



2023 THIRD QUARTER REPORT



Consolidating Canada's Automotive Dealership Properties





Automotive Properties Real Estate Investment Trust

Management's Discussion and Analysis

September 30, 2023

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SECTION 1 – GENERAL INFORMATION AND CAUTIONARY STATEMENTS

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of Automotive Properties Real Estate Investment Trust (the "REIT") is intended to provide readers with an assessment of the performance of the REIT for the three and nine-month periods ended September 30, 2023. This MD&A also outlines the REIT's capital structure, operating strategies and business outlook. All dollar amounts in this MD&A are presented in thousands of Canadian dollars, except unit and per unit amounts, unless otherwise noted. All comparisons of results for the three months ended September 30, 2023 ("Q3 2023") are against results for the three months ended September 30, 2022 ("Q3 2022") and all comparisons of results for the nine months ended September 30, 2023 ("YTD 2023") are against results for the nine months ended September 30, 2022 ("YTD 2022"), unless otherwise noted.

This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of the REIT and accompanying notes for the three and nine months ended September 30, 2023. Further information about the REIT can be found in the REIT's annual information form dated March 16, 2023 (the "AIF"). The AIF, along with other continuous disclosure documents required by the Canadian securities regulators, can be found on the REIT's SEDAR+ profile at www.sedarplus.ca and on the REIT's website at www.automotivepropertiesreit.ca. This MD&A is dated November 13, 2023.

All information regarding Dilawri (as defined below) contained in this MD&A (the "Dilawri Information") has been provided by and is solely the responsibility of Dilawri and not of the REIT, the REIT's management nor the trustees of the REIT (the "Trustees"). Although the REIT has no reason to believe that the Dilawri Information contains a misrepresentation, Dilawri is a private company that is independent of, and operates entirely independently from, the REIT and, consequently, neither the REIT, its management nor its Trustees (in their capacities as such) have been involved in the preparation of the Dilawri Information, nor has the REIT approved such information. Readers are cautioned, therefore, not to place undue reliance on the Dilawri Information.

The REIT

The REIT is an unincorporated, open-ended real estate investment trust that was formed to own primarily income-producing automotive properties, including retail dealership and original equipment manufacturer properties, in Canada. As at the date of this MD&A, the REIT owns a portfolio of 77 income-producing commercial properties. The properties are located in metropolitan areas across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, totaling approximately 2.9 million square feet of gross leasable area ("GLA") on approximately 249 acres of land. The REIT has been internally managed since January 1, 2020.

The REIT commenced operations on July 22, 2015, following completion of its initial public offering of trust units (the "IPO"). In connection with the IPO, the REIT indirectly acquired a portfolio of 26 commercial properties from certain members of the Dilawri Group (as defined below) (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 of a property owned by the REIT subsequent to the IPO, the "Dilawri Tenants").

893353 Alberta Inc. ("Dilawri") is a privately held corporation which, together with certain of its affiliates, holds an approximate 31.4% effective interest in the REIT on a fully diluted basis as at September 30, 2023 (December 31, 2022 – 31.5%), through the ownership, direction or control of all of the 9,327,487 outstanding Class B limited partnership units ("Class B LP Units") of Automotive Properties Limited Partnership, the REIT's operating subsidiary (the "Partnership"), and 6,421,020 trust units of the REIT ("REIT Units"). The Class B LP Units are economically equivalent to REIT Units and are exchangeable generally on a one-for-one basis for REIT Units. Dilawri and its affiliates, other than its shareholders and controlling persons, are referred to herein as the "Dilawri Group".

On January 3, 2023, the REIT acquired the real estate underlying six full-service automotive dealerships located in Quebec (the “2023 Quebec Properties”) from separate third parties, for approximately \$98,500, plus acquisition costs of \$3,493. Four of the 2023 Quebec Properties are located in Laval and St. Eustache in the Greater Montreal Area (Hamel Honda, Honda Ste-Rose, Chomedey Toyota and Mazda de Laval), and two of the 2023 Quebec Properties are located in Sorel-Tracy, northeast of Montreal (Hyundai Sorel and Kia Sorel). The 2023 Quebec Properties total in aggregate 187,421 square feet of GLA. The REIT funded the acquisitions of the 2023 Quebec Properties through draws on its non-revolving and revolving credit facilities and cash on hand.

On June 2, 2023, the REIT entered into a 50/50 joint arrangement (the “Joint Arrangement”) with StorageVault Canada Inc. (“StorageVault”) to jointly acquire the real estate underlying the Volvo and Jaguar Land Rover automotive dealership located in Brossard, Quebec (the “Taschereau Volvo and JLR Property”) from a third-party vendor. Under the terms of the Joint Arrangement, the REIT and StorageVault each funded 50% of the \$16,100 purchase price, plus acquisition costs of \$382 each. The Taschereau Volvo and JLR Property is a full-service automotive dealership, totaling 50,415 square feet of GLA situated on approximately 3.4 acres of land and is currently under triple-net leases with Groupe Park Avenue Volvo and Jaguar Land Rover, which are subject to annual adjustments linked to the consumer price index in Quebec. The REIT funded its portion of the acquisition by drawing on its revolving credit facilities and cash on hand.

On January 17, 2022, the REIT acquired the real estate underlying the Sherbrooke 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 GLA. The REIT funded the acquisitions by drawing on its revolving credit facilities and cash on hand.

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 (the “Langley Land Lease”) 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 Langley Acura property is a 26,448 square-foot, full-service automotive dealership property. The REIT funded the purchase price by drawing on its revolving credit facilities.

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. The property consists of a 550 square-foot building situated on 4,424 square feet of land and is currently tenanted by a health care provider. The REIT funded the purchase price by drawing on its revolving credit facilities.

On February 25, 2022, the REIT acquired the real estate underlying the Tesla automotive service centre properties located at 2180 and 2200 Cyrille-Duquet Street 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 50,673 square feet of GLA. The REIT funded the acquisitions by drawing on its revolving credit facilities.

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 for the property by drawing on its revolving credit facilities.

On November 8, 2022, the REIT sold the real estate underlying the Kingston Toyota and Lexus of Kingston automotive dealerships for \$18,000, less disposition costs of \$48.

The Strategic Alliance Agreement with Dilawri continues to allow the REIT to benefit from a preferential relationship with Dilawri as Dilawri develops and acquires automotive dealerships in the future. These agreements are described under Section 8 “Related Party Transactions” in this MD&A.

As at September 30, 2023, the total number of issued and outstanding REIT Units and Class B LP Units was 39,727,346 and 9,327,487, respectively, for a total of 49,054,833 Units (as defined below). The REIT Units are listed and posted for trading on the Toronto Stock Exchange under the symbol “APR.UN”. REIT Units and Class B LP Units are collectively referred to in this MD&A as “Units”.

