

ALL ISLAND EQUITY REIT
Consolidated Financial Statements

Year Ended December 31, 2023 and December 31, 2022
Expressed in Canadian Dollars
(except for unit and per unit amounts)

Independent Auditor's Report

To the Unitholders of All Island Equity REIT:

Opinion

We have audited the consolidated financial statements of All Island Equity REIT and its subsidiaries (the "the REIT"), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of earnings, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the REIT in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Vancouver, British Columbia

March 21, 2024

MNP LLP

Chartered Professional Accountants

Page

Independent Auditor’s Report

Consolidated Financial Statements

Consolidated Statements of Financial Position.....	1
Consolidated Statements of Earnings	2
Consolidated Statements of Changes in Unitholders’ Equity	3
Consolidated Statements of Cash Flows.....	4
Notes to Consolidated Financial Statements	5 – 26
Supplementary information	27

All Island Equity REIT
Consolidated Statements of Financial Position
Expressed in Canadian Dollars

As at December 31	2023	2022
ASSETS		
Non-current assets		
Investment properties (Note 4)	\$222,423,133	\$210,160,000
Derivative financial instruments (Note 5)	256,337	229,432
	222,679,470	210,389,432
Current assets		
Cash and cash equivalents	1,165,382	3,400,031
Trade and other receivables	259,484	226,188
Prepaid expenses and deposits	332,483	1,106,223
	1,757,349	4,732,442
Total assets	\$224,436,819	\$215,121,874
LIABILITIES AND UNITHOLDERS' EQUITY		
Non-current liabilities		
Long term portion of loans (Note 5)	101,433,186	100,043,223
	101,433,186	100,043,223
Current liabilities		
Trade payables and accruals	1,073,231	1,119,612
Security deposits	734,961	559,639
Deferred revenue	33,226	3,092
Current portion of long-term loans (Note 5)	2,279,883	2,099,031
	4,121,301	3,781,374
Total liabilities	105,554,487	103,824,596
Unitholders' equity (Note 6)	118,882,332	111,297,278
Total liabilities & unitholders' equity	\$224,436,819	\$215,121,874

Nature of operations and basis of presentation (Note 1 and 2)
Subsequent events (Note 13)

Approved on behalf of the Trustee of All Island Equity REIT

"Garth Lyle Busch" _____ -Director

"Bernard Adrian Vanderhorst" _____ -Director

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

All Island Equity REIT
Consolidated Statements of Earnings
Expressed in Canadian Dollars

For the years ended December 31	2023	2022
Rental revenues	\$14,281,703	\$13,046,647
Property operating expenses	(5,960,147)	(5,649,082)
EARNINGS FROM PROPERTY OPERATIONS	8,321,556	7,397,565
Administration fees and other expenses (Note 10)	(1,454,163)	(1,353,931)
Professional fees	(166,333)	(186,862)
OTHER EXPENSES	(1,620,496)	(1,540,792)
Interest expense (Note 5)	(3,189,309)	(3,094,573)
Amortization of mortgage transaction cost (Note 5)	(474,599)	(464,560)
Interest income	10,409	11,554
NET INTEREST EXPENSES	(3,653,499)	(3,547,579)
NET OPERATING INCOME	3,047,561	2,309,194
Fair value adjustments to investment properties (Note 4)	3,311,394	6,800,313
Fair value adjustments to derivative financial instrument (Note 5)	26,905	229,432
OTHER INCOME	3,338,299	7,029,744
NET EARNINGS FOR THE YEAR	\$6,385,860	\$9,338,938
Weighted average number of units		
Basic and diluted	6,637,822	6,126,287

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

All Island Equity REIT
Consolidated Statements of Changes in Unitholders' Equity
Expressed in Canadian Dollars

	Number of Class A PAY units	Number of Class F PAY units	Number of Class A DRIP units	Number of Class F DRIP units	Total Units	Total
Balance as of January 1, 2022	396,603	820,094	1,932,559	2,965,146	6,114,402	\$97,348,260
Unit Issuance - Raised (Note 6)	692	40,762	228,808	240,077	510,339	8,124,597
Unit Issuance - Distribution (Note 6)	-	-	37,957	92,672	130,629	2,079,617
Distribution – Paid	-	-	-	-	-	(567,556)
Distribution - Trailer fees	-	-	-	-	-	(361,293)
Distribution – DRIP	-	-	-	-	-	(2,079,617)
Unit Redemptions (Note 6)	(22,671)	(30,859)	(51,213)	(32,544)	(137,287)	(2,180,838)
Class Switch	(27,012)	179,590	(170,483)	17,905	-	-
Unit Issuance Costs	-	-	-	-	-	(404,831)
Net earnings for the year	-	-	-	-	-	9,338,938
Balance as of December 31, 2022	347,612	1,009,586	1,977,628	3,283,256	6,618,083	\$111,297,278
	Number of Class A PAY units	Number of Class F PAY units	Number of Class A DRIP units	Number of Class F DRIP units	Total Units	Total
Balance as of January 1, 2023	347,612	1,009,586	1,977,628	3,283,256	6,618,083	\$111,297,278
Unit Issuance - Raised (Note 6)	25,302	34,835	157,572	177,171	394,880	6,460,237
Unit Issuance - Distribution (Note 6)	-	-	43,017	104,043	147,060	2,405,907
Distribution – Paid	-	-	-	-	-	(789,292)
Distribution - Trailer fees	-	-	-	-	-	(373,965)
Distribution – DRIP	-	-	-	-	-	(2,405,907)
Unit Redemptions (Note 6)	(10,481)	(68,094)	(54,831)	(98,301)	(231,707)	(3,790,617)
Class Switch	53,396	337,709	(162,355)	(228,750)	-	-
Unit Issuance Costs	-	-	-	-	-	(307,169)
Net earnings for the year	-	-	-	-	-	6,385,860
Balance as of December 31, 2023	415,829	1,314,036	1,961,032	3,237,419	6,928,316	\$118,882,332

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

All Island Equity REIT
Consolidated Statements of Cash Flows
Expressed in Canadian Dollars

