Automotive Properties REIT

Automotive Properties Real Estate Investment Trust
Consolidated Financial Statements
For the year ended December 31, 2022 and 2021

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Independent Auditor's Report

To the Unitholders of Automotive Properties Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of Automotive Properties Real Estate Investment Trust and its subsidiaries (the "REIT"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of income and comprehensive income, 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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 are independent of the REIT in accordance with the ethical requirements that are relevant to our audit 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.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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.

Fair Value of Investment Properties

Refer to Note 6 – Investment Properties

As at December 31, 2022, the fair value of the REIT's investment properties totaled $1,071 million, which accounted for approximately 98% of the REIT's total assets.

The valuation of investment properties is a key audit matter due to the significant subjective judgement involved with the key inputs used in the valuation techniques and the sensitivity of fair value to changes in significant assumptions. The key inputs include capitalization rates, discount rates and are dependent on the nature of each investment property and the current prevailing market conditions.

How the Audit Matter was Addressed in the Audit

Our audit included the following procedures, among others:

- assessed the competence, capabilities and objectivity of a sample of external appraisers engaged by the REIT and the REIT's management who were involved in the valuation process;
- obtained an understanding of the techniques used by the external appraisers and management in determining the valuation of investment properties on a sample basis;
- with the assistance of our real estate valuation experts, evaluated the fair value methodology used by the external appraisers and management;
- performed an assessment of the internal consistency of significant underlying assumptions such as capitalization rates and net operating incomes and compared the significant underlying assumptions to the market;
- assessed management's review and approval process for valuations and budgets; and
- evaluated the adequacy of the disclosures included in the consolidated financial statements relating to the fair value of investment properties

Because of the subjectivity involved in determining fair value for individual investment properties and the existence of alternative assumptions and valuation methods, we determined a range of fair values that were considered reasonable to evaluate the fair values determined by external appraisers and management.

Other Information

Management is responsible for the other information. The other information comprises:

- the information included in Management's Discussion and Analysis for the year ended December 31, 2022; and
- the information, other than the consolidated financial statements and auditors' report thereon, in the 2022 Annual Report

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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The 2022 Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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 IFRSs, 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 Kerri Plexman.

/s/ BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 16, 2023

Automotive Properties REIT
Consolidated Balance Sheets

(in thousands of Canadian dollars)	**Note**	**As at December 31, 2022**	**As at December 31, 2021**
ASSETS			
Cash and cash equivalents		$396	$474
Accounts receivable and other assets	**7**	2,987	25,969
Interest rate swaps	**8**	19,127	-
Investment properties	**6**	1,071,308	1,025,207
Total assets		**$1,093,818**	**$1,051,650**
LIABILITIES AND UNITHOLDERS' EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	**9**	$11,241	$13,038
Credit facilities and mortgages payable	**8**	431,075	413,983
Interest rate swaps	**8**	-	6,872
Unit-based compensation	**12**	9,580	8,884
Class B LP Units	**11**	120,978	148,502
Total liabilities		572,874	591,279
Unitholders' equity		520,944	460,371
Total liabilities and unitholders' equity		**$1,093,818**	**$1,051,650**

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Trustees

"Julie Morin"

Julie Morin
Trustee, Audit Committee Chair

"John Morrison"

John Morrison
Trustee, Lead Independent

Automotive Properties REIT
Consolidated Statements of Income and Comprehensive Income

(in thousands of Canadian dollars) For the year ended December 31,	Note	2022	2021
Net Property Income			
Rental revenue from investment properties	**13**	**$82,861**	$78,218
Property costs	**13**	**(12,286)**	(11,137)
Net Operating Income		**$70,575**	$67,081
Other Income (Expenses)			
General and administrative expenses		**(5,561)**	(4,673)
Interest expense and other financing charges		**(17,957)**	(15,580)
Fair value adjustment on interest rate swaps	**8**	**25,999**	15,976
Distribution expense on Class B LP Units	**10**	**(7,621)**	(7,988)
Fair value adjustment on Class B LP Units and Unit-based compensation	**11, 12**	**20,215**	(44,555)
Fair value adjustment on investment properties	**6**	**(2,285)**	75,157
Net Income and Comprehensive Income		**$83,365**	$85,418

See accompanying notes to the consolidated financial statements.

Automotive Properties REIT
Consolidated Statements of Changes in Unitholders' Equity

For the year ended December 31, 2022
(in thousands of Canadian dollars)

	Note	Trust Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
Unitholders' Equity at December 31, 2021		**$395,694**	**$185,521**	**$(120,844)**	**$460,371**
Units issued, net of costs for acquisition	**11**	9,014	-	-	9,014
Units issued under Unit-based compensation	**12**	-	-	-	-
Net Income		-	83,365	-	83,365
Distributions	**10**	-	-	(31,806)	(31,806)
Unitholders' Equity at December 31, 2022		**$404,708**	**$268,886**	**$(152,650)**	**520,944**

For the year ended December 31, 2021
(in thousands of Canadian dollars)

	Note	Trust Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
Unitholders' Equity at December 31, 2020		**$380,757**	**$100,103**	**$(89,611)**	**$391,249**
Units issued, net of costs for acquisition	**11**	14,762	-	-	14,762
Units issued under Unit-based compensation	**12**	175	-	-	175
Net Income		-	85,418	-	85,418
Distributions	**10**	-	-	(31,233)	(31,233)
Unitholders' Equity at December 31, 2021		**$395,694**	**$185,521**	**$(120,844)**	**$460,371**

See accompanying notes to the consolidated financial statements.