The REIT announced monthly cash distributions of \$0.067 per REIT Unit, resulting in total distributions declared and paid of \$9,859 for Q3 2023 (Q3 2022 — \$9,858 declared and \$9,856 paid). For YTD 2023, the REIT declared and paid distributions totaling \$29,581 (YTD 2022 — \$29,565 declared and \$29,564 paid).

In January 2023, in connection with the acquisition of the 2023 Quebec Properties, the REIT increased the non-revolving portion of Facility 3 by \$70,000 at the same credit spread. The principal is repayable in quarterly blended payments based on a 25-year amortization. The REIT entered into floating-to-fixed interest rate swaps for a weighted-average term of 7.36 years at a blended rate of 4.91%. See Section 7 “Liquidity and Capital Resources”.

In February 2023, the REIT entered into a new mortgage in the amount of \$9,000 for a term of five years at an interest rate of 5.05%. See Section 7 “Liquidity and Capital Resources”.

In May 2023, \$25,000 of the revolving portion of Facility 1 was converted from a revolving balance to a non-revolving balance, which remains at floating rates.

As at September 30, 2023, the REIT had a Debt to GBV ratio (as defined below) of 44.5%, \$60,821 of undrawn capacity under its Credit Facilities (as defined below), cash on hand of \$342 and five unencumbered properties with an aggregate value of approximately \$70,570 (see section 7 “Liquidity and Capital Resources” for additional details).

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to the REIT’s future outlook and anticipated events or results and may include statements regarding the financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, taxes, plans and objectives of or involving the REIT. Particularly, statements regarding future results, performance, achievements, prospects or opportunities for the REIT or the real estate or automotive dealership industry are forward-looking statements. In some cases, forward-looking information can be identified by terms such as “may”, “might”, “will”, “could”, “should”, “would”, “occur”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “continue”, “likely”, “schedule”, “objectives”, or the negative thereof or other similar expressions concerning matters that are not historical facts. Some of the specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the following:

- the impact of changes in economic conditions, including changes in interest rates and the rate of inflation;
- the REIT’s relationship with the Dilawri Group, Dilawri’s shareholders and certain other related persons and entities (collectively, the “Dilawri Organization”), including in respect of (i) the Dilawri Organization’s retained interest in the REIT and its current intention with respect thereto, and (ii) expected transactions to be entered into between Dilawri and the REIT (including pursuant to the Strategic Alliance Agreement);
- the REIT’s intention with respect to, and ability to execute, its external and internal growth strategies;
- the maintenance by the REIT of a strong balance sheet and prudent financial management and associated minimization of financial risk;
- the REIT’s expectations with respect to the proportion of leases containing CPI-related adjustments in 2023 and 2024;
- the REIT representing a unique alternative for automotive dealership operators considering a sale or recapitalization of their business;

- the REIT's capital expenditure requirements and capital expenditures to be made by the REIT and the REIT's tenants;
- the REIT's distribution policy and the distributions to be paid to Unitholders (as defined below);
- the REIT's debt strategy;
- the REIT's access to available sources of debt and/or equity financing;
- the expected tax treatment of the REIT and its distributions to Unitholders;
- the REIT's ability to meet its stated objectives;
- the REIT's ability to expand its asset base and make accretive acquisitions;
- the ability of the REIT to qualify as a "Mutual Fund Trust" as defined in the *Income Tax Act* (Canada) (the "Tax Act"), and as a "Real Estate Investment Trust", as defined in the rules in the Tax Act applicable to "SIFT trusts" and "SIFT partnerships" (the "SIFT Rules"); and
- the REIT's ability to acquire automotive dealership and automotive service centre properties.

The REIT has based these forward-looking statements on factors and assumptions about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs, including that inflation will remain elevated and interest rates may increase in the near term, that tax laws remain unchanged, that conditions within the automotive dealership real estate industry and the automotive dealership industry generally, including competition for acquisitions, will be consistent with the current climate, that the Canadian capital markets will provide the REIT with access to equity and/or debt at reasonable rates when required and that the Dilawri Organization will continue its involvement with the REIT.

Although the forward-looking statements contained in this MD&A are based upon assumptions that management believes are reasonable based on information currently available to management, there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond the REIT's control, that may cause the REIT's or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, the factors contained in the REIT's filings with securities regulators, including the factors discussed under Section 12 "Risks & Uncertainties, Critical Judgments & Estimates" in this MD&A.

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not, and at which times, such performance or results will be achieved. The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Except as required by law, the REIT undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

The information in this MD&A is current to September 30, 2023, unless otherwise noted.

Non-IFRS Financial Measures

The REIT prepares its financial statements according to International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. This MD&A contains certain financial measures and ratios which are not defined under IFRS and may not be comparable to similar measures presented by other real estate investment trusts or enterprises.

Funds from operations ("FFO"), adjusted funds from operations ("AFFO"), adjusted cash flow from operations ("ACFO"), FFO payout ratio, AFFO payout ratio, ACFO payout ratio, net operating income ("NOI"), cash net operating income

("Cash NOI"), same property cash net operating income ("Same Property Cash NOI"), and earnings before interest expense, income tax, depreciation, and amortization ("EBITDA") are key measures of performance used by the REIT's management and real estate businesses.

Gross book value ("GBV"), indebtedness ("Indebtedness"), net asset value ("Net Asset Value"), debt to gross book value ("Debt to GBV"), debt service coverage ratio ("Debt Service Coverage Ratio"), interest coverage ratio ("Interest Coverage Ratio") and tangible net worth are measures of financial position defined by agreements to which the REIT is a party. These measures and ratios, as well as any associated "per Unit" amounts, are not defined by IFRS and do not have standardized meanings prescribed by IFRS, and therefore should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS.

The REIT believes that AFFO is an important measure of economic earnings performance and is indicative of the REIT's ability to pay distributions from earnings, while FFO, NOI, Cash NOI, Same Property Cash NOI and EBITDA are important measures of operating performance of real estate businesses and properties. The IFRS measurement most directly comparable to FFO, AFFO, NOI, Cash NOI, Same Property Cash NOI and EBITDA is net income. ACFO is a supplementary measure used by management to improve the understanding of the operating cash flow of the REIT. The IFRS measurement most directly comparable to ACFO is cash flow from operating activities.

"FFO" is a non-IFRS measure of operating performance widely used by the real estate industry, particularly by those publicly traded entities that own and operate income-producing properties. FFO should not be considered as an alternative to net income or cash flows provided by operating activities determined in accordance with IFRS. The REIT calculates FFO in accordance with the Real Property Association of Canada's White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2019. FFO is calculated as net income in accordance with IFRS, adjusted by removing the impact of: (i) fair value adjustments on investment properties; (ii) other fair value adjustments including fair value adjustments on redeemable or exchangeable units; (iii) gains and losses on the sale of investment properties; (iv) amortization of tenant incentives; (v) distributions on redeemable or exchangeable units treated as interest expense; and (vi) operational revenue and expenses from the right-of-use assets (referred to as "ROU" assets).