Years ended December 31	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$6,385,860	\$9,338,938
Items not affecting cash:		
Accretion of mortgage transaction costs (Note 5)	474,599	464,560
Fair value adjustment to investment properties (Note 4)	(3,311,394)	(6,800,313)
Fair value adjustment to derivative financial instruments (Note 5)	(26,905)	(229,432)
Interest expense	3,189,309	3,094,573
Changes in non-cash working capital items:		
Increase in receivables	(33,296)	(151,723)
Decrease (Increase) in prepaid expenses	773,740	(603,971)
Increase in accounts payable and accruals	(46,381)	414,051
Increase in security deposits	175,323	52,232
Increase in deferred revenue	30,135	-
Net cash received from operating activities	7,610,990	4,649,795
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of new investment property (Note 4)	(3,821,637)	(1,939,609)
Capital additions to investment properties (Note 4)	(1,352,834)	(2,408,191)
Net cash used in investing activities	(5,174,471)	(4,347,800)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gross proceeds from issuance of units (Note 6)	6,460,237	8,124,597
Cash distribution (Note 6)	(1,163,257)	(928,849)
Unit redemption (Note 6)	(3,790,617)	(2,180,838)
Issuance costs and commissions	(307,169)	(404,831)
Mortgage proceeds received (Note 5)	-	17,170,301
Mortgage transaction costs (Note 5)	(18,289)	(2,090,331)
Repayment of mortgages (Note 5)	(2,662,764)	(15,692,925)
Interest paid	(3,189,309)	(3,094,573)
Net cash received from (used in) financing activities	(4,671,168)	1,831,670
Net change in cash and cash equivalents	(2,234,649)	2,133,665
Cash and cash equivalents, beginning of year	3,400,031	1,266,366
CASH AND CASH EQUIVALENTS, END OF YEAR	\$1,165,382	\$3,400,031

Supplementary cash flow information in Note 11

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

1. NATURE OF OPERATIONS

All Island Equity REIT (the "REIT") is a limited purpose, unincorporated open-ended investment trust, governed by the terms and conditions of a Declaration of Trust dated March 1, 2017, as amended on May 29, 2018 and July 19, 2022, and by the general laws of trusts and the laws of British Columbia, Canada. AIE Services Inc. acts as the trustee of the REIT ("Trustee"). The principal office of the REIT is located at 450A Wentworth St, Nanaimo, BC V9R 3E1.

The REIT commenced operations on May 14, 2017. The principal activities of the REIT are the ownership and management of a diversified portfolio of retail and commercial mixed-use properties.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the IFRS Interpretations Committee ("IFRICs") and effective for the year ended December 31, 2023.

These consolidated financial statements for the year ended December 31, 2023 were authorized for issue by the Board of Directors of the Trustee (the "Board") on March 21, 2024.

b. Basis of measurement

These consolidated financial statements have been prepared on a going concern basis, under historic cost convention, except for investment properties and derivative financial instruments which have been measured at fair value.

The preparation of these consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the REIT's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3(J).

c. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the REIT and all subsidiaries' functional currency. All amounts presented have been rounded to the nearest dollar.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

A. Basis of consolidation

The consolidated financial statements comprise the financial statements of the REIT and its subsidiaries, over which the REIT has control. Control exists when the REIT has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial statements of subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of consolidation (continued)

Intra-group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of the REIT, its 100% owned subsidiary, All Island Equity REIT Limited Partnership (the “REIT LP”) (collectively, the “Limited Partnership”), and all related bare trust nominee, or similar, companies.

The REIT has entered into an agreement with this party in the form of a limited partnership. After adopting IFRS 10, *Consolidated Financial Statements*, and IFRS 11, *Joint Arrangements*, the REIT determined that it has control over the Limited Partnership.

B. Property acquisitions and business combinations

Where property is acquired, management considers the substance of the agreement in determining whether the acquisition represents an asset acquisition or a business combination. The basis of the judgment is set out in Note 3(J).

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

All acquisitions to date have been determined to be asset acquisitions.

C. Investment properties

Investment properties comprise of properties held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including directly attributable expenditures. Acquisition costs include transfer taxes, professional fees for legal services, acquisition fees and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment properties are measured using the fair value model. The REIT defines fair value to be the value a third party is willing to pay, in an arm’s length transaction, for an investment property. Therefore, the fair value of recently acquired investment property would be the purchase price. Any subsequent valuations performed on an investment property, after acquisition date, would be the new basis for the fair value recorded on the investment property. Gains or losses arising from changes in fair values are included in the consolidated statement of earnings in the year which they arise.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the consolidated statements of earnings in the year of retirement or disposal. Gains or losses on the disposal of investment property are recognized through fair value adjustments to investment properties and are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

D. Cash and cash equivalents

Cash consists of cash on hand and cash held at banks. Cash equivalents include guaranteed investment certificates that are readily redeemable into cash with original maturities of three months or less from the purchase date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Equity issuances and redemption

Issuances of units are recorded as increases in equity equal to the gross proceeds received while redemption of units are recorded as decreases in equity equal to the amount paid, calculated in accordance with the Trust Declaration. Incremental costs directly attributable to the issuance of new units are recorded as reductions in equity as unit issuance costs.

F. Revenue recognition

The REIT earns revenue from its tenants from various sources consisting of base rent for the use of space lease, recoveries of property taxes and insurance and service revenue from utilities, cleaning and property maintenance costs. Revenue from lease components is recognized in income on a straight-line basis over the lease term subject to ultimate collection being reasonably assured in accordance with IFRS 16.

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 as the costs are incurred, which is when the services are rendered.

G. Financial instruments

All financial instruments are initially measured at fair value on the Statement of Financial Position. Subsequent measurement of the financial instrument is based on their respective classification. For financial assets, the subsequent measurement is based on the REIT's business model for managing the asset and the cash flow characteristics of the asset. The REIT's financial assets are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest and are therefore measured at amortized cost. Interest income from these financial assets is included in interest income using the effective interest rate method.

Financial asset/liability	Measurement
Cash and cash equivalents	Amortized cost
Derivative financial instruments	Fair Value through Profit and Loss
Trade and other receivables	Amortized cost
Trade payables and accruals	Amortized cost
Security deposits	Amortized cost
Loans	Amortized cost

Amortized cost

Financial assets and liabilities are initially recognized at their fair value. Fair value is determined by recent arm's length market transactions for the same instrument/approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date.

