REIT has the rights and obligations of a 5-year term lease of 3,344 square feet of office space. The lease commenced on December 1, 2023.

The following table summarizes the changes in right-of-use assets for the years ended December 31, 2023 and December 31, 2022:

	2023 $	2022 $
Balance, beginning of year	993	1,086
Additions	281	-
Amortization of right-of-use assets	(91)	(93)
Balance, end of year	1,183	993
Cost	1,646	1,365
Accumulated amortization	(463)	(372)
Net book value	1,183	993

As of December 31, 2023, investment properties include right-of-use-assets with respect to land leases of $10,523 (December 31, 2022 - $10,523).

The following tables summarizes the changes in lease liabilities for the years ended December 31, 2023 and December 31, 2022:

	Note	Land leases $	Office leases $	Total $
Balance as at January 1, 2023		10,486	1,342	11,828
Lease additions		-	281	281
Lease principal income/(repayments)		14	(73)	(59)
Balance as at December 31, 2023		10,500	1,550	12,050
Less: Current portion		(30)	94	64
Less: Lease liabilities associated with an asset held for sale		1,271	-	1,271
Non-current balance, end of year		9,259	1,456	10,715

(In thousands of Canadian dollars, except unit and per unit amounts)

	Note	Land leases $	Office leases $	Total $
Balance as at January 1, 2022		2,267	1,403	3,670
Lease additions	3	9,175	-	9,175
Lease disposition	3	(971)	-	(971)
Lease principal income/(repayments)		15	(61)	(46)
Balance as at December 31, 2022		10,486	1,342	11,828
Less: Current portion		29	(75)	(46)
Less: Lease liabilities associated with an asset held for sale		(1,287)	-	(1,287)
Non-current balance, end of year		9,228	1,267	10,495

For the year ended December 31, 2023, interest expense on lease liabilities of $496 (2022 - $522) is included in the consolidated statement of income and comprehensive income.

8 Tenant and other receivables

The REIT leases industrial, office and retail properties to tenants under operating leases. Minimum rental commitments on non-cancellable tenant operating leases over their remaining terms are as follows:

	December 31, 2023 $
2024	114,535
2025	107,637
2026	98,706
2027	88,476
2028	84,395
Thereafter	446,014
Balance as at December 31, 2023	939,763

9 Other assets

Other assets are comprised as follows:

	December 31, 2023 $	December 31, 2022 $
Vendor rent obligations	1,001	801
Property tax reserves held by mortgage lenders	600	534
Cumulative straight-line rent adjustments	10,588	5,758
Prepaid acquisition costs	159	396
Other	1,213	1,511
Balance, end of year	13,561	9,000
Less: Current portion	(13,188)	(8,833)
Non-current balance, end of year	373	167

As at December 31, 2023, the vendor rent obligation related to the REIT’s Richmond, BC property was $1,001 (December 31, 2022 - $801). This amount is an estimate of the total expected to be due to the REIT during the completion of the buildout and prior to commencement of tenant leases.

(In thousands of Canadian dollars, except unit and per unit amounts)

During the year ended December 31, 2023, a total of $2,603 (2022 - $2,403) of vendor rent obligation was accrued and recorded in other income in the consolidated statement of income and comprehensive income in respect of the REIT's Richmond, BC property.

10 Other investment

On November 16, 2021, the REIT indirectly, through one of its subsidiaries, acquired an interest in a limited partnership for $3,000. The limited partnership owns development land. The REIT has accounted for the interest in the limited partnership as a FVTPL financial asset. The fair value of the investment was $7,950 as at December 31, 2023 (December 31, 2022 - $6,500).

11 Mortgages payable

As at December 31, 2023, the mortgages payable are secured by charges against 73 of the REIT's investment properties. The weighted average interest rate, including deferred financing costs and interest rate swap agreements, of the mortgages payable is 3.37% (December 31, 2022 – 3.21%) and the weighted average term to maturity is 5.84 years (December 31, 2022 – 6.08 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled repayments $	Principal maturities $	Total $
2024	18,064	40,065	58,129
2025	17,101	48,642	65,743
2026	14,978	89,123	104,101
2027	12,609	51,727	64,336
2028	11,820	18,577	30,397
Thereafter	78,339	273,461	351,800
Total	152,911	521,595	674,506