"AFFO" is a non-IFRS measure of economic earnings operating performance widely used in the real estate industry to assess an entity's distribution capacity from earnings. The REIT calculates AFFO in accordance with the Real Property Association of Canada's White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2019. AFFO is calculated as FFO subject to certain adjustments, to remove the impact of: (i) any adjustments resulting from recognizing property rental revenues or expenses (including ground lease rental payments) on a straight-line basis; and (ii) capital expenditures. The REIT includes a capital expenditure reserve of 0.5% of base rent in the AFFO calculation. To date, the REIT has not incurred capital expenditure costs. The capital expenditure reserve is based on management's best estimate of costs that the REIT may incur in connection with the sustaining/maintaining the existing leased area.

"ACFO" is a non-IFRS financial measure. The REIT calculates ACFO in accordance with the Real Property Association of Canada's White Paper on Adjusted Cash Flow from Operations for IFRS issued in February 2019. ACFO is calculated as cash flow from operating activities subject to certain adjustments, to (a) remove the impact of: (i) changes in non-cash working capital that are not sustainable in nature; (ii) amortization of financing costs and indemnity payable in respect of the third-party tenant portfolio sublease structure; and (iii) capital expenditures and (b) deduct interest expense. The REIT includes a capital expenditure reserve of 0.5% of base rent in the ACFO calculation. To date, the REIT has not incurred capital expenditure costs. The capital expenditure reserve is based on management's best estimate of costs that the REIT may incur in connection with the sustaining/maintaining the existing leased area.

"NOI" is a non-IFRS measure that means rental revenue from properties less property operating expenses as presented in the statement of income prepared in accordance with IFRS. Accordingly, NOI excludes certain expenses included in the determination of net income such as interest, general and administrative expenses, fair value adjustments and amortization.

“Cash NOI” is a non-IFRS measure that means NOI prior to the effects of straight-line adjustments and deducts land lease payments.

“Same Property Cash NOI” is a non-IFRS measure which reports the period-over-period performance of the same asset base having consistent GLA during both periods of Cash NOI. The REIT uses this measure to assess financial returns and changes in property value.

Non-IFRS Ratios:

“FFO payout ratio” is calculated as distributions paid per Unit divided by the FFO per Unit diluted.

“AFFO payout ratio” is a non-IFRS measure of the sustainability of the REIT’s distribution payout capacity from earnings. The REIT uses this metric to provide clarity of the performance of earnings and the overall management of the current portfolio of assets. Management considers AFFO payout ratio as the key measure of the REIT’s distribution capacity from earnings. AFFO payout ratio is calculated as distributions paid per Unit divided by AFFO per Unit diluted.

“ACFO payout ratio” is calculated as distributions declared divided by ACFO.

FFO, AFFO, FFO payout ratio, AFFO payout ratio, ACFO, ACFO payout ratio, NOI, Cash NOI and Same Property Cash NOI should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with IFRS as indicators of the REIT’s performance. The REIT’s method of calculating FFO, AFFO, FFO payout ratio, AFFO payout ratio, ACFO, ACFO payout ratio, NOI, Cash NOI and Same Property Cash NOI may differ from other issuers’ methods and, accordingly, may not be comparable to measures used by other issuers. See Section 6 “Non-IFRS Financial Measures” in this MD&A for a reconciliation of these measures to net income or cash flow from operating activities, as applicable.

Supplementary Financial Measures:

“EBITDA” is defined as earnings before interest expense, income tax, depreciation, and amortization.

“GBV” means, at any time, the greater of: (A) the book value of the assets of the REIT and its consolidated subsidiaries, as shown on its then most recent consolidated balance sheet, less the amount of any receivable reflecting interest rate subsidies on any debt assumed by the REIT; and (B) the historical cost of the investment properties, plus (i) the carrying value of cash and cash equivalents, (ii) the carrying value of mortgages receivable, and (iii) the historical cost of other assets and investments used in operations.

“Indebtedness” of the REIT means (without duplication): (i) any obligation for borrowed money (including, for greater certainty, the full principal amount of convertible debt, notwithstanding its presentation under IFRS), (ii) any obligation incurred in connection with the acquisition of property, assets or businesses, (iii) any obligation issued or assumed as the deferred purchase price of property, (iv) any capital lease obligation (as defined under IFRS and in the Declaration of Trust), and (v) any obligations of the type referred to in clauses (i) through (iv) of another entity, the payment of which the REIT has guaranteed or for which the REIT is responsible or liable; provided that, (A) for the purpose of clauses (i) through (v) (except in respect of convertible debt, as described above), an obligation will constitute Indebtedness of the REIT only to the extent that it would appear as a liability on the consolidated balance sheet of the REIT in accordance with IFRS, (B) obligations referred to in clauses (i) through (iii) exclude trade accounts payable, distributions payable to Unitholders or holders of other securities excluded from the definition of Indebtedness pursuant to clause (C) below, accrued liabilities arising in the ordinary course of business which are not overdue or which are being contested in good faith, deferred revenues, intangible liabilities, deferred income taxes, deferred financing costs, tenant deposits and indebtedness with respect to the unpaid balance of installment receipts where such indebtedness has a term not in excess of 12 months, and (C) REIT Units, Class A LP Units, and Class B LP Units, exchangeable securities and other equity securities that constitute debt under IFRS do not constitute Indebtedness.

“Net Asset Value” means total assets less Indebtedness, accounts payable, accrued liabilities, credit facilities, mortgages and interest rate swaps.

“Debt to GBV” means the ratio of Indebtedness to GBV at a particular time.

“Debt Service” means the total payments of principal and interest on debt.

“Debt Service Coverage Ratio” means the ratio of EBITDA divided by Debt Service at a particular time.

“Interest Coverage Ratio” means the ratio of Cash NOI less general and administrative expenses divided by the total of the interest expense and other financing charges.

SECTION 2 — STRATEGY AND OBJECTIVES

Strategy and Objectives

The primary strategy of the REIT is to create long-term value for Unitholders by generating sustainable tax-efficient cash flow and capital appreciation, while maintaining a strong balance sheet and practicing prudent financial management. The objectives of the REIT are to:

- provide Unitholders with stable, predictable and growing monthly cash distributions on a tax-efficient basis;
- enhance the value of the REIT's assets in order to maximize long-term Unitholder value; and
- expand the REIT's asset base while also increasing the REIT's AFFO per Unit, including through accretive acquisitions.

Management intends to grow the value of the REIT's real estate portfolio while also increasing AFFO per Unit through accretive acquisitions and steady growth in rental rates. The REIT expects to be well-positioned to capitalize on acquisition opportunities presented by automotive dealers and/or other parties due to the fragmented nature of the automotive dealership market. The REIT also expects to leverage its strategic arrangement with the Dilawri Group to acquire properties from the Dilawri Group that meet the REIT's investment criteria. Management intends to focus on obtaining new properties which have the potential to contribute to the REIT's ability to generate stable and predictable monthly cash distributions to Unitholders.