Automotive Properties REIT
Consolidated Statements of Cash Flow

(in thousands of Canadian dollars)

For the year ended December 31,	Note	2022	2021
OPERATING ACTIVITIES			
Net income		**$83,365**	$85,418
Straight-line rent		**(1,697)**	(2,220)
Bad debt expense (recovery)		**-**	(277)
Non-cash compensation expense		**1,838**	1,983
Fair value adjustment on interest rate swaps		**(25,999)**	(15,976)
Distribution expense on Class B LP Units		**7,621**	7,988
Land lease termination		**(168)**	-
Fair value adjustment on Class B LP Units and Unit-based compensation		**(20,215)**	44,555
Fair value adjustment on investment properties		**2,285**	(75,157)
Interest expense and other charges		**17,173**	15,024
Financing fees		**784**	556
Amortization of other assets		**696**	183
Change in non-cash operating accounts	**18**	**(1,136)**	135
Cash Flow from operating activities		**64,547**	62,212
INVESTING ACTIVITIES			
Deposits for acquisitions of investment properties	**7**	**-**	(24,445)
Acquisitions of investment properties		**(42,692)**	(423)
Dispositions of investment properties		**17,952**	-
Cash Flow used in investing activities		**(24,740)**	(24,868)
FINANCING ACTIVITIES			
Proceeds from Credit Facilities and Mortgages		**50,000**	40,688
Principal and Revolver repayment on Credit Facilities		**(32,377)**	(22,326)
Interest paid		**(16,919)**	(14,674)
Financing fees paid		**(1,288)**	(871)
Repayments on lease liabilities		**(438)**	(736)
Cost of issuances of Units		**564**	(38)
Distributions to REIT unitholders and Class B LP unitholders		**(39,427)**	(39,221)
Cash Flow used in financing activities		**(39,885)**	(37,178)
Net increase (decrease) in cash and cash equivalents during the year		**(78)**	166
Cash and cash equivalents, beginning of year		**474**	308
Cash and cash equivalents, end of year		**$396**	$474

See accompanying notes to the consolidated financial statements.

1. NATURE OF OPERATIONS

Automotive Properties Real Estate Investment Trust (the "REIT") is an internally managed, unincorporated, open-ended real estate investment trust existing pursuant to a declaration of trust dated June 1, 2015, as amended and restated on July 22, 2015 (the "Declaration of Trust") under, and governed by, the laws of the Province of Ontario. The REIT was formed to own primarily income-producing automotive dealership properties located in Canada. The principal, registered and head office of the REIT is located at 133 King Street East, Suite 300, Toronto, Ontario M5C 1G6. The REIT's trust units ("Units") are listed on the Toronto Stock Exchange and are traded under the symbol "APR.UN".

893353 Alberta Inc. ("Dilawri") is a privately held corporation, which, together with certain of its affiliates, held an approximate 31.5% effective interest in the REIT on a fully diluted basis as at December 31, 2022 (December 31, 2021 – 28.4%), through the ownership, direction or control of all of the 9,327,487 Class B limited partnership units ("Class B LP Units") of Automotive Properties Limited Partnership, the REIT's operating subsidiary (the "Partnership"), and 6,361,620 Units. The Class B LP Units are economically equivalent to, and exchangeable for, Units. Dilawri and its affiliates, other than its shareholders and controlling persons, are referred to herein as the "Dilawri Group".

The REIT commenced operations on July 22, 2015 following completion of an initial public offering of Units (the "IPO"). In connection with the completion of the IPO, the REIT indirectly acquired a portfolio of 26 commercial properties from certain members of the Dilawri Group (the "Initial Properties") and leased the Initial Properties to the applicable member of the Dilawri Group (collectively, and including members of the Dilawri Group that became tenants at a REIT property after the IPO, the "Dilawri Tenants").

As at December 31, 2022, the REIT owned a portfolio of 70 income-producing commercial properties. The properties are located in metropolitan areas across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, totaling approximately 2.6 million square feet of gross leasable area. The Dilawri Tenants are the REIT's major tenant, occupying 38 of the REIT's 70 income-producing commercial properties as at December 31, 2022. See Note 19 – Subsequent Events.

The subsidiaries of the REIT included in the REIT's consolidated financial statements include the Partnership and Automotive Properties REIT GP Inc. Effective January 1, 2020, management, operating and administrative support personnel were employed directly by the REIT.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The consolidated financial statements of the REIT have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

These consolidated financial statements were authorized for issuance by the Board of Trustees of the REIT (the "Board") on March 16, 2023.

(b) Basis of Presentation

The consolidated financial statements of the REIT have been prepared using the historical cost basis except for the following items that were measured at fair value:

- investment properties as described in Note 6;
- interest rate swaps as described in Note 8;
- Class B LP Units which are exchangeable for Units at the option of the holder as described in Note 11; and
- Deferred Units ("DUs"), Income Deferred Units ("IDUs"), Restricted Deferred Units ("RDUs") and Performance Deferred Units ("PDUs", and together with DUs, IDUs and RDUs, "Unit-based compensation") which are exchangeable for Units in accordance with their terms as described in Note 2(l) and Note 12.

The consolidated financial statements are presented in Canadian dollars, the REIT's functional and reporting currency.

(c) Basis of Consolidation

The consolidated financial statements include the accounts of the REIT and the other entities that the REIT controls in accordance with IFRS 10 — *Consolidated Financial Statements*. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee. All intercompany transactions and balances have been eliminated on consolidation.

(d) Investment Properties

Investment properties include properties held to earn rental income and/or for capital appreciation, and property under development. Investment properties are initially measured at cost, including directly attributable acquisition costs. Directly attributable acquisition costs include professional fees, land transfer taxes and other transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Fair value is determined based on available market evidence at each balance sheet date. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. Related fair value gains and losses are recorded in net income and comprehensive income in the period in which they arise.

(e) Revenue Recognition

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases.

Property revenue includes rents earned from tenants under lease agreements and realty tax recoveries.

The REIT follows the straight-line method of recognizing rental revenue, whereby the total amount of basic rent to be received from leases is accounted for on a straight-line basis over the term of the lease. Accordingly, an accrued rent receivable/payable is recorded for the current difference between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenant and is included as part of investment properties on the consolidated balance sheet. Lease incentives provided to tenants are deferred and amortized on a straight-line basis against revenue over the term of the lease.

(f) Expenses

Property costs and general and administrative expenses are recognized in income in the period in which they are incurred. The indemnity fee is amortized over the average lease term with the Dilawri Tenants that have third party sub-tenants.