The financial assets and liabilities are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts and payments for liabilities are exactly discounted over the expected life of the financial asset or financial liability, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial asset or a financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method or any difference between that initial amount and the maturity amount, and for financial assets, adjusted for any loss allowances. Net gains and losses from changes in fair value are recognized in profit (loss) upon derecognition or impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

G. *Financial Instruments (continued)*

Impairment of financial assets

Financial assets carried at amortized cost are assessed at each reporting date on whether they are credit impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The REIT applies the expected credit loss (“ECL”) approach in determining provisions for financial assets carried at amortized cost. The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs. The approach that the REIT has taken for trade receivables is a provision matrix approach whereby lifetime expected credit losses are recognized based on aging characterization and credit worthiness of the tenants. Specific provisions may be used where there is information that a specific tenant’s expected credit losses have increased. The specific accounts are only written off once all the collection avenues have been explored or when legal bankruptcy has occurred.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the REIT considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the REIT’s historical experience and informed credit assessment and including forward-looking information. The credit risk on a financial asset is considered to have increased significantly if it is more than 90 days past due.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the consolidated statement of earnings.

H. *Income taxes*

The REIT qualifies as a “mutual fund trust” under the Income Tax Act (Canada) and as a Real Estate Investment Trust (“REIT”) eligible for the ‘REIT Exemption’ in accordance with the rules affecting the tax treatment. Pursuant to the Declaration of Trust, the Board intends to distribute or designate all taxable income to the unitholders of the REIT and to deduct such distributions and designations for Canadian Income Tax purposes. Accordingly, the REIT is not taxable on its income provided all of its taxable income is distributed to the unitholders.

I. *Fair value*

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. In certain circumstances, the initial fair value may be based on other observable current market transactions, without modification or on a valuation technique using market-based inputs.

Fair value measurements recognized in the consolidated statement of financial position are categorized in accordance with the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

I. *Financial Instruments (continued)*

The REIT measures investment properties at fair value at the end of each reporting period. Management estimates the fair value of its investment properties using the direct capitalization income method for most of its properties. For one of its leasehold properties, Management estimates the fair value using a combination of the direct capitalization income method and the direct comparison approach for land value. For the direct capitalization income method, the fair value is determined by applying a capitalization rate to stabilized net operating income. The result is further adjusted for potential leasing costs, capital expenditures, and costs to stabilize income. Since significant adjustments are made to key inputs, the REIT measures the fair value under level 3 of the fair value hierarchy.

J. *Significant accounting judgments and estimates*

Judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities are reviewed on an ongoing basis. Actual results may differ from these estimates.

a. *Judgments*

In the process of applying the REIT's accounting policies, management has made the following critical judgments, which have the most significant effects on the amounts recognized in the consolidated financial statements:

(i) *Asset acquisitions*

The REIT acquires individual investment properties. At the time of acquisition, the REIT considers whether or not the acquisition represents the acquisition of a business. IFRS 3, Business Combinations ("IFRS 3"), is only applicable if it is considered that a business has been acquired. According to IFRS 3, a business is an integrated set of activities is acquired in addition to the property. More specifically, consideration is made to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the property (e.g., maintenance, cleaning, security, bookkeeping, etc.).

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized. All acquisitions to date have been determined to be asset acquisitions.

(ii) *Lease contracts*

The REIT has entered into property leases on its investment property portfolio as the lessor. The REIT makes judgments in determining whether certain leases, in particular those leases with long contractual terms, are operating or finance leases. The REIT must assess each lease separately against land and building. The REIT has determined that all of its leases of land and buildings are operating leases as the REIT retained substantially all of the risks and benefits of ownership of its investment properties.

(ii) *Lessor entities*

The REIT incorporated two entities that act as lessors in their respective headleases. The REIT does not have power over the lessor entities nor exposure or rights to variable returns from its involvement in the lessor entities and therefore the entities are not consolidated under IFRS 10, *Consolidated financial statements*.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Significant accounting judgments and estimates (continued)

b. Estimates

The significant areas of estimation include the following:

Valuation of investment properties

The fair value of the investment properties is determined by management, using recognized valuation techniques supported, in certain instances, by independent real estate valuation experts.

The determination of the fair value of the investment properties requires the use of estimates such as future cash flows from assets (based on the review of anticipated cash flows involving assumptions relating to occupancy, rental rates and residual value, and overall repair and condition of the property) and capitalization rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

The following approaches, either individually or in combination, are used by management, together with the appraisals, in their determination of the fair value of the investment properties:

The Income Approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.

The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each appraisal obtained and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an appraisal is not obtained at the reporting date, management reviews the approaches described above, for each investment property, and estimates the fair value.

The significant assumptions used by management in estimating the fair value of investment property are set out in Note 4.

K. Provisions

Provisions are recognized by the REIT when: i) the REIT has a present legal or constructive obligation as a result of past events; ii) it is probable that an outflow of resources will be required to settle the obligation; and iii) the amount can be reasonably estimated. If the time value of money is material, provisions are discounted using a current rate that reflects the risk profile of the liability, and the increase to the provision due to the passage of time will be recognized as interest expenses.

L. Standards, Amendments and Interpretations Adopted

REIT has not adopted any new accounting policies in the current year. The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the REIT's consolidated financial statements are disclosed below. The REIT intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Standards, Amendments and Interpretations Adopted (continued)

Amendments to IAS 1 - Non-Current liabilities with covenants

The amendments issued in October 2022 clarify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or noncurrent, even if the covenant is only assessed after the entity's reporting date.

The 2022 amendments introduce additional disclosure requirements. When an entity classifies a liability arising from a loan arrangement as non-current and that liability is subject to the covenants which an entity is required to comply with within twelve months of the reporting date, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liability could become repayable within twelve months of the reporting period, including: (a) the carrying amount of the liability; (b) information about the covenants; and (c) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants based on its circumstances at the end of the reporting period.

The amendment is effective for annual reporting periods beginning on or after January 1, 2024. The REIT will apply the amendment accordingly when effective and does not currently expect any material impact of this amendment.

There are no other IFRS or International Financial Reporting Interpretations Committee ("IFRIC") interpretations that are not yet effective and that would be expected to have a material impact on the REIT.

4. INVESTMENT PROPERTIES

The balance of the investment properties as at December 31, 2023 and December 31, 2022 is as follows:

As at December 31,	2023	2022
Balance, beginning of year	\$210,160,000	\$199,011,887
Purchase of new investment properties	7,598,905	1,939,609
Capital additions	1,352,834	2,408,191
Disposal of investment properties	-	-
Changes in fair value adjustments to investment properties	3,311,394	6,800,313
Balance, end of year	\$222,423,133	\$210,160,000

Purchases of new investment properties amounted to \$7,598,905 and were paid in cash of \$3,821,637 and assumed mortgage loan of \$3,777,268.