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

	Note	December 31, 2023 $	December 31, 2022 $
Mortgages payable, beginning of period		738,359	612,764
New mortgage financing		-	183,880
Mortgages repaid		(58,849)	(37,996)
Principal repaid on disposal of investment properties	3	(17,476)	(12,674)
Mortgages assumed	3	31,780	12,143
Principal repayments		(19,308)	(19,758)
Mortgages payable, end of year		674,506	738,359
Less: Deferred financing costs, beginning of period		(2,664)	(2,121)
Less: Additions to deferred financing costs		(83)	(1,100)
Plus: Amortization of deferred financing costs		609	557
Plus: Fair value adjustment of mortgages, beginning of period		(57)	520
Plus: Additions to fair value adjustment of mortgages	3	599	(399)
Less: Amortization of fair value adjustments		(72)	(178)
Balance, end of year		672,838	735,638
Less: Current portion		(57,508)	(70,410)
Less: Mortgage payable associated with assets held for sale		(13,534)	(31,604)
Non-current balance, end of year		601,796	633,624

(In thousands of Canadian dollars, except unit and per unit amounts)

12 Credit Facilities

As at December 31, 2023, the REIT had the following credit facilities:

Facility	Interest rate	Maturity date	Security	Facility limit $	Amount drawn $
Secured Credit Facility 1:					
Fixed-term facility	30-day bankers' acceptance rate + 1.50%	September 13, 2024	12 investment properties	65,000	65,000
Revolving facility	Prime rate + 1.00% or floating bankers' acceptance rate +2.00%	September 13, 2024	12 investment properties	5,000	Undrawn
Secured Credit Facility 2:					
Revolving facility	Prime rate + 1.00%	-	4 investment properties	500	Undrawn
Unsecured Credit Facilities:					
Revolving facility	Prime rate + 0.70% or floating bankers' acceptance rate +1.70% (1)	March 1, 2026	Unsecured	340,000(2)	278,000
Term loan facility	Prime rate + 0.70% or floating bankers' acceptance rate +1.70% (1)	March 1, 2026	Unsecured	175,000	175,000
Swingline facility	Prime rate + 0.70% or floating bankers' acceptance rate +1.70% (1)	March 1, 2026	Unsecured	10,000	2,125
				595,500	520,125

(Secured Credit Facility 1, Secured Credit Facility 2 and Unsecured Credit Facilities, collectively "the Credit Facilities")

(1) Represents the spreads in effect as at December 31, 2023. The applicable spread is set based on the REIT's total debt to total assets, unless the REIT receives an external credit rating, at which time the applicable spread will be based on the REIT's external credit rating.

(2) On September 12, 2023, the revolving facility limit was increased from $190,000 to $340,000.

Amounts drawn against the Credit Facilities are as follows:

	December 31, 2023 $	December 31, 2022 $
Bankers' acceptance borrowings	517,995	65,000
Prime rate borrowings	2,130	48,000
Total drawn against the Credit Facilities	520,125	113,000
Less: Deferred financing costs	(1,581)	(468)
Balance, end of year	518,544	112,532
Less: Current portion	(64,981)	-
Non-current balance, end of year	453,563	112,532

The REIT has evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by Interbank offered rates (IBOR) reform as at December 31, 2023. The REIT's hedged items and hedging instruments for interest rate swaps continue to be indexed to one-month Canadian Dollar Offered Rate (CDOR). Under IBOR reform, a new risk-free benchmark interest rate, Canadian Overnight Repo Rate Average (CORRA), has been introduced as a fallback rate to CDOR, however, the one-month CDOR is expected to continue to exist as a benchmark rate until June 30, 2024. The REIT will update its hedge documentation and adjust effective interest rates as the new benchmark rate is implemented.

(In thousands of Canadian dollars, except unit and per unit amounts)

Details of the amounts drawn under the Credit Facilities as at December 31, 2023 are as follows:

	Total principal amount $	Weighted average interest rate	Repricing date
Bankers' acceptance borrowings not covered by swaps	78,418	7.10%	Variable (1)
Bankers' acceptance borrowings covered by swaps	439,577	5.22%(2)	Variable (2)
Prime rate borrowings	2,130	7.90%	Variable

(1) Dates between January 13, 2024 and January 31, 2024.
(2) Represents the weighted average interest rate net of the effect of swaps in place. The REIT is party to swaps that effectively fix the 30-day bankers' acceptance rate on borrowings under the Credit Facilities as follows:

Effective date	30-day bankers' acceptance rate	Applicable spread	Effective fixed interest rate	Maturity date	Original notional amount $	Current notional amount $
September 2019	1.65%	1.50%	3.15%	September 13, 2024	65,000	65,000
December 2020	1.01%	1.70%	2.71%	December 1, 2025	18,500	17,055
November 2021	4.26%	1.70%	5.96%	June 1, 2028	8,272	7,522
March 2023	3.26%	1.70%	4.96%	February 29, 2028	50,000	50,000
August 2023	4.18%	1.70%	5.88%	August 31, 2028	100,000	100,000
September 2023	4.045%	1.70%	5.745%	September 29, 2028	50,000	50,000
October 2023	4.14%	1.70%	5.84%	October 31, 2028	25,000	25,000
October 2023	4.156%	1.70%	5.856%	October 31, 2028	50,000	50,000
October 2023	4.11%	1.70%	5.81%	October 31, 2028	25,000	25,000
October 2023	4.14%	1.70%	5.84%	October 31, 2028	25,000	25,000
October 2023	4.055%	1.70%	5.755%	October 31, 2028	25,000	25,000
					441,772	439,577

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

	December 31, 2023 $	December 31, 2022 $
Drawn against Credit Facilities, beginning of period	113,000	65,000
Net borrowings	407,125	48,000
Drawn against Credit Facilities, end of year	520,125	113,000
Less: Deferred financing costs, beginning of year	(468)	(287)
Less: Deferred financing costs incurred	(1,689)	(355)
Plus: Amortization of deferred financing costs	576	174
Balance, end of year	518,544	112,532

The primary financial covenants of the REIT's Credit Facilities are interest coverage, distribution, and loan to value covenants, for which non-compliance would result in an event of default, allowing the lender to demand repayment of amounts outstanding under the Credit Facilities. As at December 31, 2023, the REIT was in compliance with all of the financial covenants contained within the Credit Facilities and the mortgages.

(In thousands of Canadian dollars, except unit and per unit amounts)

13 Class B LP Units

The following table summarizes the changes in Class B LP Units for the year ended December 31, 2023:

	Note	Class B LP Units	Amount $
Balance – January 1, 2023		20,317,090	195,857
Class B LP Units issued as purchase price consideration	3	4,754,752	35,867
Class B LP Units exchanged for REIT Units		(460,486)	(4,854)
Fair value adjustment		N/A	(27,765)
Balance – December 31, 2023		24,611,356	199,105

Distributions in the amount of $13,846 (2022 - $13,051) were declared payable to holders of Class B LP Units for the year ended December 31, 2023. These amounts have been recognized as finance expense in the consolidated statement of income and comprehensive income. Distributions payable in the amount of $1,313 were accrued as at December 31, 2023 (December 31, 2022 - $1,084).

The following table summarizes the changes in Class B LP Units for the year ended December 31, 2022:

	Note	Class B LP Units	Amount $
Balance – January 1, 2022		19,662,658	248,150
Class B LP Units issued as purchase price consideration	3	1,565,394	19,364
Class B LP Units issued in settlement of contractual obligations		406,516	4,305
Class B LP Units exchanged for REIT Units		(1,317,478)	(14,304)
Fair value adjustment		-	(61,658)
Balance – December 31, 2022		20,317,090	195,857

14 Unit-based compensation

Unit-based compensation liabilities are comprised of restricted share units:

1) Restricted share units

The REIT adopted an incentive unit plan (the “Incentive Plan”) effective June 22, 2018. Under the Incentive Plan, the Board of Trustees may grant restricted share units (“RSUs”) of the REIT to trustees, officers and employees of the REIT and consultants. The REIT is authorized to issue up to 1,112,176 units under the Incentive Plan. The maximum number of restricted share units that may be reserved under the Incentive Plan is 10% of the outstanding units of the REIT.

The following table summarizes the changes in RSUs for the years ended December 31, 2023 and 2022.

	December 31, 2023 $	December 31, 2022 $
Balance, beginning of year	351	553
Restricted share units expense	1,184	1,030
Fair value adjustment of restricted share units	(160)	(250)
Restricted share units exercised	(1,075)	(982)
Balance, end of year	300	351

(In thousands of Canadian dollars, except unit and per unit amounts)

	December 31, 2023		December 31, 2022	
	Number of RSUs	Weighted average grant date / distribution date fair value $	Number of RSUs	Weighted average grant date / distribution date fair value $
Outstanding, beginning of year	107,830	11.13	70,476	7.62
Granted	119,813	9.93	107,009	12.38
Vested and issued	(100,719)	10.20	(76,066)	9.61
Distribution entitlement	7,974	8.41	6,411	10.71
Forfeitures	(6,627)	11.92	-	-
Outstanding, end of year	127,447	10.20	107,830	11.13

On April 6, 2023, the REIT granted 511 RSUs to an employee with a fair value at the grant date of $9.73. These RSUs vested on the date of issuance.

On January 13, 2023, the REIT granted an aggregate of 99,164 RSUs to employees with a fair value at the grant date of $9.93. These RSUs vest one-third on the date of issuance, one-third on January 13, 2024 and one-third on January 13, 2025. On January 13, 2023, the REIT also granted an aggregate of 20,138 RSUs to trustees with a fair value at the grant date of $9.93. These RSUs vested on the date of issuance.