(g) Leases

The REIT is the lessee for one land lease and one office lease, which are in the scope of IFRS 16 – *Leases* (“IFRS 16”) and, as at January 1, 2019, the REIT recognized right-of-use assets and lease liabilities of $7,694. For all leases for which the REIT is a lessee of investment properties, the right-of-use assets have been measured at fair value with no straight line depreciation and classified as investment property at the date of initial application on January 1, 2019. The office lease right-of-use asset is recognized in accounts receivable and other assets. The depreciation charge is presented in the general and administrative expense. Amortization is recorded on a straight line basis over the term of the lease. Lease liabilities were discounted at the REIT’s incremental borrowing rate as at January 1, 2019.

(h) Income Taxes

The REIT qualifies as a “mutual fund trust” under the *Income Tax Act* (Canada). The Board intends to annually distribute all taxable income directly earned by the REIT to holders of Units (“Unitholders”) and to deduct such distributions for income tax purposes.

Legislation relating to the federal income taxation of Specified Investment Flow Through trusts or partnerships (“SIFT”) provide that certain distributions from a SIFT will not be deductible in computing the SIFT’s taxable income and that 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 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 Exception”). The REIT has reviewed the SIFT rules and has assessed their 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 that it meets the REIT Exception and, accordingly, no net current income tax expense or deferred income tax assets or liabilities have been recorded in the consolidated statements of income and comprehensive income.

(i) Units and Class B LP Units

Units are redeemable at the holder’s option subject to certain limitations and restrictions. As a result, the Units are liabilities by definition but qualify for presentation as equity under certain limited exceptions within IAS 32 — *Financial Instruments: Presentation* (“IAS 32”). The Class B LP Units are economically equivalent to Units, receive distributions equal to the distributions paid on Units and are exchangeable at the option of the holder into Units. One special voting unit in the REIT (the "Special Voting Units") has been issued to the holder of each Class B LP Unit issued (such Special Voting Unit does not have any entitlement in the REIT with respect to distributions, but does generally entitle the holder to that number of votes at any meeting of Unitholders to which a holder of the number of Units that are obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled). The limited IAS 32 exception for presentation as equity does not extend to the Class B LP Units. As a result, the Class B LP Units have been classified as financial liabilities and are measured at fair value through profit and loss ("FVTPL"). The fair value of the Class B LP Units is measured every period by reference to the traded value of the Units, with changes in value recorded through profit and loss.

Distributions on the Class B LP Units are recorded as an expense in the consolidated statements of income and comprehensive income in the period in which they become payable.

(j) Cash and Cash Equivalents

Cash consists of cash on hand and unrestricted cash. Cash equivalents consist of highly liquid marketable investments with an original maturity date of 90 days or less from the date of acquisition. As at December 31, 2022, there were $nil of cash equivalents (December 31, 2021 - $nil).

(k) Financial instruments

Financial instruments are classified as one of the following: (i) measured at amortized cost, (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) FVTPL. Financial assets and liabilities classified as FVTPL are measured at fair value with gains and losses recognized in the consolidated statements of income and comprehensive income. Financial instruments classified as amortized cost are measured at amortized cost, using the effective interest method. The REIT recognizes an allowance for expected credit losses ("ECL") for financial assets measured at amortized cost at each balance sheet date. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability weighted basis. Impairment losses, if incurred, would be recorded as expenses in the consolidated statements of income and comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. FVTOCI financial instruments are measured at fair value and any unrealized gains and losses will be recognized in other comprehensive income.

The following summarizes the REIT's classification and measurement of financial assets and liabilities:

	Classification/Measurement
Financial assets	
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Interest rate swaps	FVTPL
Financial liabilities	
Accounts payable and accrued liabilities	Amortized cost
Credit Facilities and Mortgages	Amortized cost
Class B LP Units and Unit-based compensation	FVTPL
Interest rate swaps	FVTPL

Acquisition costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method. These costs primarily include interest and finance fees that are incurred in connection with borrowings.

(l) Unit-Based Compensation

DUs may be granted to members of the Board ("Trustees"), officers, employees and other eligible persons of the REIT (each, a "Participant"). DUs granted to Trustees will generally vest immediately. DUs granted to officers, employees and other eligible persons of the REIT will generally vest as to one-third on each of the third, fourth and fifth anniversary of the applicable grant date. RDUs are granted to officers, employees and other eligible persons of the REIT only and vest over a three-year period following the applicable grant date. PDUs are granted to officers, employees and other eligible persons of the REIT only and cliff vest at the end of the applicable three-year performance period based on the relative performance of the REIT over the performance period. Each DU, PDU and RDU shall receive a distribution of additional IDUs equal to the amount of distributions paid per Unit by the REIT on its Units. Liability in respect of the DUs, PDUs, RDUs and IDUs is adjusted to reflect the change in their fair value at each reporting period with the changes in fair value recognized in the consolidated statements of income and comprehensive income. The holder of such DUs, PDUs, RDUs and IDUs cannot settle their DUs, PDUs, RDUs or IDUs for cash.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments and estimates in applying the REIT's accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Within the context of these consolidated financial statements, a judgment is a decision made by management in respect of the application of an accounting policy; a recognized or unrecognized financial statement amount and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions. Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management continually evaluates the estimates and judgments it uses. The following are the accounting policies subject to judgments and key sources of estimation uncertainty that the REIT believes could have the most significant impact on the amounts recognized in the consolidated financial statements. The REIT's significant accounting policies are described in Note 2.

Investment Properties

The REIT assesses whether the properties it acquires are considered to be asset acquisitions or business combinations. The REIT considers all the properties it has acquired to date to be asset acquisitions. The REIT applies judgment when reporting any property under development. The cost of the property under development includes the acquisition of the property, direct development costs and borrowing costs attributable to the development.

Investment properties are valued by management. Valuations are completed by undertaking a discounted cash flow approach, whereby a current discount rate is applied to the projected net operating income that a property can reasonably be expected to produce in the future. These assumptions may not ultimately be achieved.