All Island Equity REIT
Notes to Consolidated Financial Statements
Expressed in Canadian Dollars
For the year ended December 31, 2023 and 2022

4. INVESTMENT PROPERTIES (continued)

The fair value of investment property acquired recently is the purchase price plus directly attributable expenditures and capital additions since acquisition. Subsequently, the fair value of the investment properties is determined on a fair value basis.

In arriving at their estimates of market values, management and the independent appraisers will use their market knowledge and professional judgment and will not rely solely on historical transactional comparisons.

The appraisals will be performed annually by accredited independent appraisers with recognized and relevant professional qualifications and with recent experience in the location and category of the investment property being valued. Management will review each appraisal and ensure that the assumptions used are reasonable and the final fair value amount will reflect those assumptions, which are used in the determination of the fair values of the properties.

The significant assumptions made to the fair value of the investment properties as at December 31, 2023 and December 31, 2022 are set out below:

For December 31, 2023	Weighted average	Range
Capitalization rate (%)	4.40%	3.25% - 5.75%
Net operating income (\$)	\$9,786,937	\$22,959 - \$1,097,774

For December 31, 2022	Weighted average	Range
Capitalization rate (%)	4.25%	3.25% - 5.50%
Net operating income (\$)	\$8,938,699	\$20,391 - \$1,037,628

Valuations determined by the income method are most sensitive to changes in capitalization rates and net operating income (NOI). The table below summarizes the sensitivity of the fair value of investment properties to changes in the capitalization rate and changes in NOI as at December 31, 2023 and 2022.

<i>As at December 31, 2023</i>		Change in NOI				
		-2.00%	-1.00%	As reported	1.00%	2.00%
Change in Capitalization Rate	-0.50%	23,495,980	26,005,359	28,514,737	31,024,116	33,533,495
	-0.25%	8,682,088	11,040,304	13,398,521	15,756,737	18,114,954
	As reported	(4,448,463)	(2,224,231)	-	2,224,231	4,448,463
	0.25%	(16,167,169)	(14,062,517)	(11,957,864)	(9,853,211)	(7,748,559)
	0.50%	(26,690,125)	(24,692,849)	(22,695,574)	(20,698,298)	(18,701,022)

<i>As at December 31, 2022</i>		Change in NOI				
		-2.00%	-1.00%	As reported	1.00%	2.00%
Change in Capitalization Rate	-0.50%	23,233,689	25,615,257	27,996,825	30,378,393	32,759,962
	-0.25%	8,658,545	10,891,387	13,124,229	15,357,071	17,589,914
	As reported	(4,203,200)	(2,101,600)	-	2,101,600	4,203,200
	0.25%	(15,636,904)	(13,651,974)	(11,667,044)	(9,682,115)	(7,697,185)
	0.50%	(25,867,891)	(23,987,359)	(22,106,827)	(20,226,295)	(18,345,764)

All Island Equity REIT
Notes to Consolidated Financial Statements
Expressed in Canadian Dollars
For the year ended December 31, 2023 and 2022

5. LOANS

Loans are recorded at amortized cost and are secured by first charges on the REIT's investment properties, with a carrying and fair value of \$103,713,069 and \$106,948,698, respectively (2022 - \$102,142,253 and \$105,832,843). Included in loans are unamortized mortgage transaction costs, which are amortized over the term of each mortgage using the effective interest rate method.

As at December 31,	2023	2022
Balance, beginning of year	\$102,142,253	\$102,290,649
Mortgage Assumed	3,777,268	-
Mortgage Proceeds Received	-	17,170,301
Mortgage Payments - Principal	(2,662,764)	(15,692,925)
Mortgage Payments - Interest	(3,189,309)	(3,094,573)
Interest Expense	3,189,309	3,094,573
Mortgage transaction cost paid	(18,289)	(2,090,331)
Amortization of mortgage transaction cost	474,599	464,560
Balance, end of year	\$103,713,068	\$102,142,253

Detailed Mortgage Summary

As at December 31,	2023	2022
CMHC-insured fixed rate mortgages	84,597,705	82,860,656
Less: unamortized mortgage transaction costs	(3,071,093)	(3,471,546)
Mortgages with various lenders, with a weighted average interest rate of 2.74% (2022 - 2.78%) and range of 1.69% to 4.14% (2022 - 1.69% to 4.14%). Payable in total monthly installment payments of \$365,873 (2022 - \$351,458), with a weighted average remaining term of 7.3 years (2022 - 8.3 years) and maturities ranging from December 1, 2026 to September 5, 2032 (December 1, 2026 to September 5, 2032). Secured by certain investment properties.	81,526,613	79,389,110
Conventional fixed rate mortgages	10,787,251	11,050,922
Less: unamortized mortgage transaction costs	(61,325)	(82,337)
Mortgages with various lenders, with a weighted average interest rate of 3.86% (2022 - 3.86%) and range of 2.75% to 4.71% (2022 - 2.75% to 3.47%). Payable in total monthly installment payments of \$56,930 (2022 - \$56,930), with a weighted average remaining term of 3.16 years (2022 - 4.2 years) and maturities ranging from November 5, 2026 to June 1, 2027 (2022 - November 5, 2026 to June 1, 2027). Secured by certain investment properties.	10,725,925	10,968,585

All Island Equity REIT
Notes to Consolidated Financial Statements
Expressed in Canadian Dollars
For the year ended December 31, 2023 and 2022

5. LOANS (continued)

Detailed Mortgage Summary (continued)

As at December 31,	2023	2022
Conventional fixed rate mortgages with interest rate swap	11,562,392	11,921,265
Less: unamortized mortgage transaction costs	(101,861)	(136,706)
<p>Mortgages with single lender, with a fixed interest rate of 2.73% until December 2, 2024, and a floating rate thereafter to expiry on December 2, 2026. After entering into an interest rate swap to cover the floating rate with the same lender, the total effective fixed interest rate for the floating rate period is 3.20%. Payable in total monthly blended installment payments of \$56,490 and secured by certain investment properties.</p> <p>(See note on derivative financial instrument below)</p>		
	11,460,531	11,784,559
Total	103,713,069	102,142,254
Current Portion of unamortized mortgage transaction costs	(475,948)	(471,910)
Current portion of long-term debt	2,754,482	2,570,940
Long term portion of unamortized mortgage transaction costs	(2,759,680)	(3,218,680)
Long-term portion of long-term debt	104,194,215	103,261,903
Total	103,713,069	102,142,254

Derivative financial instrument

The REIT has entered into interest rate swap agreement to manage the volatility of interest rates. Starting December 2, 2024 with a notional principal of \$11,179,620, the REIT receives a floating interest rate while paying a fixed rate of 2.05% to the lender until the maturity of the underlying mortgage. The notional principal and maturity date of the interest rate swap is the same as the actual principal and maturity date of the associated long-term debt.