On March 25, 2022, the REIT granted an aggregate of 107,009 RSUs with a fair value at the grant date of $12.38. These RSUs vest one-third on the date of issuance, one-third on February 28, 2023 and one-third on February 28, 2024.

The initial fair value of each RSU granted is determined based on the volume-weighted average trading price of units of the REIT for the five trading days prior to the valuation date. The RSUs are remeasured to fair value at each reporting date with gains and losses reported within the consolidated statement of income and comprehensive income.

2) Employee unit purchase plan

The REIT adopted an employee unit purchase plan (the “Employee Purchase Plan”) effective August 30, 2021. Under the Employee Purchase Plan, employees of the REIT may contribute up to $7.5 per calendar year to the plan (“Employee Contributions”), and Employee Contributions will be matched by a contribution from the REIT equivalent to 100% of the Employee Contributions (“REIT Contributions”). REIT Contributions will vest one year following each purchase date. All contributions received in respect of each participant in the Employee Purchase Plan shall be paid in full on behalf of such participant to purchase REIT Units from treasury or, at the election of the REIT, through market purchases carried out by an independent broker through the facilities of the TSX. REIT Units issued from treasury will be issued at the volume weighted average trading price of REIT Units for the five trading days prior to each respective purchase date.

During the year ended December 31, 2023, 12,108 REIT Units (2022 – 19,419 REIT Units) were issued from treasury at $8.40 per unit in respect of $48 of Employee Contributions and $48 of REIT Contributions.

16,948 REIT Units issued in respect of REIT Contributions remain in the Employee Purchase Plan at December 31, 2023 (2022 – 13,155 REIT Units), of which, 5,991 REIT Units are unvested.

(In thousands of Canadian dollars, except unit and per unit amounts)

15 Accounts payable and other liabilities

a) Accounts payable and other liabilities are comprised as follows:

	December 31, 2023 $	December 31, 2022 $
Prepaid rent	4,174	4,448
Security deposits	3,504	3,064
Accrued interest expense	3,093	2,644
Sales and other taxes payable	2,952	1,808
Development costs	5,531	-
Trade payables and accrued liabilities	17,524	12,961
Other liabilities	1,044	1,016
Current balance, end of year	37,822	25,941

b) Other liabilities – non-current as at December 31, 2023 of $8,022 ($6,020 USD) (December 31, 2022 - $9,224 ($6,810 USD)) represents deferred consideration related to the acquisition of an investment property. The deferred consideration is denominated in US dollars and payable in quarterly instalments amortized over a 10-year period which commenced October 1, 2021.

16 Unitholders' equity

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

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

On December 8, 2022, 8,225,000 REIT units were issued at $10.30 per unit in a bought deal equity financing. Gross proceeds of the financing were $84,718 and net proceeds were $80,510.

The following table presents the changes in unitholders' equity for the year ended December 31, 2023:

	Note	Units	Amount $
Balance – January 1, 2023		67,322,644	636,776
Units issued under distribution reinvestment plan	17	729,051	5,865
Units issued under Incentive Plan	14	65,692	651
Units issued under Employee Purchase Plan	14	12,108	104
Units cancelled		(375)	(4)
Unit issuance costs		-	(75)
Class B LP Units exchanged for REIT Units	13	460,486	4,854
Balance – December 31, 2023		68,589,606	648,171

(In thousands of Canadian dollars, except unit and per unit amounts)

The following table presents the changes in unitholders' equity for the year ended December 31, 2022:

	Note	Units	Amount $
Balance – January 1, 2022		57,302,629	536,883
Units issued under distribution reinvestment plan	17	277,649	2,847
Units issued under Option Plan	14	144,714	1,551
Units issued under Incentive Plan	14	35,755	461
Units issued under Employee Purchase Plan	14	19,419	220
Units issued for cash, net of $4,208 of issuance costs	16	8,225,000	80,510
Class B LP Units exchanged for REIT Units	13	1,317,478	14,304
Balance – December 31, 2022		67,322,644	636,776

17 Distribution reinvestment plan

The REIT adopted a distribution reinvestment plan ("DRIP)" on February 20, 2014, pursuant to which resident Canadian holders are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional units at a price per unit calculated by reference to the weighted average of the trading price for the units for the five trading days immediately preceding the relevant distribution date. Eligible unitholders who so elect will receive a bonus distribution of units equal to 4% of each distribution that was reinvested by them under the DRIP.