The REIT has a well-defined, long-term growth strategy which includes both external and internal elements.

External Growth

Accretive Acquisitions

Management believes that the REIT is well-positioned to capitalize on opportunities for accretive acquisitions from other vendors due to certain features of the Canadian automotive dealership industry:

- *Fragmented ownership* – Management estimates that the top 10 automotive dealership groups in Canada own less than 15% of the approximately 3,500 automotive dealerships in Canada;
- *Capital redeployment needs* – Monetizing the real estate underlying automotive dealership properties allows dealers to retain control of their dealership while redeploying capital into other areas of their business; and
- *Succession planning issues* – Management believes that for the majority of independent dealers, the dealership and its underlying real estate together represent the single largest proportion of their wealth. Selling the underlying real estate to the REIT can help such dealers address succession planning issues, particularly if the transaction can be effected on a tax efficient basis.

Management believes that the REIT represents a unique alternative for automotive dealership operators considering a sale or recapitalization of their business, as the REIT is at present the only publicly listed entity in Canada exclusively focused on owning and acquiring automotive properties.

The REIT evaluates acquisition opportunities based on a number of factors, including: valuation, expected financial performance, stability of cash flows, physical features, existing leases, functionality of design, geographic market, location, automotive brand representation and opportunity for future value enhancement.

Right of First Offer to Acquire REIT-Suitable Properties from the Dilawri Group

Management believes that its relationship with the Dilawri Group provides the REIT with additional opportunities to add quality automotive dealership properties to its portfolio in an accretive manner.

Pursuant to the Strategic Alliance Agreement, the REIT has a right of first offer on properties that are suitable for use as an automotive dealership that are acquired, developed, redeveloped, refurbished, repositioned or held for sale by the Dilawri Group.

Since completion of the IPO, the REIT has acquired 13 automotive dealership properties from the Dilawri Group under the Strategic Alliance Agreement as of the date of this MD&A.

Internal Growth

Management believes that the REIT is well positioned to achieve organic increases in cash flow and, as a result, increase the value of its properties over time. These increases are expected to come from the following sources:

- Each of the existing leases with a member of the Dilawri Group (each, a “Dilawri Lease”) contains annual contractual basic rent escalators in the amount of 1.5% per annum. The Dilawri Leases are structured as triple-net leases under which the tenant is responsible for all costs relating to repair and maintenance, realty taxes, property insurance, utilities and non-structural capital improvements so that rent escalators are expected to flow directly to NOI; and
- Contractual fixed rent escalators or CPI adjustments are expected, wherever possible, to be negotiated into new leases entered into by the REIT. As a result of the acquisition of the 2023 Quebec Properties and the Taschereau Volvo and JLR Property, the leases containing CPI-related adjustments represent approximately 26% of the REIT’s portfolio by full year base rent in 2023. For 2024, an additional 10% of the REIT’s existing leases will be subject to capped CPI-related adjustments.

Overview of Automotive Retail Industry

According to DesRosiers Automotive Consultants Inc., based on original equipment manufacturer submissions, Canadian new light vehicle unit sales for YTD 2023 increased by approximately 10.1% compared to YTD 2022, reflecting continued consumer demand for new vehicles.

Historically, Canada’s automotive retail industry has been characterized by strong industry fundamentals. According to Statistics Canada, automotive retail industry sales totaled approximately \$188 billion in 2022 (up 6.8% from approximately \$176 billion in 2021), representing approximately 25% of Canada’s overall retail sales of products and merchandise. Over the last 20 years, retail automotive sales grew at a compound annual rate of 4.1%. The tables below contain new automobile sales by units in Canada for the eight months ended August 31, 2023 and August 31, 2022 (the latest available information from Statistics Canada), and for the 2022 and 2021 calendar years as provided by Statistics Canada.

	Eight Months Ended August 31 (units)			
	2023	YoY unit increase/ (decrease)	YoY % increase/ (decrease)	2022
Alberta	137,365	10,774	8.5%	126,591
British Columbia and the Territories	135,738	10,239	8.2%	125,499
Manitoba	31,642	1,373	4.5%	30,269
New Brunswick	24,517	811	3.4%	23,706
Newfoundland and Labrador	17,602	1,049	6.3%	16,553
Nova Scotia	27,152	734	2.8%	26,418
Ontario	477,530	42,699	9.8%	434,831
Prince Edward Island	4,916	251	5.4%	4,665
Québec	268,823	18,404	7.3%	250,419
Saskatchewan	27,738	-548	-1.9%	28,286
Total Canada	1,153,023	85,786	8.0%	1,067,237

(Source: Statistics Canada)

Twelve Months Ended December 31 (units)				
	2022	YoY unit increase/ (decrease)	YoY % increase/ (decrease)	2021
Alberta	183,538	(12,824)	(6.5%)	196,362
British Columbia and the Territories	182,607	(15,974)	(8.0%)	198,581
Manitoba	45,024	(4,442)	(9.0%)	49,466
New Brunswick	34,704	(3,113)	(8.2%)	37,817
Newfoundland and Labrador	24,354	(4,319)	(15.1%)	28,673
Nova Scotia	38,198	(6,491)	(14.5%)	44,689
Ontario	645,384	(19,777)	(3.0%)	665,161
Prince Edward Island	6,777	(1,084)	(13.8%)	7,861
Québec	374,111	(30,355)	(7.5%)	404,466
Saskatchewan	41,747	(810)	(1.9%)	42,557
Total Canada	1,576,444	(99,189)	(5.9%)	1,675,633

(Source: Statistics Canada)

New vehicle sales represent a portion of overall dealer profitability, as significant profit contributions are also generated from used vehicle sales, service and parts, and finance and insurance. The REIT's diverse portfolio of retail dealership and service, and original equipment manufacturer properties, combined with strong industry fundamentals and an attractive leasing profile support the stability of distributions to holders of REIT Units and Class B LP Units (collectively, "Unitholders").

SECTION 3 — PROPERTY PORTFOLIO

Portfolio Overview

As at September 30, 2023, the REIT's portfolio consisted of 77 income-producing commercial properties, representing approximately 2.9 million square feet of GLA on approximately 249 acres of land, in metropolitan markets across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec.

The Dilawri Group exclusively occupies 37 of the REIT's properties for use as automotive dealerships or, in one case, an automotive repair facility. The Dilawri Group jointly occupies one of the REIT's properties (for use as an automotive dealership) with one or more third parties (for use as automotive dealerships or complementary uses, including restaurants). The remaining 39 properties are exclusively occupied by other dealership groups or original equipment manufacturers for use as automotive dealerships, automotive service centres or for automotive ancillary services, such as a vehicle service compound facility or a repair facility. The Taschereau Volvo and JLR Property is jointly owned by the REIT and StorageVault pursuant to the Joint Arrangement.