The fair value of the interest rate swap at December 31, 2023 is \$256,337 (2022 – \$229,432) which is recorded on the Statement of Financial Position. The current year impact of the change in fair value of the interest rate swap is \$26,905 (2022 – \$229,432) on the Statement of Earnings.

5. LOANS (continued)

Derivative financial instrument (continued)

The fair value of the interest rate swaps has been determined using Level 2 of the fair value hierarchy. The fair value of interest rate swaps is based on bank quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

During the year ended December 31, 2023, the REIT incurred interest expense of \$3,189,309 (2022 - \$3,094,573) and amortization expense of \$474,599 (2022 - \$464,560). Under the terms of the loan agreements, the REIT is required to comply with certain loan covenants. As at December 31, 2023 and 2022, all covenants were met.

Principal repayments based on scheduled repayments to be made on the long-term debt are as follows as of December 31, 2023:

2023	\$2,754,482
2024	2,809,461
2025	22,804,353
2026	7,680,966
Thereafter	70,899,435
	<u>\$106,948,697</u>

6. UNITHOLDERS' EQUITY

Under the Declaration of Trust, the REIT is authorized to issue unlimited number of redeemable REIT units without par value. The Trustee will have the power and authority, from time to time, for and on behalf of the REIT, to create one or more classes or series of units on such terms and conditions as may be determined by the Trustee. All the units in any class or series will have the same rights, benefits and other attributes and will rank equally with every other unit in such class or series.

The REIT currently has two classes of units being Class A and Class F units. All units of each class are entitled to participate equally with respect to all distributions made by the REIT to the unitholders, including distributions of net income and net realized capital gains, if any. All Class A units allow for a trailer fee (an annual fee which may be paid by the REIT to registered securities dealers and exempt market dealers) of up to 1% of the Net Asset Value.

Unitholders can elect to either receive distribution in cash or participate in the Distribution Reinvestment Plan ("DRIP"). The DRIP allows holders of REIT units to have all cash distributions from the REIT reinvested in additional units of the same classes of units held. Unitholders can switch between receiving distribution in cash or participating DRIP at their discretion. Cash undistributed by the REIT upon the issuance of additional units under the DRIP will be invested in the REIT to be used for future property acquisitions, capital improvements, reducing liabilities, and working capital.

As at December 31, 2023, total unitholders equity was \$118,882,332 (2022 - \$111,297,278) which consists of unitholder contributions, distributions declared, DRIP units issued, issuance costs and net earnings for the year ended December 31, 2023.

6. UNITHOLDERS' EQUITY (continued)

a. Unit Classification

The REIT presents units as equity, notwithstanding the fact that the units meet the definition of a financial liability. Under IAS 32, *Financial Instruments: Presentation* (IAS 32), the units are considered a puttable financial instrument because of the holder's option to redeem the units, generally at any time, subject to certain restrictions, the redemption price per unit is equal to the Net Asset Value per unit as determined on the valuation date which immediately precedes the redemption date, subject to any administration and processing fees that may be determined and applied by the Trustee, in its sole discretion, from time to time.

The REIT has determined the units can be presented as equity and not financial liabilities because the REIT units have all of the following features, as defined in IAS 32 (hereinafter referred to as the "puttable exemption"):

- Units entitle the holder to a pro rata share of the REIT's net assets in the event of its liquidation. Net assets are those assets that remain after deducting all other claims on the assets;
- Units are the class of instruments that are subordinate to all other classes of instruments as they have no priority over other claims to the assets of the REIT on liquidation, and do not need to be converted into another instrument before they are in the class of instruments that is subordinate to all other classes of instruments;
- All instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- Apart from the contractual obligation for the REIT to redeem the units for cash or another financial asset, the units do not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the REIT, and it is not a contract that will or may be settled in the REIT's own instruments;
- The total expected cash flows attributable to the units over their lives are based substantially on the profit or loss, and the change in the recognized net assets and unrecognized net assets of the REIT over the life of the units; and
- Units are initially recognized at the fair value of the consideration received by the REIT. Any transaction costs arising on the issuance of units are recognized directly in unitholders' equity as a reduction of the proceeds received.

All Island Equity REIT
Notes to Consolidated Financial Statements
Expressed in Canadian Dollars
For the year ended December 31, 2023 and 2022

6. UNITHOLDERS' EQUITY (continued)

b. Unit Issuance

The REIT issued the following units:

for the year ended 31 December, 2023	Units Issued	Gross Proceeds	Price Per Unit
Class A PAY	25,302	\$413,941	\$16.36
Class F PAY	34,834	569,884	16.36
Class A DRIP	157,572	2,577,878	16.36
Class F DRIP	177,172	2,898,534	16.36
Total	394,880	\$6,460,237	\$16.36

for the year ended 31 December, 2022	Units Issued	Gross Proceeds	Price Per Unit
Class A PAY	692	\$11,017	\$15.92
Class F PAY	40,762	648,931	15.92
Class A DRIP	228,808	3,642,623	15.92
Class F DRIP	240,077	3,882,026	15.92
Total	510,339	\$8,124,597	\$15.92

c. Unit Redemptions

The total value of units tendered for redemption will be paid to a unitholder by way of a cash payment no later than the last day of the calendar month following the calendar quarter in which the redemption date occurs, subject to the following limitations:

- i. the total amount payable by the REIT by cash payment in respect of the redemption of units for the calendar quarter in which the redemption date occurs will not exceed \$50,000; and
- ii. the total amount payable by the REIT by cash payment in respect of the redemption of units in any twelve month period ending at the end of the calendar quarter in which the redemption date occurs will not exceed 1/4 of 1% of the aggregate subscription price of all units that were issued and outstanding at the start of such twelve month period.

Notwithstanding the foregoing, the Trustee, in its sole discretion, may but will in no way be obligated to make cash payments in excess of the limits set out in the Trust Declaration.

To date, all units tendered for redemption have been paid out by way of cash payment.