The following table summarizes units issued under the DRIP:

	December 31, 2023	December 31, 2022
Number of units issued	729,051	277,649
Stated value ($)	5,865	2,847

18 Property revenues

The following table summarizes the main components of property revenues according to their nature:

	Years ended December 31, 2023 $	2022 $
Rental income	145,742	124,958
Revenue from services	10,932	11,245
Other revenue	978	918
Property revenues	157,652	137,121

(In thousands of Canadian dollars, except unit and per unit amounts)

19 Financial instruments

Fair value

The following table provides the measurement basis and fair value of financial instruments as at December 31, 2023:

	Note	Carrying value $	Level 1 $	Level 2 $	Level 3 $
Financial instruments at amortized cost					
Mortgages payable	11	674,506	-	625,502	-
Other liabilities non-current	15b	8,022	-	7,648	-
Financial instruments at FVTPL					
Class B LP Units	13	199,105	-	199,105	-
Derivative financial instruments		1,542	-	1,542	-
Investment in financial asset	10	7,950	-	-	7,950

The following table provides the measurement basis and fair value of financial instruments as at December 31, 2022:

	Note	Carrying value $	Level 1 $	Level 2 $	Level 3 $
Financial instruments at amortized cost					
Mortgages payable	11	738,359	-	678,228	-
Other liabilities non-current	15b	9,224	-	8,504	-
Financial instruments at FVTPL					
Class B LP Units	13	195,857	-	195,857	-
Interest rate swaps		17,073	-	17,073	-
Investment in financial asset	10	6,500	-	-	6,500

The fair value of cash, restricted cash, tenant and other receivables, deposits, other assets, and accounts payable and other liabilities - current approximates carrying values due to the short-term nature of these instruments. The fair value of prime rate and bankers' acceptance advances under the Credit Facilities approximates carrying value due to the short-term or variable rate nature of these instruments.

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand or borrowing capacity to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at December 31, 2023, the REIT had cash of $5,918 (December 31, 2022 - $11,533), mortgages payable of $674,506 (December 31, 2022 - $738,359), a Credit Facilities balance of $520,125 (December 31, 2022 - $113,000) and accounts payable and other liabilities of $45,845 (December 31, 2022 - $35,165). The REIT had a working capital deficit of $111,980 as at December 31, 2023 (December 31, 2022 – deficit of $25,197). Excluding the current portion of mortgages payable of $57,508, current portion of credit facilities of $64,981, liabilities associated with assets held for sale of $14,805 and assets held for sale of $29,150, the working capital would be a deficit of $3,836. The REIT expects that it will be able to renew the mortgages on their maturities. The REIT has access to undrawn funds of $75,375 as at December 31, 2023, under the Credit Facilities and expects to generate sufficient cash from operations to satisfy its financial liabilities as they come due.

(In thousands of Canadian dollars, except unit and per unit amounts)

The contractual maturities and repayment obligations of the REIT's financial liabilities are as follows:

	Accounts payable and other liabilities $	Lease liabilities $	Credit Facilities principal repayment $	Interest on fixed term portion of Credit Facilities $	Mortgages payable $	Mortgage interest $	Total $
2024	37,822	583	65,000	22,171	58,129	20,579	204,284
2025	1,080	616	-	20,670	65,743	18,695	106,804
2026	1,116	617	455,125	3,276	104,101	16,097	580,332
2027	1,154	618	-	-	64,336	13,088	79,196
2028	1,193	620	-	-	30,397	11,735	43,945
Thereafter	3,479	22,331	-	-	351,800	32,915	410,525
	45,844	25,385	520,125	46,117	674,506	113,109	1,425,086

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. There is a risk that the REIT may not be able to renegotiate its mortgages and Credit Facilities at maturity on terms as favourable as the existing mortgages payable and Credit Facilities. As at December 31, 2023, there was a total of $690,300 (December 31, 2022 - $300,690) of mortgage and Credit Facilities borrowings which bear interest at floating bankers' acceptance or Canadian prime rates plus a fixed spread. There is a risk that prevailing interest rates could increase, and those increases could be significant. The REIT mitigates interest rate risk by maintaining reasonable levels of debt to investment property value and aims to structure new debt to stagger the maturities to ensure that the majority of debt does not come due for repayment in any one particular year. As at December 31, 2023, the REIT has interest rate swap agreements totalling $603,505 (2022 - $246,320) to mitigate interest rate risk arising from floating rate debt.

The REIT is a party to interest rate swap agreements to swap floating rate interest for fixed rate interest over the terms of certain mortgages and over the term of the Credit Facility 1. The interest rate swap agreements expire coterminous with the maturity of the corresponding mortgages, and Credit Facility 1, with the remaining agreements expiring through October 31, 2028.