The Dilawri Group is the REIT's most significant tenant and accounted for approximately 53.7% of the REIT's YTD 2023 base rent, including rent from properties subleased to third parties (58.9% as at YTD 2022). The overall portfolio continues to be 100% leased.

The applicable Dilawri Tenant is the lead tenant for the Dixie Auto Mall until July 2030. As of September 30, 2023, one premise at the Dixie Auto Mall is leased but unoccupied and is being used for ancillary purposes; however, this does not affect the term of the applicable Dilawri Leases.

Overall, at September 30, 2023, the REIT's properties had a weighted average rental rate of \$27.08 per square foot (\$26.13 as at September 30, 2022). The year-over-year increase is due to contractual rent increases, lease renewals and properties acquired by the REIT subsequent to Q3 2022.

Income Producing Property Portfolio Summary

As at September 30, 2023	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.) ⁽¹⁾	Weighted Average Lease Term (yrs)
British Columbia ⁽²⁾	8	199,244	\$39.42	10.4
Alberta	13	467,508	\$29.23	9.4
Saskatchewan	9	203,560	\$24.09	7.3
Manitoba	2	96,135	\$23.36	14.5
Ontario	27	1,058,889	\$28.75	9.5
Quebec ⁽³⁾	18	846,803	\$22.03	11.2
Total Portfolio	77	2,872,139	\$27.08	10.1

As at September 30, 2022	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.) ⁽⁴⁾	Weighted Average Lease Term (yrs)
British Columbia ⁽²⁾	8	199,244	\$38.77	11.4
Alberta	13	467,508	\$28.51	10.4
Saskatchewan	9	203,560	\$23.74	8.3
Manitoba	2	96,135	\$22.58	15.5
Ontario	29	1,104,119	\$27.16	10.7
Quebec	11	608,967	\$18.01	11.3
Total Portfolio	72	2,679,533	\$26.13	10.8

(1) Based on 12-month period contractual rental revenue commencing September 30, 2023.

(2) Excludes land leases, which expenses are passed on to the tenant.

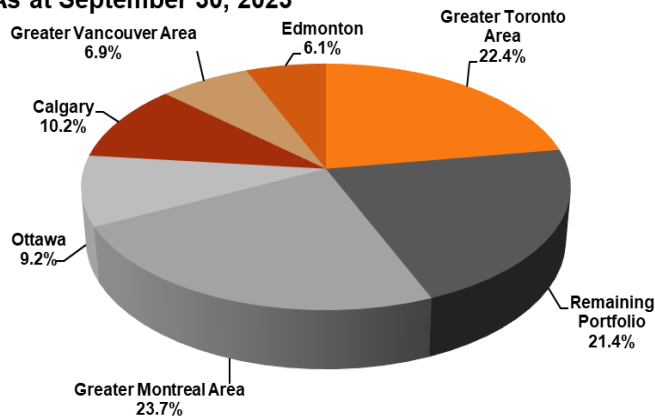
(3) Includes 100% of the GLA of the Taschereau Volvo and JLR Property.

(4) Based on actual 12-month period contractual rental revenue commencing September 30, 2022.

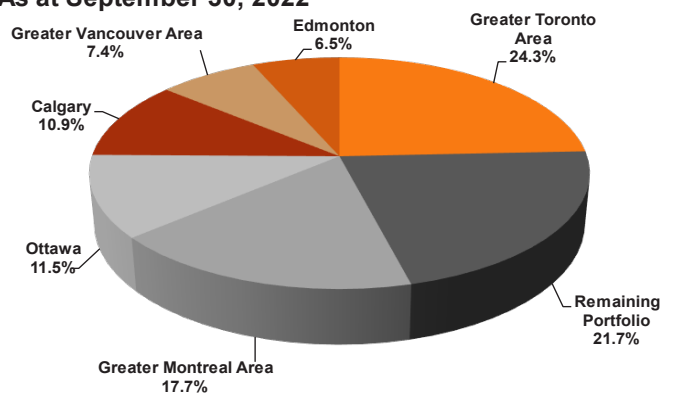
GLA by Major Metropolitan Areas Across Canada

A significant majority of the REIT's properties are located within major metropolitan areas across Canada.

As at September 30, 2023



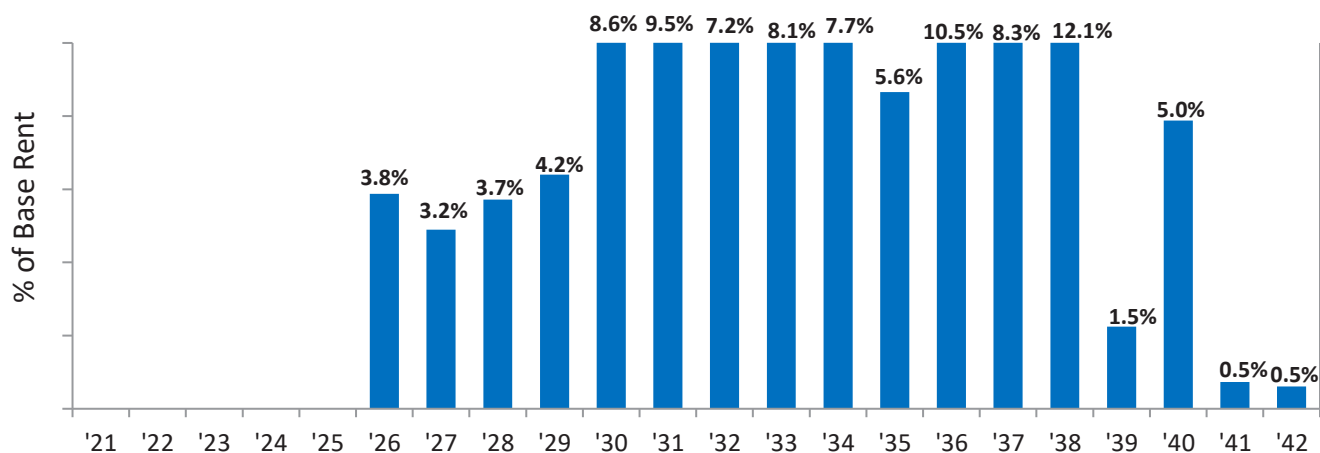
As at September 30, 2022



Profile of Overall Lease Maturity

The REIT's lease portfolio matures between 2026 and 2042 as set out in the chart below:

Lease Maturity Profile ^(*)



(*) Based on 12-month period contractual rental revenue commencing September 30, 2023.