Income Taxes

The REIT is a mutual fund trust and a real estate investment trust as such terms are defined in the *Income Tax Act* (Canada). The REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to Unitholders each year. The REIT is a real estate investment trust if it meets the prescribed conditions under the *Income Tax Act* (Canada) relating to the nature of its assets and revenue. The REIT uses judgment in reviewing these prescribed conditions and assessing its interpretation and application to the REIT's assets and revenue. The REIT has determined that it qualifies as a real estate investment trust in respect of the current period.

The REIT expects to continue to qualify as a mutual fund trust and real estate investment trust under the *Income Tax Act* (Canada), however, should it no longer qualify, the REIT would not be able to flow through its taxable income to Unitholders and would, therefore, be subject to tax.

4. NEW STANDARDS AND INTERPERTATIONS NOT YET ADOPTED

There are new standards and interpretations that are issued but not effective and these do not have a significant impact on the consolidated financial statements as at December 31, 2022.

5. ACQUISITIONS AND DISPOSITIONS

During the year ended December 31, 2022, the REIT completed the following acquisitions:

Property	**Location**	**Date of Acquisition**	**Total Investment Properties**[(1)]
Magog & Sherbrooke Honda[(i)]	Magog/Sherbrooke, QC	January 17, 2022	$24,516
Langley Acura Land[(ii)]	Langley, BC	January 20, 2022	$15,175
Walkley Road[(iii)]	Ottawa, ON	February 1, 2022	$703
Tesla Quebec[(iv)]	Quebec City, QC	February 25, 2022	$16,511
Tesla Barrie[(v)]	Innisfil, ON	February 25, 2022	$10,283
Total Acquisitions			**$67,188**

(1) Includes acquisition costs.

During the year ended December 31, 2022, the REIT completed the following disposition:

Property	Location	Date of Disposition	Total Investment Properties(1)
Kingston Toyota and Lexus(vi)	Kingston, ON	November 28, 2022	$17,952
Total Dispositions			**$17,952**

(1) Includes disposition costs.

i) On January 17, 2022, the REIT acquired the real estate underlying the Sherbrook Honda and Magog Honda automotive dealership properties located in Magog and Sherbrooke, Quebec, for a combined purchase price of approximately $23,422, plus acquisition costs of $1,094. The portfolio consists of two full-service automotive dealership properties, totaling 83,185 square feet of gross leasable area. The REIT funded the acquisitions by drawing on its revolving Credit Facilities (as defined herein) and cash on hand.

ii) On January 20, 2022, the REIT acquired the freehold interest in the approximately 2.15 acres of land underlying the Langley Acura automotive dealership property for approximately $15,050, plus acquisition costs of $125. The land was previously leased to the REIT and continues to be tenanted by the Langley Acura automotive dealership in Langley, British Columbia. The REIT will continue to receive land and leasehold rent payments from the operating tenant of the Langley Acura dealership, an affiliate of the Dilawri Group, but will no longer be required to pay land lease payments. The REIT funded the purchase price by drawing on its revolving Credit Facilities.

iii) On February 1, 2022, the REIT acquired a parcel of land in Ottawa, Ontario, which adjoins the REIT's Bank Street Toyota automotive dealership property, for approximately $650, plus acquisition costs of $53, and is currently tenanted by a health care provider. The property consists of 4,424 square feet of gross leasable area. The REIT funded the purchase price by drawing on its revolving Credit Facilities.

iv) On February 25, 2022, the REIT acquired the real estate underlying two Tesla automotive service centre properties located in Quebec City, Quebec, for a combined purchase price of approximately $16,000, plus acquisition costs of $511. The portfolio consists of two full-service automotive service centre properties tenanted by Tesla Canada, totaling 50,763 square feet of gross leasable area. The REIT funded the acquisitions by drawing on its revolving Credit Facilities.

v) On February 25, 2022, the REIT acquired the real estate underlying the Tesla Barrie automotive service centre property located in Innisfil, Ontario, for $9,800, plus acquisition costs of $483. The Tesla Barrie property is a 16,670 square foot automotive service centre property tenanted by Tesla Canada. The REIT funded the purchase price by drawing on its revolving Credit Facilities.

vi) On November 28, 2022, the REIT disposed of the real estate underlying the Kingston Toyota and Lexus automotive dealership properties for proceeds of approximately $18,000, less disposition costs of $48.

During the year ended December 31, 2021, the REIT completed the following acquisition:

Property	Location	Date of Acquisition	Total Investment Properties(1)
Lexus Laval	Laval, QC	March 1, 2021	$15,262
Total Acquisitions			**$15,262**

(1) Includes acquisition costs.

During the year ended December 31, 2021, the REIT did not complete any dispositions.

6. INVESTMENT PROPERTIES

	Income producing properties	**Right-of-use assets(1)**	**December 31, 2022**	December 31, 2021
Balance, beginning of year	$1,019,321	$5,886	$1,025,207	$932,229
Acquisitions(2)	67,188	-	67,188	15,262
Additions	-	-	-	339
Dispositions	(17,952)	-	(17,952)	-
Fair value adjustment on investment properties	(2,221)	(64)	(2,285)	75,157
Land lease termination	-	(2,547)	(2,547)	-
Straight-line rent(3)	1,697	-	1,697	2,220
Balance, end of year	**$1,068,033**	**$3,275**	**$1,071,308**	**$1,025,207**

(1) Refers to two land leases.
(2) Includes acquisition costs.
(3) Includes a deduction for amortization of tenant allowance of $65 (2021 - $260).

Valuation of Investment Properties

The REIT valued the investment properties using a discounted cash flow approach whereby a current discount rate was applied to the projected net operating income which a property can reasonably be expected to produce in the future. Property under development is measured using both a comparable sales method and a discounted cash flow method, net of costs to complete. The REIT's valuation inputs are supported by quarterly market reports from an independent appraiser. In 2022, the REIT had 20 investment properties (2021 – 21) independently appraised, representing approximately $392,000 (2021 – $440,000) of the REIT's fair value of income producing properties. For the year ended December 31, 2022, the nominal fair value adjustments were a result of an increase in value of the properties containing Consumer Price Index escalators and offset by the changes in valuation inputs decreasing the value of the properties containing fixed rate escalators. The fair value loss adjustments for the year ended December 31, 2022 resulted in the overall capitalization rate applicable to the REIT's entire portfolio increasing to 6.42% as at December 31, 2022 (December 31, 2021 – 6.30%). The following table highlights the significant valuation inputs used in determining the fair value of the REIT's income producing properties:

Significant Valuation Inputs

	December 31, 2022		December 31, 2021	
Total Income Producing Properties	**Range**	**Weighted average**	Range	Weighted average
Discount rate	**4.65% - 9.25%**	**7.18%**	4.55% - 9.10%	7.07%
Terminal capitalization rate	**4.45% - 9.05%**	**6.88%**	4.25% - 8.85%	6.75%

In 2021, the REIT provided $339 of capital commitments for facility improvements to one of the tenants of the REIT's properties located in Edmonton, Alberta.