It is estimated that, all else constant, a hypothetical increase of 1% in the variable interest rate would result in an increase in the fair value of the REIT's interest rate swaps and swaptions of $25,400 and a hypothetical decrease of 1% in the variable interest rate would result in a decrease in the fair value of the REIT's interest rate swaps and swaptions of $25,400.

The fair value measurements of the interest rate swap agreements have been classified as Level 2, as they are based mainly on observable market data.

(In thousands of Canadian dollars, except unit and per unit amounts)

The following table summarizes relevant information on interest rate swap agreements:

Effective date	Effective fixed interest rate paid	Maturity date	Original notional amount $	Current notional amount $	Fair value (gain) loss $
April 2019	3.67% (1)	April 24, 2024	12,000	10,791	(111)
April 2019	3.74% (1)	April 24, 2026	12,500	11,255	(444)
April 2019	3.87% (1)	April 24, 2029	12,500	11,282	(536)
September 2019	3.15% (1)	September 13, 2024	65,000	65,000	(1,635)
November 2020	2.82% (1)	November 2, 2027	7,650	6,971	(624)
December 2020	3.61% (1)	December 1, 2025	18,500	17,055	(1,028)
December 2020	3.35% (1)	December 30, 2030	18,000	16,753	(1,828)
April 2021	3.08% (1)	April 1, 2026	19,750	18,292	(982)
November 2021	3.69% (1)	June 1, 2028	22,600	21,009	(691)
November 2021	4.26% (1)(3)	June 1, 2028	8,272	7,522	(183)
February 2022	3.28% (1)	February 23, 2032	29,500	29,500	(1,527)
February 2022	3.28% (1)	February 23, 2032	20,000	20,000	(1,036)
March 2022	3.41% (1)	March 1, 2027	17,800	16,986	(805)
March 2022	3.76% (1)	April 1, 2025	1,500	1,089	(36)
March 2023	3.26%	February 29, 2028	50,000	50,000	(475)
August 2023	4.18% (2)	August 31, 2028	100,000	100,000	3,536
September 2023	4.045% (2)	September 29, 2028	50,000	50,000	1,569
October 2023	4.14% (4)	October 31, 2028	25,000	25,000	797
October 2023	4.156% (4)	October 31, 2028	50,000	50,000	1,631
October 2023	4.11% (4)	October 31, 2028	25,000	25,000	777
October 2023	4.14% (4)	October 31, 2028	25,000	25,000	810
October 2023	4.055% (4)	October 31, 2028	25,000	25,000	715
			615,572	603,505	(2,106)

(1) Effective fixed interest rate of mortgage debt and bankers' acceptance borrowings under the Credit Facilities, including the applicable spread.
(2) The counterparties to these swaps have one-time options to terminate the swaps one year after the effective date.
(3) Amortizing swap assumed November 1, 2023, as part of the 1040 Wilton Grove acquisition. The underlying BA debt was repaid with funds drawn on the unsecured facilities and the swap was maintained.
(4) The counterparties to these swaps have the right to offset through a swaption issued by the REIT in the counterparty's favour with an exercise date of November 1, 2024. See details in the table below:

In connection with entering the interest rate swaps in October 2023, the REIT granted the counterparties of the swaps a one-time option, exercisable on November 1, 2024, to economically offset the swap by entering equal and offsetting swaps (the "interest rate swaptions") for the remaining life of the original swap. The following table summarizes the interest rate swaptions that the REIT issued:

Effective date	Effective fixed interest rate received	Maturity date	Original notional amount $	Current notional amount $	Fair value (gain) loss $
October 2023	4.14%	October 31, 2028	25,000	25,000	88
October 2023	4.156%	October 31, 2028	50,000	50,000	100
October 2023	4.11%	October 31, 2028	25,000	25,000	84
October 2023	4.14%	October 31, 2028	25,000	25,000	97
October 2023	4.055%	October 31, 2028	25,000	25,000	195
			150,000	150,000	564

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss to another party by failing to settle its obligations. The REIT is subject to credit risk with respect to its cash deposited with financial institutions, interest rate swaps and tenant and other receivables. As at December 31, 2023, one tenant accounted for approximately 13% of the REIT's base rental income, resulting in a concentration of credit risk. The REIT monitors the creditworthiness of its tenants on an ongoing basis. The REIT mitigates credit risk by monitoring the credit ratings of the institutions holding the REIT's deposits.