Property and Brand Diversification

Sales for an individual automotive dealership are heavily influenced by the popularity of the automotive brands being marketed, and these, in turn, are often cyclical for each brand as new models are introduced, and existing models are updated and refreshed. In addition, prospects for both mass market and luxury brands can vary with economic cycles. Management believes that the portfolio's broad automotive brand diversification contributes to the quality and stability of the REIT's cash flows. The following table sets out the breakdown of automotive brands that are marketed, retailed and serviced at the REIT's properties as of September 30, 2023:

MANUFACTURER / BRAND	REIT AUTO PROPERTY GLA (SQ. FEET)	% OF REIT AUTO PROPERTY GLA	% OF REIT BASE RENT ⁽¹⁾	NO. OF REIT LOCATIONS
HONDA ⁽²⁾	521,595	18.3%	18.3%	13
BMW ⁽³⁾	320,824	11.3%	9.6%	7
VOLKSWAGEN	252,299	8.8%	9.7%	7
TESLA ⁽⁴⁾	238,879	8.4%	5.8%	6
AUDI ⁽⁵⁾	237,484	8.3%	9.9%	6
TOYOTA	229,495	8.0%	8.5%	5
OTHER ⁽⁶⁾	205,314	7.2%	3.9%	10
ACURA ⁽²⁾	162,081	5.7%	6.7%	6
MAZDA	107,444	3.8%	4.9%	5
GENERAL MOTORS	99,851	3.5%	2.9%	2

HYUNDAI	85,216	3.0%	3.6%	4
CHRYSLER ⁽⁷⁾	81,750	2.9%	1.7%	2
NISSAN	71,521	2.5%	2.7%	3
MERCEDES BENZ	60,850	2.1%	2.0%	1
KIA	53,819	1.9%	2.0%	3
PORSCHE	39,790	1.4%	4.3%	1
LEXUS	30,015	1.1%	1.3%	1
INFINITI	19,355	0.7%	1.1%	3
SUBARU	19,033	0.7%	0.5%	2
MITSUBISHI	14,750	0.5%	0.6%	2
TOTAL	2,851,364	100.0%	100.0%	89

Notes:

- (1) Based on 12-month period contractual base rent commencing October 1, 2023.
- (2) Includes Honda Used Car and Regina Collision Centre. Regina Honda/Acura split 75% and 25% of 30,863 sq. ft. Also includes the former Markham Ford, which is being used for ancillary purposes by Markham Honda.
- (3) Includes MINI.
- (4) Includes the following Tesla service centre properties: Tesla KW, Tesla Laval, Tesla Edmonton, Tesla Barrie, and Tesla Quebec City (two adjoining properties).
- (5) Includes the Audi service property (formerly Infiniti Vancouver).
- (6) The Dilawri Group subleased a property in Calgary to Grand Touring Automobile which operates Aston Martin and Bentley. In addition, Grand Touring Automobile sells a variety of luxury used vehicles. Also includes the former Dilawri Acura and BMW property in Regina at 1921 1st Avenue which is being used for ancillary dealership purposes by both the Dilawri Pre Owned and the Triple 7 Chrysler dealerships. Also includes: a Harley Davidson dealership and a VinFast dealership located in the Dixie Auto Mall. Also includes a Hyundai dealership which has vacated their premises located in the Dixie Auto Mall. The applicable Dilawri Tenant will continue to be the lead tenant for the Dixie Auto Mall until July 2030. Includes three vehicle compound facilities. The former Southtown Hyundai is operating as Go Auto service centre and Porsche Centre Edmonton is operating as Jaguar Land Rover Edmonton. Also includes the Taschereau Volvo and JLR Property.
- (7) Includes Dodge, FIAT, Jeep and RAM.

Description of the REIT's Key Tenant

At the time of the IPO, Dilawri agreed to provide certain financial information to the REIT pursuant to a financial information and confidentiality agreement for so long as the annual basic rent payable by the applicable members of the Dilawri Group, collectively, under their respective Dilawri Leases represented, in the aggregate, 60% or more of the REIT's Cash NOI during any rolling period of 12 consecutive calendar months, determined quarterly. As of December 31, 2022, the Dilawri Group's basic rent payable represented approximately 59.1% of the REIT's Cash NOI during the 12-month period ended December 31, 2022 (and represented approximately 55.2% of the REIT's Cash NOI during the 12-month period ended September 30, 2023), which is below the 60% threshold (See Section 1 "General Information and Cautionary Statements – Non-IFRS Financial Measures" and Section 6 "Non-IFRS Financial Measures" of this MD&A). As a result, the REIT and Dilawri have entered into an agreement pursuant to which Dilawri will continue to provide its Combined Revenues, EBITDA and Pro Forma Adjusted Rent Coverage Ratio on a trailing 12-month basis (with a comparative period for the prior 12-month period) until the REIT releases its financial results for the fiscal year ended December 31, 2023.

The following chart summarizes certain relevant financial information of the Dilawri Group for the 12 months ended September 30, 2023 with comparative figures for the 12 months ended September 30, 2022 as provided to the REIT by Dilawri:

Dilawri Group's Financial Information <i>(all figures are approximations, not in thousands)</i>		
	September 30, 2023 LTM⁽¹⁾	September 30, 2022 LTM⁽¹⁾
Combined Revenues (not audited or reviewed)	\$4.8 billion	\$4.0 billion
EBITDA (not audited or reviewed)	\$255.3 million	\$237.7 million
Pro Forma Adjusted Rent Coverage Ratio (not audited or reviewed)	6.9 ⁽²⁾	5.6 ⁽²⁾

Notes:

- (1) "LTM" means the last twelve months.
- (2) As at September 30, 2023.
- (3) As at September 30, 2022.

Although the REIT has no reason to believe that the above financial information of the Dilawri Group contains a misrepresentation, Dilawri is a private company that is independent of, and operates entirely independently from, the REIT and, consequently, neither the REIT, its management nor its Trustees in their capacities as such have been involved in the preparation of this financial information. Readers are cautioned, therefore, not to place undue reliance on this financial information.

Pursuant to an undertaking provided by Dilawri to the Canadian securities regulatory authorities in connection with the IPO, Dilawri provides to the REIT carve-out interim financial statements and the related management's discussion and analysis in respect of the members of the Dilawri Group subject to leases pertaining to the Initial Properties for the nine-month period ended September 30, 2023. These documents, once provided by Dilawri to the REIT, will be available on the REIT's SEDAR+ profile at www.sedarplus.ca.

Dilawri Additional and Non-ASPE Measures

Dilawri uses "EBITDA" in its financial statements which is an additional ASPE (as defined below) measure. "EBITDA" is defined as the earnings of the Dilawri Group before interest, taxes, depreciation and amortization, all as reflected in the non-consolidated combined financial statements of the Dilawri Group prepared in accordance with the recognition, measurement and disclosure principles under Canadian accounting standards for private enterprises ("ASPE"). Dilawri believes that EBITDA is an important measure of operating performance as it shows Dilawri's earnings before interest, taxes, depreciation and amortization. Dilawri's method of calculating EBITDA may differ from other issuers' calculations and, accordingly, may not be comparable to measures used by other issuers.