The REIT redeemed the following units:

for the year ended 31 December,	2023		2022	
	Units Redeemed	Redemption Amount	Units Redeemed	Redemption Amount
Class A PAY	10,481	\$171,366	22,671	\$360,927
Class F PAY	68,094	1,114,018	30,859	491,275
Class A DRIP	54,831	897,030	51,213	814,393
Class F DRIP	98,301	1,608,203	32,544	514,242
Total	231,707	\$3,790,617	137,287	\$2,180,838

All Island Equity REIT
Notes to Consolidated Financial Statements
Expressed in Canadian Dollars
For the year ended December 31, 2023 and 2022

6. UNITHOLDERS' EQUITY (continued)

d. Distributions

The REIT's Declaration of Trust endeavours to maintain quarterly distribution payments to unitholders. The REIT determines the distribution rate by, among other considerations, its assessment of cash flows as determined using adjusted cash flows from operating activities of its Limited Partnership. The distribution rate is determined by the Board, at their sole discretion, based on what they consider appropriate given the circumstances of the REIT. Distributions may be adjusted for amounts paid in prior periods if the actual adjusted cash flows from operating activities for those prior periods are greater or less than the estimates used for those prior periods. In addition, the Board may declare distributions out of the income, net realized capital gains, net recapture income and capital of the REIT to the extent such amounts have not already been paid, allocated or distributed.

The REIT distributed the following:

for the year ended 31 December, 2023	Distributions Declared	Distributions Reinvested	Units Issued through DRIP	Trailer Fee Paid
Class A PAY	\$199,877	\$-	-	\$61,195
Class F PAY	650,610	-	-	312,770
Class A DRIP	1,016,526	703,756	43,017	-
Class F DRIP	1,702,150	1,702,150	104,043	-
Total	\$3,569,163	\$2,405,907	147,060	\$373,965

for the year ended 31 December, 2022	Distributions Declared	Distributions Reinvested	Units Issued through DRIP	Trailer Fee Paid
Class A PAY	\$177,496	\$-	-	\$59,165
Class F PAY	449,225	-	-	302,129
Class A DRIP	916,404	604,275	37,957	-
Class F DRIP	1,475,342	1,475,342	92,672	-
Total	\$3,008,466	\$2,079,617	130,629	\$361,293

7. OPERATING LEASES – REIT AS LESSOR

The REIT has entered into leases with tenants on its investment property portfolio. The leases typically have initial lease terms ranging between one and five years with periodic upward revision of the rental charge according to the prevailing market conditions.

Future minimum lease payments for commercial tenants under non-cancellable operating leases in the aggregate and for each of the following periods are as follows:

	2023	2022
Within one year	\$707,698	\$901,899
Two to five years	844,099	1,441,339
Over five years	191,386	301,844
	\$1,743,183	\$2,645,082

As all residential tenants have signed lease agreement that are one year in duration and is extendable on a month-to-month basis after one year, the minimal lease payments associated with these residential tenants have been excluded from the table above.

7. OPERATING LEASES – REIT AS LESSOR (continued)

VICTORIA LEASEHOLD PORTFOLIO

On November 16th, 2021, the REIT purchased the freehold interest in a portfolio consisting of five properties in Victoria, BC. Four of the properties (“Leasehold Properties”) have head leases registered on title that mature on 31 December 2073 (“Leasehold Obligation”).

These head leases are sub-leased to individual suites (“Lessee Units”) in accordance with the terms and conditions of the leasehold contract. The contract allows the owners (“Lessees”) of each sub-leased unit to occupy the Lessee Units until the maturity of the head lease. On maturity, the right to occupy the Lessee Units lapses and the Leasehold Obligation ceases. In aggregate, 276 Lessee Units are registered on title, of which the REIT purchased 87. The REIT purchased two more units after the initial closing. The remaining 187 units are owned by unrelated third parties.

To administer the Leasehold Obligation, the REIT incorporated two entities that act as the lessors in the head leases (“Lessors”). These entities have no economic interest in the properties, cannot make a profit or a loss, and are not consolidated.

Under the terms of the lease, the Lessee Units do not pay rent but are responsible for all costs related to the property incurred by the Lessor, acting reasonably (“Operating Costs”). These costs include all amounts payable, including capital expenditures, during the year. Prior to the commencement of each calendar year, the Lessor must provide the Lessees an estimate of the Operating Costs for the upcoming year. Each Lessee must pay 12 equal monthly payments of the estimated costs to the Lessor (“Monthly Assessments”) on the first of each month. If the actual Operating Costs exceed the estimate for that calendar year, the Lessees pay their share of the difference (“Shortfall”). If the actual Operating Costs are less than estimated, the Lessee’s share of operating expenses for the following year are reduced accordingly (“Excess”).

An independent third-party property manager manages the Operating Cost on behalf of and allocates costs to all Lessee Units per the lease terms, which are applied consistently irrespective of whether the units are owned by the REIT or by unrelated third parties. All funds associated with Operating Costs flow through a dedicated bank account for each Leasehold Property. These bank accounts are held in trust by the property manager.

The REIT recognizes any expenses incurred and obligations to or from the Lessor entities as it relates to its ownership of its 89 Lessee Units. The REIT may also be required to fund temporary Shortfalls until funds are recovered from the Lessees. The REIT recognizes these transactions as loans to the Lessor. For the year ended 31 December 2023, \$479,675 (2022 - \$571,953) in Operating Costs were allocated to the REIT. At December 31, 2023, the REIT had loaned \$103,913 (2022 - \$44,028) to the Lessors.

Supplementary information is provided following the notes to the consolidated financial statements.

8. CAPITAL MANAGEMENT

The REIT defines capital as the aggregate of unitholders’ equity and long-term debt. The REIT’s objectives in managing capital are to maintain a level of capital that complies with investment and debt restrictions pursuant to the offering memorandum, complies with existing debt covenants, funds its business strategies and builds long-term unitholders’ value. The REIT’s capital structure is approved by the Board through its periodic reviews. The REIT is not subject to externally imposed capital requirements.

9. FINANCIAL INSTRUMENTS

Fair value of financial instruments

For certain REIT financial instruments, including cash and cash equivalents, trade and other receivables, trade payable and accruals and security deposits, the carrying amounts approximate their fair values due to the immediate or short-term maturity of these financial instruments; which is in accordance with level 1 fair value hierarchy (as set out in Note 3(l)).

The fair values of debt are determined by discounting the future contractual cash flow under current financing arrangements at discount rates that represent borrowing rates presently available to the REIT for loans with similar terms and maturity and measured under level 2 fair value hierarchy (as set out in Note 3 (l)) since the discount rates are either provided by the lenders or are observable on the open market.