The REIT has examined its tenant receivables for indications of impairment. The tenant receivables default rate of the REIT is less than 0.5%. The REIT continues to assess the effect of economic conditions on the creditworthiness of its tenants. As part of this assessment, the REIT reviews contractual rent receivables on a regular basis and reduces carrying amounts using an allowance for expected credit losses recognizing the amount of any loss in the consolidated statements of income and comprehensive income within property expenses. As at December 31, 2023, the REIT had an allowance for expected credit losses of $370 (December 31, 2022 – $87).

20 Commitments and contingencies

Development Management Agreement

On March 16, 2020, the REIT entered into a development management agreement (the "DMA") with the vendor of the REIT's Richmond, BC property (the "Developer"). Pursuant to the DMA, the REIT is redeveloping approximately 60,000 square feet previously occupied by an industrial tenant (the "Redevelopment"). The Developer is managing the Redevelopment and has secured new tenants for the space, and the REIT has entered into lease agreements with these tenants. The REIT is responsible for the costs of the Redevelopment, which have been capped at $6,100, including leasing costs, tenant incentives, and construction costs (collectively the "Capped Redevelopment Costs").

The DMA also contemplates that the REIT will construct an approximately 70,000 square foot addition at the property (the "Addition"). The REIT will be responsible for costs of the construction and has paid a development management fee in the amount of $3,000 in respect of the Addition. The Developer will secure tenants and manage the construction.

Pursuant to the DMA, the REIT will split the value enhancement of the property, measured as the difference between the fair value of the property following completion of each of the Redevelopment and the Addition, less the REIT's total cost of the property. The REIT's total cost of the property is measured as the REIT's original acquisition cost plus the Capped Redevelopment Costs and costs of the Addition (inclusive of construction costs, tenant incentives, leasing costs, and development management fees). The first $20,000 of value enhancement is for the benefit of the REIT. The next $20,000 of value enhancement will be for the benefit of the Developer. Any value enhancement in excess of $40,000 is to be split equally between the REIT and the Developer.

Based on external appraisals for the property and the settlement mechanism per the DMA, and subject to certain adjustments, the Developer's share of value enhancement through to completion of the Redevelopment was estimated at $32,275 as at June 30, 2022, not including any value enhancement related to the Addition. This amount was settled as at June 30, 2022.

In September 2022, the terms of certain tenant leases in respect of the REIT's Richmond, BC property were amended with increases to rents per square foot. The REIT agreed to make a payment to the Developer ($11,277), calculated as one half of the increase in net rental income resulting from the amendments, subject to certain adjustments, divided by the capitalization rates applied in the previously prepared external appraisals.

The DMA provides that upon completion of the Addition, final external appraisals will be commissioned by each of the REIT and the Developer. The average of the two appraisals will be used to determine the final amount of value enhancement, if any, due to the Developer, at which time, any further amount due to the Developer will be payable.

Provided certain conditions are met, the REIT may satisfy its obligation to split the value enhancement with the Developer by issuing Class B LP Units valued at the greater of $9.20 per unit and a price per unit that is no less than the maximum allowable discounted price in accordance with Toronto Stock Exchange rules.

Other

As at December 31, 2023, the REIT had contractual commitments to acquire an industrial property for a contractual purchase price of $35,060.

On July 18, 2022, the REIT guaranteed up to $8,000 of debt relating to a co-ownership for a property held for development in Hamilton, Ontario (see note 22).

On November 16, 2021, the REIT guaranteed up to $17,500 of debt relating to a limited partnership which holds land for development in Hamilton, Ontario. On August 3, 2023, the guaranteed debt increased from $17,500 to $23,200 (see note 22).

21 Capital management

The REIT defines its capital as its total unitholders' equity (net of retained earnings or deficit), mortgages payable, Class B LP Units and drawings on the Credit Facilities. The REIT manages its capital to ensure that sufficient funds are available to fund operations, including the identification and acquisition of businesses or assets. The REIT ensures that it has sufficient capital to fund its operations as a going concern, and to identify, analyze and finance further potential acquisitions. As part of the REIT's strategy for managing its capital, it may adjust the amount of distributions paid to unitholders, issue new units or debt, borrow against the Credit Facilities, or repay debt.

22 Related party transactions

For the year ended December 31, 2023, trustee retainer fees in the amount of $477 were expensed (2022 - $477). Trustee retainer fees in the amount of $269 were accrued as at December 31, 2023 (December 31, 2022 - $269).

For the year ended December 31, 2023, key management earned salaries and other short-term employee benefits in the amount of $2,641 (2022 - $2,636).

On July 18, 2022, the REIT acquired an 80% interest in a property held for development in Hamilton, Ontario for $4,846 ("190 Glover Road"). The development is partially owned, and managed, by entities controlled by RFA Capital Partners Inc. ("RFA"), an entity related to a trustee of the REIT.