References to "Pro Forma Adjusted Rent Coverage Ratio", which is a key measure of performance used by automotive dealership businesses, refers to the Pro Forma Adjusted Rent Coverage Ratio of the Dilawri Group on a non-consolidated combined basis. Pro Forma Adjusted Rent Coverage Ratio is a non-ASPE financial ratio and is not defined by ASPE or IFRS and does not have a standardized meaning prescribed by ASPE or IFRS.

Non-ASPE financial ratio:

"Pro Forma Adjusted Rent Coverage Ratio" is calculated by Dilawri as EBITDA for the LTM plus rent paid by the Dilawri Group for the LTM to third parties and the REIT, less rent received from third parties. The resultant figure is divided by rent paid by the Dilawri Group for the LTM to third parties and the REIT, less rent received from third parties.

SECTION 4 — KEY PERFORMANCE INDICATORS AND SELECTED FINANCIAL INFORMATION

Key Performance Indicators

The REIT's performance is measured by management's selection of certain key indicators including those set out in the table below. For further information on the REIT's operating measures and non-IFRS measures, please refer to Sections 5 and 6 of this MD&A.

Operating Results	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Rental Revenue	\$23,378	\$20,691	\$69,193	\$61,960
NOI ⁽¹⁾	19,671	17,719	58,672	52,946
Cash NOI ⁽¹⁾	19,213	17,217	57,026	51,270
Same Property Cash NOI ⁽¹⁾	17,149	16,729	50,289	49,096
Net Income	28,332	8,897	66,190	69,777
FFO ⁽¹⁾	11,967	11,791	36,071	35,739
AFFO ⁽¹⁾	11,499	11,288	34,398	34,065
Fair value adjustment to investment properties	(779)	(5,762)	(3,345)	(4,076)
Distributions per Unit	0.201	0.201	0.603	0.603
Net Income per Unit – basic ⁽²⁾	0.578	0.181	1.349	1.423
Net Income per Unit – diluted ⁽³⁾	0.566	0.179	1.323	1.402
FFO per Unit – basic ^{(1) (4)}	0.244	0.240	0.735	0.729
FFO per Unit – diluted ^{(1) (5)}	0.239	0.237	0.721	0.718
AFFO per Unit – basic ^{(1) (4)}	0.234	0.230	0.701	0.695
AFFO per Unit – diluted ^{(1) (5)}	0.230	0.227	0.688	0.684
Weighted average Units — basic ⁽⁶⁾	49,054,833	49,041,338	49,054,833	49,024,638
Weighted average Units — diluted ⁽⁷⁾	50,052,016	49,834,877	50,036,392	49,778,034
Payout ratio (%)				
FFO ⁽¹⁾	84.1%	84.8%	83.6%	84.0%
AFFO ⁽¹⁾	87.4%	88.5%	87.6%	88.2%

	As at September 30, 2023	As at December 31, 2022	As at September 30, 2022
Balance Sheet and Other Metrics			
Total assets	\$1,215,242	\$1,093,818	\$1,109,437
Total liabilities (excluding Class B LP Units)	\$554,591	\$451,591	\$470,506
Number of units outstanding (includes Class B LP Units)	49,054,833	49,054,833	49,054,833
Market price per REIT Unit – close (end of period)	\$10.45	\$12.97	\$13.25
Market capitalization (includes Class B LP Units)	\$512,623	\$636,241	\$649,977
Overall capitalization rate	6.56%	6.42%	6.37%
Fixed weighted average effective interest rate on debt (excludes revolving Credit Facilities) ^{(8) (9)}	4.18%	3.94%	3.80%
Proportion of total debt at fixed interest rates through swaps and Mortgages ⁽¹⁰⁾	91%	99%	90%
Weighted average interest rate swap term and Mortgage remaining (years) ⁽⁹⁾	5.1	5.1	4.9
Weighted average term to maturity of debt	3.1	3.9	3.9
Interest Coverage Ratio ⁽¹⁰⁾	2.8X	3.5X	3.6X
Debt Service Coverage Ratio ⁽¹⁰⁾	1.5X	1.8X	1.8X
Debt to GBV	44.5%	40.0%	41.2%

- (1) NOI, Cash NOI, Same Property Cash NOI, FFO, AFFO, FFO per Unit, AFFO per Unit, FFO payout ratio and AFFO payout ratio are non-IFRS measures or non-IFRS ratios, as applicable. See Section 1 “General Information and Cautionary Statements – Non-IFRS Financial Measures” and Section 6 “Non-IFRS Financial Measures” of this MD&A.
- (2) Net Income per Unit — basic is calculated in accordance with IFRS by dividing the Net Income by the amount of the weighted average number of outstanding REIT Units and Class B LP Units.
- (3) Net Income per Unit — diluted is calculated in accordance with IFRS by dividing the Net Income by the amount of the weighted average number of outstanding REIT Units, Class B LP Units, DUs, IDUs, RDUs and PDUs (each as defined below) granted to certain Trustees and management of the REIT.
- (4) FFO per Unit and AFFO per Unit — basic is calculated by dividing the total FFO and AFFO by the amount of the total weighted average number of outstanding REIT Units and Class B LP Units.
- (5) FFO per Unit and AFFO per Unit — diluted is calculated by dividing the total FFO and AFFO by the amount of the total weighted average number of outstanding REIT Units, Class B LP Units, DUs, IDUs, RDUs and PDUs granted to certain Trustees and management of the REIT.
- (6) The weighted average number of outstanding Units — basic includes the Class B LP Units.
- (7) The weighted average number of outstanding Units — diluted includes the Class B LP Units, DUs, IDUs, RDUs and PDUs granted to certain Trustees and management of the REIT.
- (8) The fixed weighted average effective interest rate on debt is calculated on an annualized basis.
- (9) Includes the extension of a swap for \$20,614 under Facility 1, for a five-year term at an interest rate of 4.88%, effective July 2023. Also includes the extension of a swap for \$8,939 under Facility 2, for a four-year term at an interest rate of 4.83%, effective June 2023.
- (10) For 2023 ratios, see Section 7 “Liquidity and Capital Resources-Financing Metrics and Debt Covenants”.