A 25 basis point decrease or increase in capitalization rates or discount rates would result in an increase or decrease in the fair value of the investment properties of approximately $43,300 or $(40,000), respectively, as of December 31, 2022.

A 50 basis point decrease or increase in capitalization rates or discount rates would result in an increase or decrease in the fair value of the investment properties of approximately $90,200 or $(77,200), respectively, as of December 31, 2022.

Rental Commitments

Minimum rental commitments on non-cancellable tenant operating leases are as follows:

Within 1 year	$69,540
After 1 year, but not more than 5 years	281,625
More than 5 years	438,682
	$789,847

7. ACCOUNTS RECEIVABLE AND OTHER ASSETS

As at	**December 31, 2022**	December 31, 2021
Prepaid indemnity fee	**$450**	$523
Right-of-use assets, net of depreciation(1)	**191**	90
Prepaid and other receivables(2)	**2,346**	25,356
	$2,987	$25,969

(1) This increase relates to the extension of the REIT's existing office lease.

(2) For the year ended December 31, 2021, prepaids included deposits of $24,445 in respect of the property acquisitions completed in January 2022.

8. CREDIT FACILITIES AND MORTGAGES PAYABLE

(a) Credit facilities and mortgages consist of:

As at	December 31, 2022	December 31, 2021
Facility 1[(i)]	**$223,926**	$190,206
Facility 2[(ii)]	**85,901**	90,707
Facility 3[(iii)]	**100,672**	111,100
Mortgages[(iv)]	**23,258**	24,148
Total	**433,757**	416,161
Financing fees[(v)]	**(2,682)**	(2,178)
	$431,075	$413,983

(i) Facility 1 includes:

A non-revolving loan in the amount of $218,047 (December 31, 2021 - $178,306) bearing interest at the bankers' acceptance ("BA") rate plus 150 basis points ("bps") or the Canadian Prime rate ("Prime") plus 25 bps, maturing in June 2027. The principal is repayable in equal quarterly payments based on a 25 year amortization. In April 2022, the REIT increased the non-revolving portion of Facility 1 by $50,000 and extended the term to maturity from June 2023 to June 2027. In November 2022, the REIT fixed $26,828 of non-revolving debt for a term of 10 years at an interest rate of 5.27%.The REIT entered into floating-to-fixed interest rate swaps, with remaining terms of 0.5 to 9.8 years as at December 31, 2022, which resulted in a weighted average effective interest rate of 4.20% (December 31, 2021 - 3.72%), of which $nil (December 31, 2021 - $17,820) of the non-revolving balance remains at floating rates.

A revolving credit facility in the amount of $30,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in June 2027, of which $5,300 was drawn as at December 31, 2022 (December 31, 2021 - $11,900) and $579 was secured for the issuance of irrevocable letters of credit (the "LCs") on October 24, 2017.

(ii) Facility 2 includes:

A non-revolving loan in the amount of $85,901 (December 31, 2021 - $90,707) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, maturing in January 2025. In December 2022, the REIT extended the term to maturity from June 2024 to January 2025. The principal is repayable in monthly blended payments based on a 20 year amortization. The REIT entered into floating-to-fixed interest rate swaps with remaining terms of 0.5 to 7.9 years as at December 31, 2022, which resulted in a weighted average effective interest rate of 3.52% (December 31, 2021 - 3.52%).

A revolving credit facility in the amount of $15,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in January 2025, of which $nil was drawn as at December 31, 2022 (2021 - $nil).

(iii) Facility 3 includes:

A non-revolving loan in the amount of $100,672 (December 31, 2021 - $111,100) bearing interest at the BA rate plus 150 bps or Prime plus 50 bps, maturing in June 2026. The principal is repayable in quarterly blended payments based on a 20 year amortization. The REIT entered into floating-to-fixed interest rate swaps with remaining terms of 3.0 to 9.0 years, which resulted in a weighted average effective interest rate of 3.91% (December 31, 2021 - 3.59%), of which $nil (December 31, 2021 - $5,187) of the non-revolving balance remains at floating rates. See Note 19 – Subsequent Events.

A revolving credit facility in the amount of $40,000 bearing interest at Prime plus 25 bps or the BA rate plus 150 bps, maturing in June 2026, of which $nil was drawn as at December 31, 2022 (December 31, 2021 - $nil).

(iv) Mortgages:

The REIT has entered into certain mortgages with Canadian Schedule 1 banks and a life insurance company that have interest rates that range from 2.21% to 3.72% and have maturity dates that range from June 2027 to April 2031 (the "Mortgages"). In January 2021, the REIT renewed a Mortgage in the amount of approximately $5,791 for a term of 7 years and, in April 2021, the REIT entered into a new Mortgage in the amount of $10,000 for a term of 10 years. As at December 31, 2022, the weighted average interest rate of the Mortgages was 3.25% (December 31, 2021 - 3.24%). See Note 19 – Subsequent Events.

(v) During the twelve-month period ended December 31, 2022, the REIT incurred financing fees of $1,288 (December 31, 2021 - $871). The amounts are accounted for using the effective interest method, and $2,682 remains unamortized at December 31, 2022 (December 31, 2021 - $2,178).

The credit facilities described above (the "Credit Facilities") and the Mortgages are secured by the REIT's investment properties. As of December 31, 2022, the REIT had ten unencumbered properties with an aggregate fair value of approximately $120,000.