The following table presents the carrying amounts and fair values of the REIT's financial instruments that are carried at amortized cost:

As at December 31,	2023		2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$1,165,382	\$1,165,382	\$3,400,031	\$3,400,031
Trade and other receivables	259,484	259,484	226,188	226,188
Trade payable and accruals	1,073,231	1,073,231	1,119,612	1,119,612
Security deposits	734,961	734,961	559,639	559,639
Loans	103,713,068	106,948,697	102,142,253	105,832,843

Financial risk management

The Board of the REIT has the overall responsibility for the establishment and oversight of the REIT's risk management framework. The REIT's risk management policies are established to identify and analyze the risks faced by the REIT, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the REIT's activities.

In the normal course of business, the REIT is exposed to several risks from its use of financial instruments. These risks, and the actions taken to manage them, are as follows:

a. Credit risk

Credit risk is the risk of financial loss to the REIT if a tenant or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the REIT's receivables from tenants.

The REIT's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The REIT minimizes the risk by checking tenants' credit histories, requesting security deposits and initiating a prompt collection process.

All Island Equity REIT
Notes to Consolidated Financial Statements
Expressed in Canadian Dollars
For the year ended December 31, 2023 and 2022

9. FINANCIAL INSTRUMENTS (continued)

a. Credit risk (continued)

Trade and other receivables are comprised primarily of current balances owing and the REIT has not experienced any significant receivable write-offs. The REIT performs frequent reviews of its receivables and has determined there is no significant provision for doubtful accounts as at December 31, 2023 and 2022. The table below shows trade receivables due from tenants:

Aged trade receivables	December 31, 2023	December 31, 2022
Current	\$160,773	\$54,893
Past due 31 – 60 days	15,750	6,260
Past due 61 – 90 days	500	8,048
Past due 90+ days	82,461	156,987
	\$259,484	\$226,188

The REIT places its cash and cash equivalents with Canadian financial institutions with high credit ratings, credit ratings are actively monitored, and these financial institutions are expected to meet their obligations.

b. Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The REIT will be exposed to interest rate risk on the fixed rate debt it carries against the investment properties as at December 31, 2023 and December 31, 2022 at maturity.

c. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The REIT is not subject to foreign currency risk as the REIT's financial instruments are denominated in Canadian dollars.

d. Liquidity risk

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they fall due. Real estate property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT was required to liquidate a real estate property investment, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property.

The REIT's approach to managing liquidity is to ensure that it will have sufficient cash available to meet those liabilities which are not expected to be refinanced when they come due. As at December 31, 2023, the REIT reasonably expects that all mortgages with maturities in 2023 will be refinanced, and has sufficient cash on hand to settle all other current liabilities.

The following are the contractual maturities of financial liabilities as at December 31, 2023.

	Amortized cost	Due in 1 year	Over 1 year
Trade payable and accruals	\$1,073,231	\$1,073,231	-
Loans	\$103,713,068	\$2,278,534	\$101,434,535

9. FINANCIAL INSTRUMENTS (continued)

e. Environmental risk

The REIT is subject to various federal, provincial/state and municipal laws relating to the environment. These laws could result in liability for the costs of removal and remediation of certain hazardous substances or waste released or deposited on or in investment properties or disposed of at other locations. Failure to remove or remediate such substances, if any, could adversely affect the ability to sell real estate, or to borrow using real estate as collateral, and could potentially result in claims or other proceedings. The REIT is not aware of any material non-compliance with environmental laws at any properties. The REIT is also not aware of any material pending or threatened investigations or actions by environmental regulatory authorities in connection with, or conditions at, the properties. The REIT has policies and procedures to review and monitor environmental exposure, and has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly, and the REIT may become subject to more stringent environmental laws and regulations that could have an adverse effect on the financial condition or results of operations.

f. Redemption risk

Redemptions will be paid by way of a cash payment no later than the last day of the calendar month following the calendar quarter in which the redemption date occurs, subject to the following limitations:

- a) the total amount payable by the REIT by cash payment in respect of the redemption of units for the calendar quarter in which the redemption date occurs will not exceed \$50,000; and
- b) the total amount payable by the REIT by cash payment in respect of the redemption of units in any twelve month period ending at the end of the calendar quarter in which the redemption date occurs will not exceed 1/4 of 1% of the aggregate subscription price of all units that were issued and outstanding at the start of such twelve month period.

If any of the conditions in (a) and (b) immediately above preclude the payment of the redemption price in cash, and the REIT does not, in its sole discretion, waive such limitation, payment will be made in specie.

Payment of Redemption Price in Specie

If any of the conditions in (a) and (b) immediately above preclude the payment of the redemption price in cash, and the Trustee does not, in its sole discretion, waive such limitation in respect of all units tendered for redemption in any particular calendar quarter, the Redemption Price shall be paid and satisfied by way of any of the following methods to be selected by the Trustee, using its sole discretion:

- a. the issuance and delivery of a number of Trust Notes, each in the principal amount of \$100, having an aggregate principal amount equal to the redemption price per Unit multiplied by the number of units tendered for redemption;
- b. a distribution in specie to the Unitholder of a number of Limited Partnership units having an aggregate value determined on the redemption date based on the redemption price of the Limited Partnership units under the terms and conditions of the Limited Partnership Agreement, equal to the redemption price per unit multiplied by the number of units tendered for redemption; or
- c. a distribution in specie to the unitholder of a number of debt securities (each in the principal amount of \$100) having an aggregate principal amount equal to the redemption price per unit multiplied by the number of units tendered for redemption.

To date, all redemption requests have been paid by way of cash payment.

9. FINANCIAL INSTRUMENTS (continued)

g. Lease rollover risk

Lease rollover risk arises from the possibility that the REIT may have trouble renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. The REIT endeavors to sign long term leases with commercial tenants to minimize lease rollover risk. At December 31, 2023, the occupancy rate across all of the commercial properties is 94.1% (2022 – 93.2%). For any vacant space, the REIT uses qualified third-party leasing agents to actively market the space.

10. RELATED PARTY TRANSACTIONS

The REIT's related parties consist of its subsidiaries, directors, and key members of management. These transactions were in the normal course of operations and were measured at fair value, which represented the amount of consideration established and agreed to by the related parties.

Transactions with AIE Management Inc. (the "Manager")

The Manager is related to the REIT by virtue of having officers and directors in common with the REIT. The Manager is also the General Partner of the Limited Partnership.

As of December 31, 2023, the Limited Partnership Agreement states that net income or loss of the Limited Partnership from the ordinary course of operations of the properties will be allocated as follows:

- Firstly, 0.01% to each of the General Partner to a maximum of \$100 per annum; and
- Secondly, the balance of net income or loss shall be allocated to the REIT, as the sole Limited Partner.