On June 22, 2022, the REIT acquired an 80% interest in a property held for development in Hamilton, Ontario for $17,760 ("1540 South Service Road"). The development is partially owned, and managed, by entities controlled by RFA.

On November 16, 2021, the REIT acquired a 22% interest in a limited partnership which holds land in Hamilton, Ontario for development for $3,000 ("844 Glancaster Road"). The fair value of the investment was $7,950 as at December 31, 2023 (December 31, 2022 - $6,500). The limited partnership is controlled by RFA.

The REIT's investment to acquire its interest in 190 Glover Road, 1540 South Service Road and 844 Glancaster Road (collectively "the RFA Development Properties") is proportionately the same as the other limited partners and co-owners' investments.

The REIT is entitled to receive a guarantee fee in respect of debt related to the RFA Development Properties which is guaranteed by the REIT. Acquisition fees, asset management fees and development management fees are payable to entities related to RFA in respect of the RFA Development Properties. If certain return thresholds are met, RFA will also receive a preferential allocation of income related to the RFA Development

(In thousands of Canadian dollars, except unit and per unit amounts)

Properties at the completion of their development. These fees receivable and payable in respect of the RFA Development Properties are consistent with market terms.

The REIT recognized $160 of guarantee fees during the year ended December 31, 2023 (December 31, 2022 - $164).

Fees to RFA related entities in respect of the RFA Development Properties totalled $656 for the year ended December 31, 2023 (December 31, 2022 - $620).

The REIT has purchased several properties from 1803299 Ontario Inc. (“1803299”) and issued Class B LP Units to 1803299 as purchase price consideration. 1803299 owns 18,209,828 Class B LP Units of a subsidiary limited partnership of the REIT, representing approximately 19.5% of the REIT’s outstanding voting units as at December 31, 2023. An entity related to 1803299 is a tenant of the REIT and provides property management services to the REIT for which it is paid fees on market terms. During the year ended December 31, 2023, the REIT incurred fees for property management services totalling $343 (2022 - $285). During the year ended December 31, 2023, the REIT earned property revenues from an entity related to 1803299 totalling $3,356 (2022 - $4,439).

On June 15, 2023, the REIT acquired an industrial property located in London, Ontario from 1803299 for a contractual purchase price of $56,358. As partial purchase price consideration, 2,359,978 Class B LP units of a subsidiary limited partnership of the REIT were issued to 1803299 at a deemed value of $10.30 per unit.

On November 1, 2023, the REIT acquired an industrial property located in London, Ontario from 1803299 for a contractual purchase price of $55,794. As partial purchase price consideration, 2,394,774 Class B LP units of a subsidiary limited partnership of the REIT were issued to 1803299 at a deemed value of $11.30 per unit.

23 Supplemental cash flow and non-cash information

The following details the changes in other non-cash operating items included in operating activities:

	Years ended December 31, 2023 $	2022 $
Changes in non-cash working capital:		
Tenant and other receivables	(5,817)	(3,947)
Prepaid expenses	(457)	42
Deposits	5,300	(4,500)
Other currents assets	278	156
Accounts payable and other liabilities	3,501	1,302
Total changes in non-cash working capital	2,805	(6,947)
Changes in other non-current assets	(206)	(81)
Changes in restricted cash	29	(48)
Changes in other non-current liabilities	(1,202)	(346)
Total changes in other non-cash operating items	1,426	(7,422)

(In thousands of Canadian dollars, except unit and per unit amounts)

The following details the non-cash items included in investing and financing activities:

	Years ended December 31, 2023 $	2022 $
Interest paid	56,185	41,659
Income taxes paid	21	15
Non-cash investing and financing activities:		
REIT Units issued under distribution reinvestment plan	5,865	2,847
Class B LP Units issued as purchase price consideration	35,867	19,364
Class B LP Units issued in settlement of contractual obligations	-	4,305

24 Subsequent events

On March 11, 2024, the REIT increased the Unsecured Facilities by $100,000, from $525,000 to $625,000 increasing the revolving credit facility from $340,000 to $440,000. The REIT also amended the maturity date of the Unsecured Facilities by extending it for an additional year from March 1, 2026, to March 1, 2027.

On February 7, 2024, the REIT exercised its purchase option to acquire a parcel of land previously subject to a land lease located in Dorval, Quebec for a contractual purchase price of $1,455. The purchase price was settled in cash from borrowings under the REIT's Credit Facilities. The parcel acquired is located at a property owned by the REIT.

On January 3, 2024, the REIT acquired an industrial property located in Rocky View, Alberta, for a purchase price of $35,060. The purchase price was settled in cash from borrowings under the REIT's Credit Facilities.