Principal repayments are as follows:

2023	$21,650
2024	21,791
2025	89,742
2026	94,981
2027	191,153
Thereafter	14,440
Total	$433,757

(b) Interest Rate Swaps

The REIT entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates payable on variable rate financings for Facility 1, Facility 2, and Facility 3. Gains or losses arising from changes in the fair value of the interest rate derivative contracts are recognized in the consolidated statements of income and comprehensive income (terms described in Note 8 (a)(i), (ii) and (iii) above).

As at December 31, 2022, the notional principal amount of the interest rate swaps was approximately $405,168 (December 31, 2021 – approximately $357,327) and the fair value adjustment of the interest rate swaps was $25,999 (December 31, 2021 – $15,976). This resulted in an asset balance of $19,127 (December 31, 2021 – liability of $6,872).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

As at	December 31, 2022	December 31, 2021
Accounts payable and accrued liabilities	**$3,757**	$2,831
Accrued interest	**377**	321
Distributions payable (Note 10)	**3,287**	3,284
Lease liabilities (Note 2(g))	**3,820**	6,602
	$11,241	$13,038

As at December 31, 2022, the REIT, as lessee, is committed under long term land and other leases that are classified as a liability to make lease payments with minimum annual rental commitments as follows (not including imputed interest costs):

Within 1 year	$184
After 1 year, but not more than 5 years	1,445
More than 5 years	2,191
Total	$3,820

10. DISTRIBUTIONS

	December 31, 2022			December 31, 2021		
	Units	**Class B LP Units**	**Total**	Units	Class B LP Units	Total
Paid in Cash	**$31,806**	**$7,621**	**$39,427**	$31,233	$7,988	$39,221
Declared	**31,806**	**7,621**	**39,427**	31,233	7,988	39,221
Payable as at period end	**2,662**	**625**	**3,287**	2,618	666	3,284

11. UNITHOLDERS' EQUITY AND CLASS B LP UNITS

Units

The REIT is authorized to issue an unlimited number of Units.

Each Unit is transferable and represents an equal, undivided beneficial interest in the REIT and any distributions from the REIT, whether of net income, net realized capital gains (other than such gains allocated and distributed to redeeming Unitholders) or other amounts and, in the event of the termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. All Units rank equally among themselves without discrimination, preference or priority and entitle the holder thereof to receive notice of, to attend and to one vote at all meetings of Unitholders and holders of Special Voting Units or in respect of any written resolution thereof.

Unitholders are entitled to receive distributions from the REIT (whether of net income, net realized capital gains or other amounts) if, as and when declared by the Board. Upon the termination or winding-up of the REIT, Unitholders will participate equally with respect to the distribution of the remaining assets of the REIT after payment of all liabilities. Such distribution may be made in cash, as a distribution in kind, or both, all as the Board in its sole discretion may determine.

Units have no associated conversion or retraction rights. No person is entitled, as a matter of right, to any pre-emptive right to subscribe for or acquire any Unit, except for Dilawri as set out in the Exchange Agreement entered into on closing of the IPO between the REIT and certain members of the Dilawri Group, pursuant to which such members of the Dilawri Group have been granted, among other things, certain rights to participate in future offerings of the REIT.

Class B LP Units

In conjunction with the IPO, and as partial consideration for the Initial Properties, the REIT, through the Partnership, issued Class B LP Units to certain members of the Dilawri Group. Each Class B LP Unit is exchangeable at the option of the holder for one Unit (subject to certain anti-dilution adjustments), is accompanied by a Special Voting Unit (which provides the holder with that number of votes at any meeting of Unitholders to which a holder of the number of Units that may be obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled), and will receive distributions of cash from the Partnership equal to the distributions to which a holder of the number of Units that may be obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled.

For the year ended December 31, 2022

	Units	Amount
Units, beginning of period	39,080,154	$395,694
Units issued, net of costs	41,426	564
Units exchanged from Class B LP Units	605,766	8,450
Total Units, end of period	**39,727,346**	**$404,708**
Class B LP Units, beginning of period	9,933,253	$148,502
Class B LP Units exchanged for Units	(605,766)	(8,450)
Fair value adjustment on Class B LP Units	-	(19,074)
Total Class B LP Units, end of period	**9,327,487**	**$120,978**
Total Units and Class B LP Units, end of period	**49,054,833**	**$525,686**

For the year ended December 31, 2021

	Units	Amount
Units, beginning of year	37,697,052	$380,757
Units issued, net of costs	1,383,102	14,937
Total Units, end of year	**39,080,154**	**395,694**
Class B LP Units, beginning of year	9,933,253	$106,385
Fair value adjustment on Class B LP Units	-	42,117
Total Class B LP Units, end of year	**9,933,253**	**$148,502**
Total Units and Class B LP Units, end of year	**49,013,407**	**$544,196**

12. UNIT-BASED COMPENSATION

The REIT offers an Equity Incentive Plan (the “Plan”) whereby DUs, PDUs and RDUs may be granted to eligible Participants on a discretionary basis by the Governance, Compensation and Nominating Committee of the Board. The maximum number of Units available for issuance under the Plan is 1,750,000. Each DU, PDU and RDU is economically equivalent to one Unit, however, under no circumstances shall they be considered Units nor entitle a Participant to any rights as a Unitholder, including, without limitation, voting rights or rights on liquidation. Each DU, PDU and RDU shall receive a distribution of additional IDUs equal to the amount of distributions paid per Unit by the REIT on its Units. Upon vesting of the DUs, PDUs, RDUs and IDUs, a Participant may elect, prior to their expiry, to exchange such vested DUs, PDUs, RDUs and IDUs (subject to satisfaction of any applicable withholding taxes) for an equal number of Units. The holder of such DUs, PDUs, RDUs and IDUs cannot settle them for cash. Under the Plan, the fair value of the DUs, PDUs, RDUs and IDUs is recognized as compensation expense over the vesting period. Fair value is determined with reference to the market price of the Units.