From inception to date no net income or loss was allocated, nor any payments made or are due to the Manager under any provision contained within the Limited Partnership Agreement.

In connection with the services provided by the Manager under the Management Agreement with the Limited Partnership, the following amounts will be payable to the Manager:

- a.* An acquisition fee equal to 1.00% of the gross purchase price of each property (or interest in a property), plus GST if applicable, payable to the Manager upon completion of the purchase of each such property (or interest in a property).

For the year ended December 31, 2023, the Manager was entitled to charge acquisition fees totaling \$78,225 (2022 - \$19,688) of which \$78,225 (2022 - \$19,688) was paid to the Manager.

- b.* An asset management fee up to 0.50% of the Gross Asset Value (2023 - \$224,147,200 and 2022 - \$204,302,975) (defined as the fair market value of all assets of the REIT, as measured on the financial statements of the REIT as at the end of each quarter) payable quarterly, no later than the last day of each quarter. The Manager may waive the obligation of the Limited Partnership to pay all or any portion of the asset management fee for any year or any one or more months within any such year, provided that the waiver of the obligation shall not act as a waiver of subsequent obligations in subsequent years.

For the year ended December 31, 2023, the Manager was entitled to charge asset management fees totaling \$1,154,481 (2022 - \$1,066,438) of which \$1,154,481 (2022 - \$1,066,438) was payable to the Manager. At December 31, 2023, the REIT had a payable to the Manager of \$215,250.

10. RELATED PARTY TRANSACTIONS (continued)

- c. Re-positioning and financing fees that will be payable if those services are provided by the Manager. These services were not required for either 2022 or 2023.
- d. A disposition fee of 1.00% of the sales price of a property may apply, provided that such fee will only be payable in the event that the Limited Partnership must sell, transfer, assign or dispose of a property or interest therein to generate cash amounts to satisfy redemptions of Limited Partnership units by the Trust. No such dispositions occurred in 2022 or 2023.
- e. Upon termination of the Management Agreement:
 - i. by the Limited Partnership by giving the Manager 90 days written notice of intention to terminate the Management Agreement, whether at the end of a term or otherwise;
 - ii. by the Manager in the event that the Limited Partnership commits a breach or default of a material term of the asset management agreement that is not cured within 90 days of the Limited Partnership receiving notice thereof; or
 - iii. by the Manager by giving the Limited Partnership 90 days prior written notice of intention to terminate the Management Agreement in the event that the Limited Partnership engages another person to provide services similar to the services provided by the Manager to the Limited Partnership under the Management Agreement (collectively, the “Termination Events”)

the Limited Partnership shall pay to the Manager, in immediately available funds on the date of termination an amount equal to the greater of the following: (1) twelve times the total amount of the asset management fee received and/or earned by the Manager pursuant to the Management Agreement during the most recently completed quarter on or prior to the termination date; and (2) \$2,500,000, in each case, plus applicable taxes.

The Limited Partnership shall not be required to pay to the Manager the termination payment if the Limited Partnership terminates the Management Agreement for any other reason that does not constitute a Termination Event, including if the Manager is in breach of the contract, or is unable to discharge its duties thereunder.

Transactions with the Trustee

The Trustee is related to the REIT by virtue of having officers and directors in common with the REIT. The Trustee has no business activities other than acting as Trustee of the REIT.

During the years December 31, 2023 and 2022, there were no transactions with the Trustee.

During the years December 31, 2023 and 2022, the REIT paid director fees of \$67,000 (2022 - \$72,880). At December 31, 2023, the Trustee had a payable to the REIT of \$418.

11. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash transaction

The REIT issued 147,060 units (2022 – 130,629) as part of the DRIP program, of which 43,017 was issued as Class A DRIP (2022 – 37,957) and 104,043 was issued as a Class F DRIP (2022 – 92,672), for a total value of \$2,405,907 (2022- \$2,079,617) of distributions reinvested (Note 6).

12. SEGMENTED DISCLOSURE

The REIT operates in one business segment, being the owning and operating of investment properties in Canada. As at December 31, 2023, the REIT operates forty-four investment properties located in British Columbia, Canada.

13. SUBSEQUENT EVENTS

On March 14, 2024, the REIT waived conditions on an agreement to purchase a two-building property with a total of 92 units in Courtenay, BC, for \$32,000,000. The purchase is expected to be completed in October 2024, subject to several conditions, including completion of construction of one building. The REIT is expected to assume two mortgages on the property, totaling \$24,459,000 at a maximum blended rate of 4.02%.

Subsequent to December 31, 2023, the REIT redeemed 125 Class A PAY, 660 Class F PAY, 3505 Class A DRIP and 1700 Class F DRIP units, for a total payment of \$98,001 to unitholders.

All Island Equity REIT
Unaudited Supplementary Information
Expressed in Canadian Dollars
For the year ended December 31, 2023

UNAUDITED SUPPLEMENTARY INFORMATION: VICTORIA LEASEHOLD PORTFOLIO

The following unaudited information supplements the consolidated statements of financial position in reference to Note 7 – Operating Leases- REIT: Victoria Leasehold Portfolio.

The freehold interests in the four properties with existing head leases were purchased on November 16, 2021. The following information is provided as supplementary for the year ended December 31, 2023, to provide information and to show the obligations assumed by the REIT.

On incorporation of the new entities that act as Lessors, these entities assumed the obligations of the previous lessor. The annual operational information and obligations assumed by the REIT are summarized below:

<i>for the year ended 31 December, 2023</i>	Edgemont	El Mirador	Ocean Villa	Villa Royale
Opening Excess / (Shortfall)	\$27,238	\$37,303	\$40,598	\$35,089
Total Receipts	264,583	324,450	239,533	589,045
Total Payments	223,434	331,792	224,466	630,918
Closing Excess / (Shortfall)	\$68,388	\$29,961	\$55,666	(\$6,784)

<i>as at 31 December, 2023</i>	Edgemont	El Mirador	Ocean Villa	Villa Royale
Bank	\$82,977	\$62,994	\$60,780	\$27,394
Accounts Payable	(18,483)	(18,345)	(4,250)	(25,330)
Accounts Receivable	582	2,135	7,152	23,977
Prepaid Expenses	4,700	6,268	4,689	33,901
Loans to / (from) related parties	(\$1,389)	(\$23,091)	(\$12,706)	(\$66,726)