The Units are redeemable at the option of the holder and are considered puttable instruments in accordance with IAS 32. As the exemption under IAS 32 does not apply to IFRS 2 — *Share Based Payments*, Unit-based compensation is accounted for as a liability. The deferred unit liability is adjusted to reflect the change in their fair value at each reporting period with the changes in fair value recognized as compensation expense.

During the year ended December 31, 2022, the REIT accrued short-term incentive awards in the amount of $820 which will be settled by the granting of DUs and/or cash (December 31, 2021 – $463).

All independent Trustees of the REIT elected to receive board and committee fees in the form of DUs. The fair value of each DU granted is measured based on the volume-weighted average trading price of the Units for the five trading days immediately preceding the grant date. The amount of DUs, PDUs, RDUs and IDUs vested and outstanding under the Plan is outlined below:

As at December 31, 2022

	Units Granted(1)(2)	Units Outstanding(2)	Outstanding Unit-based compensation End of Period(3)
DUs	**559,315**	**542,084**	**7,029**
PDUs	**47,362**	**25,818**	**335**
RDUs	**47,362**	**38,692**	**502**
IDUs	**154,781**	**132,027**	**1,714**
Total	**808,820**	**738,621**	**$9,580**

As at December 31, 2021

	Units Granted	Units Outstanding	Outstanding Unit-based compensation End of Year(3)
DUs	546,703	468,826	7,010
PDUs	34,707	11,789	176
RDUs	34,707	18,761	280
IDUs	114,578	94,868	1,418
Total	730,695	594,244	$8,884

(1) For the twelve-month period ended December 31, 2022, 119,551 DUs, PDUs, RDUs and IDUs were granted, of which 31,251 DUs, PDUs, RDUs and IDUs were accounted for in accordance with the vesting schedule.

(2) 18,000 DUs were exchanged for Units valued at $262 in March 2022, and 23,426 DUs and IDUs were exchanged for Units valued at $302 in August 2022.

(3) Includes a fair value adjustment of $1,140 for the twelve months ended December 31, 2022 (December 30, 2021 - ($2,438)).

13. RENTAL REVENUE AND PROPERTY COSTS

(a) Rental Revenue

For the year ended December 31,	**2022**	2021
Base rent	**$68,710**	$64,245
Property tax recoveries	**12,454**	11,414
Straight line rent adjustment	**1,697**	2,220
Lease termination fee (1)	**-**	339
Rental revenue	**$82,861**	$78,218

(1) Relates to a fee charged to a tenant for early termination of a lease agreement.

(b) Property Costs

For the year ended December 31,	**2022**	2021
Property tax expense	**$12,454**	$11,414
Bad debt expense (recovery)	**-**	(277)
Land lease termination(1)	**(168)**	-
Property cost	**$12,286**	$11,137

(1) Relates to the termination of the land lease in January 2022 associated with the Langley Acura Land acquisition

14. SEGMENT INFORMATION

All of the REIT's assets and liabilities are in, and its revenues are derived from, the Canadian real estate industry segment. The REIT's investment properties are, therefore, considered by management to have similar economic characteristics.

15. CAPITAL MANAGEMENT

The REIT defines its capital as the aggregate of Unitholders' equity, Class B LP Units, Credit Facilities and Mortgages which, as at December 31, 2022, totaled $1,072,997 (December 31, 2021 – $1,022,856). The REIT is free to determine the appropriate level of capital in the context of its cash flow requirements, overall business risks and potential business opportunities. The REIT will make adjustments to its capital based on its investment strategies and changes to economic conditions.

In order to maintain or adjust its capital structure, the REIT may increase or decrease the amount of distributions paid to Unitholders, issue new Units and debt, or repay debt. The REIT manages its capital structure with the objective of:

- complying with the guidelines set out in its Declaration of Trust;
- complying with debt covenants;
- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future growth; and
- minimizing its cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

The REIT has certain key financial covenants in its Credit Facilities and Mortgages, including debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are measured by the REIT on an ongoing basis to ensure compliance with the agreements. As at December 31, 2022, the REIT was in compliance with each of the covenants under these agreements.

16. FAIR VALUES AND FINANCIAL INSTRUMENT RISK MANAGEMENT

The fair value of the REIT's financial assets and financial liabilities, except as noted below, approximate their carrying values due to their short-term nature.

The following table provides the classification and measurement of financial assets and liabilities as at December 31, 2022:

Financial Assets/(Liabilities)	**Classification/ Measurement**	**Carrying Value**	**Fair Value**
Credit Facilities and Mortgages payable	Amortized Cost	$(431,075)	$(433,757)
Interest Rate Swaps	FVTPL	(19,127)	(19,127)
Class B LP Units	FVTPL	(120,978)	(120,978)
Unit-based compensation	FVTPL	(9,580)	(9,580)
		$(580,760)	**$(583,442)**

The following table provides the classification and measurement of financial assets and liabilities as at December 31, 2021:

Financial Assets/(Liabilities)	**Classification/ Measurement**	**Carrying Value**	**Fair Value**
Credit Facilities and Mortgages payable	Amortized Cost	$(413,983)	$(416,161)
Interest Rate Swaps	FVTPL	(6,872)	(6,872)
Class B LP Units	FVTPL	(148,502)	(148,502)
Unit-based compensation	FVTPL	(8,884)	(8,884)

	$(578,241)	**$(580,419)**

The REIT uses various methods to estimate the fair values of assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 – quoted prices in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 – valuation technique for which significant inputs are not based on observable market data.

The following summarizes the significant methods and assumptions used in estimating the fair value of the REIT's assets and liabilities measured at fair value:

(i) Investment Properties

The REIT assessed the valuation of the investment properties using a discounted cash flow approach whereby a current discount rate was applied to the projected net operating income which a property can reasonably be expected to produce in the future. The fair value of investment properties as at December 31, 2022 is $1,071,308 (December 31, 2021 – $1,025,207) (Level 3).

(ii) Credit Facilities and Mortgages

The fair value of the REIT's Credit Facilities and Mortgages is determined based on the present value of future payments, discounted at the yield on Government of Canada bonds, plus an estimated credit spread at the reporting date for a comparable loan (Level 2).

(iii) Interest Rate Swaps

The fair value of the REIT's interest rate swaps which represents an asset balance as at December 31, 2022 is $19,127 (December 31, 2021 – liability of $6,872). The fair value of an interest rate swap is determined using rates observable in the market (Level 2).

(iv) Class B LP Units

The fair value of the Class B LP Units as at December 31, 2022 is $120,978 (December 31, 2021 – $148,502). The fair value of the Class B LP Units is based on the traded value of the Units as at December 31, 2022 (Level 1).

(v) Unit-based compensation

The fair value of Unit-based compensation as at December 31, 2022 is $9,580 (December 31, 2021 – $8,884). The fair value of Unit-based compensation is based on the traded value of the Units as at December 31, 2022 (Level 2).

Financial Risk Management

The REIT's activities expose it to a variety of financial risks. The main risks arising from the REIT's financial instruments are market, liquidity and credit risks. Below is a description of those risks and how the exposures are managed.

Market Risk

The REIT is exposed to market risk as a result of changes in factors such as interest rates and the market price of the Units.

Interest Rate Risk - The majority of the REIT's debt is financed with floating rates. Interest rate swaps (with maturities staggered over 10 years) have been entered into to mitigate interest rate fluctuations, thereby mitigating the exposure to changes in interest rates.

Unit Price Risk - The REIT is exposed to Unit price risk as a result of the issuance of Class B LP Units. Class B LP Units are recorded at their fair value based on market trading prices. Class B LP Units negatively impact net income when the Unit price rises and positively impact net income when the Unit price declines.

Liquidity Risk

Liquidity risk arises from the possibility of an inability to renew maturing debt or not having sufficient capital available to the REIT. Mitigation of liquidity risk is discussed above in Note 15 – Capital Management. A significant portion of the REIT's assets have been pledged as security under the REIT's Credit Facilities and Mortgages. Certain of the Credit Facilities allow for an extension of the term in advance of expiration.

Credit Risk

The REIT is exposed to credit risk from the possibility that counterparties could default on their financial obligations to the REIT. Exposure to credit risk arises from the possibility that the REIT's counterparties may experience financial difficulty and be unable to meet their obligations. The REIT's revenues will be dependent on the ability of the tenants to meet their obligations and the REIT's ability to collect rent therefrom.

17. RELATED PARTY TRANSACTIONS

The REIT's independent Trustees approve all related party transactions in accordance with the Related Party Transaction Policy adopted by the Board. The Dilawri Tenants are the REIT's major tenant and accounted for approximately 58.8% of the REIT's rental income for the year ended December 31, 2022 (December 31, 2021 – 61.8%).

In consideration of the applicable Dilawri Tenants leasing the entirety of the two Initial Properties with third party tenants (and thereby bearing occupancy, rental and other risks associated with the portions of those properties subleased to third party tenants for the initial lease terms of 12 and 15 years), the REIT paid to such Dilawri Tenants an indemnity fee in the aggregate amount of $1,000 at the time of closing of the IPO (amortizable over the term of the leases).

On October 24, 2017, Dilawri paid the REIT $896 in respect of the recoverable land transfer tax associated with the acquisition of the Initial Properties. To defer the land transfer tax, the REIT subsequently issued the LCs to the land transfer tax authority in the amount of $753, of which $579 remains outstanding as at December 31, 2022, on behalf of specific members of the Dilawri Group that sold certain of the Initial Properties to the REIT in connection with the IPO. The Dilawri Group held all of the 9,933,253 issued and outstanding Class B LP Units for 3 years subsequent to the IPO and, accordingly, the LCs are expected to be released. The REIT is working with the applicable tax authorities and Dilawri to secure the release of the outstanding LCs.

In connection with the IPO, the REIT and Dilawri entered into the Strategic Alliance Agreement which established a preferential and mutually beneficial business and operating relationship between the REIT and Dilawri. The Strategic Alliance Agreement will be in effect so long as Dilawri and certain other entities related to Dilawri own, control or direct, in the aggregate, an effective interest of at least 10% (on a fully diluted basis) in the REIT. The Strategic Alliance Agreement provides the REIT with the first right to purchase REIT-Suitable Properties (as defined in the Strategic Alliance Agreement) in Canada or the United States acquired or developed by the Dilawri Group. The purchase price in respect of a REIT-Suitable Property will be mutually agreed by the REIT and Dilawri at the applicable time and supported by an independent appraisal report. Pursuant to the Strategic Alliance Agreement, the REIT acquired the following investment properties in 2021 and 2022:

- On March 1, 2021, the REIT acquired the Lexus Laval dealership property in Laval, Quebec from a member of the Dilawri Group for $14,800 and leased it to a Dilawri Tenant.

Key personnel consist of the REIT's executive officers and independent Trustees. Compensation of key personnel are as follows:

For the year ended December 31,	**2022**	2021
Salaries and benefits paid to executive officers	**$817**	$817
Unit-based compensation and short term incentives paid to executive officers	**2,195**	1,629
Independent Trustee fees paid in DUs and IDUs	**594**	409
Compensation of key personnel	**$3,606**	$2,855

18. SUPPLEMENTARY INFORMATION

Changes in non-cash operating accounts

(in thousands of Canadian dollars)	**2022**	2021
Accounts receivable and other assets	**$(1,596)**	$2,383
Accounts payable and accrued liabilities	**460**	(2,248)
Change in non-cash operating accounts	**$(1,136)**	$135

19. SUBSEQUENT EVENTS

On January 3, 2023, the REIT acquired the real estate underlying six full-service automotive dealership properties located in Quebec for approximately $98,500, plus acquisition costs of $3,600. The properties totaled 187,421 square feet of gross leasable area. The REIT funded the acquisitions by drawing on its Credit Facilities, and cash on hand.

In January 2023, as a result of the property acquisitions described above, the REIT increased the non-revolving portion of Facility 3 by $70,000 at the same credit spread and entered into floating-to-fixed interest rate swaps for a weighted-average term of 7.6 years at a blended rate of 4.91%.

On February 2, 2023, the REIT entered into a new Mortgage in the amount of $9,000 for a term of 5 years at an interest rate of 5.05%.