SECTION 5 — RESULTS OF OPERATIONS

Net Income and Comprehensive Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Variance	2023	2022	Variance
Base rent	\$19,299	\$17,303	\$1,996	\$57,285	\$51,361	\$5,924
Property tax recoveries	3,707	2,972	735	10,521	9,182	1,339
Straight line rent adjustment	372	416	(44)	1,387	1,417	(30)
Rental Revenue	23,378	20,691	2,687	69,193	61,960	7,233
Property tax expense	(3,707)	(2,972)	(735)	(10,521)	(9,182)	(1,339)
Land lease termination	-	-	-	-	168	(168)
Property Costs	(3,707)	(2,972)	(735)	(10,521)	(9,014)	(1,507)
NOI⁽¹⁾	\$19,671	\$17,719	\$1,952	\$58,672	\$52,946	\$5,726
Other Income (Expenses)						
General and administrative expenses	(1,392)	(1,225)	(167)	(4,268)	(3,701)	(567)
Interest expense and other financing charges	(6,270)	(4,663)	(1,607)	(18,206)	(13,237)	(4,969)
Fair value adjustment on interest rate swaps	8,335	2,444	5,891	13,233	26,179	(12,946)
Distribution expense on Class B LP Units	(1,874)	(1,874)	-	(5,624)	(5,745)	121
Fair value adjustment on Class B LP Units and Unit-based compensation	10,641	2,258	8,383	25,728	17,411	8,317
Fair value adjustment on investment properties	(779)	(5,762)	4,983	(3,345)	(4,076)	731
Net Income and Comprehensive Income	\$28,332	\$8,897	\$19,435	\$66,190	\$69,777	\$(3,587)

- (1) NOI is a non-IFRS measure. See Section 1 “General Information and Cautionary Statements – Non-IFRS Financial Measures” and Section 6 “Non-IFRS Financial Measures” of this MD&A.

For Q3 2023, net income was \$28,332 as compared to \$8,897 in Q3 2022 and was \$66,190 in YTD 2023 as compared to \$69,777 in YTD 2022. Net income increased in Q3 2023 due to higher NOI and favourable changes in fair value adjustments on interest rate swaps, on investment properties and on adjustments to the Class B LP Units and Unit-based compensation (which consists of Deferred Units (“DUs”), Income Deferred Units (“IDUs”), Performance Deferred Units (“PDUs”) and Restricted Deferred Units (“RDUs”)). The decrease in net income in YTD 2023 was attributable to unfavourable changes in fair value adjustments on interest rate swaps, interest expense and financing charges, partially offset by changes in fair value adjustments on investment properties and Class B LP Units and Unit-based compensation and higher NOI.

NOI was \$19,671 in Q3 2023, an increase of 11.0% compared to \$17,719 in Q3 2022 and was \$58,672 in YTD 2023, an increase of 10.8% compared to \$52,946 in YTD 2022. The increases in NOI in Q3 2023 and YTD 2023 are primarily attributable to the properties acquired subsequent to Q3 2022 and contractual rent increases. See Section 1 “General Information and Cautionary Statements – Non-IFRS Financial Measures” and Section 6 “Non-IFRS Financial Measures” of this MD&A.

Rental Revenue and Property Costs

Rental revenue is based on triple-net leases with tenants. As such, rental revenue also includes recoverable realty taxes and straight-line adjustments.

For Q3 2023, rental revenue totaled \$23,378, representing an increase of \$2,687, or 13.0%, as compared to Q3 2022. This increase was primarily attributable to the properties acquired subsequent to Q3 2022 and contractual rent increases.

For YTD 2023, rental revenue was \$69,193, representing an increase of \$7,233, or 11.7%, as compared to YTD 2022. The increase was attributable to the properties acquired subsequent to YTD 2022, and contractual rent increases.

Property costs for Q3 2023 and YTD 2023 were \$735 and \$1,507 higher than Q3 2022 and YTD 2022, respectively. The increases are attributable to the properties acquired subsequent to Q3 2022 and YTD 2022, respectively.

General and Administrative Expenses

The table below illustrates the breakdown of general and administrative expenses incurred in Q3 2023 and YTD 2023 as compared to the corresponding periods in 2022:

	Q3 2023	Q3 2022	Variance	YTD 2023	YTD 2022	Variance
Human resource costs	\$927	\$916	\$11	\$2,662	\$2,639	\$23
Public entity and other costs	311	193	118	1,155	708	447
Independent Trustee fees	154	116	38	451	354	97
General and administrative expenses	1,392	\$1,225	\$167	\$4,268	\$3,701	\$567

Human resource costs reflect the expenses related to the management, operating and administrative support of the REIT. Human resource costs also include accruals for short-term incentive awards for management and accruals for Unit-based compensation. The increases in human resource costs in Q3 2023 and YTD 2023 of approximately \$11 and \$23, respectively, are due to the vesting of long-term compensations.

Public entity and other costs reflect the expenses related to ongoing operations of the REIT, including professional fees for legal and audit services, and depreciation expense for ROU assets. Public entity costs will fluctuate from quarter to quarter depending on when such expenses are incurred, which resulted in increases of \$118 and \$447 for Q3 2023 and YTD 2023, respectively, as compared to Q3 2022 and YTD 2022. The increases in Q3 2023 and YTD 2023 were primarily due to the REIT's growth, inflation, write-off of costs associated to a transaction that did not close, marketing expenses and strategic initiatives.

During Q3 2023, all independent Trustees of the REIT ("Independent Trustees") elected to receive board and committee fees in the form of DUs. The non-cash Unit-based compensation expense relates to DUs and IDUs granted in accordance with the REIT's Equity Incentive Plan (the "Plan"). The fair value of each DU granted is measured based on the volume-weighted average trading price of the REIT Units for the five trading days immediately preceding the grant date. For Q3 2023 and YTD 2023, the REIT paid the Independent Trustees \$154 and \$451, respectively, representing an increase of \$38 and \$97 as compared to Q3 2022 and YTD 2022, respectively.

Interest Expense and Other Financing Charges

Interest expense includes amounts payable to lenders under the REIT's Credit Facilities and Mortgages (each as defined in Section 7 "Liquidity and Capital Resources" below), as well as amortization of upfront costs and costs to hedge the applicable Credit Facilities and Mortgages at fixed rates. For Q3 2023 and YTD 2023, interest expense and other financing charges were \$6,270 and \$18,206, respectively, representing increases of \$1,607 and \$4,969 as compared to Q3 2022 and YTD 2022, respectively. The increases are primarily due to additional debt incurred by the REIT to acquire properties subsequent to YTD 2022, together with an increase in weighted average interest rates.

Changes in Fair Values 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 and residual value that 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. For Q3 2023 and YTD 2023, the fair value adjustment to investment properties was (\$779) and (\$3,345), respectively, as compared to (\$5,762) for Q3 2022 and (\$4,076) for YTD 2022.

The weighted average discount rate applicable to the whole portfolio as at September 30, 2023 was 7.46% (December 31, 2022 – 7.18%). The weighted average terminal capitalization rate applicable to the whole portfolio as at September 30, 2023 was 7.07% (December 31, 2022 – 6.88%).

The fair value adjustments for Q3 2023 and YTD 2023 were a result of the following factors:

- NOI increases from investment properties resulted in a fair value increase for Q3 2023 and YTD 2023.
- As a result of market conditions, the REIT adjusted valuation inputs in Q3 2023 and YTD 2023, which resulted in fair value decreases for properties with fixed-rate rent escalators and fair value increases for properties with CPI-related rent adjustments.
- The write-off of the transaction costs of \$3,875 related to the property acquisitions completed during YTD 2023 resulted in a fair value decrease.

The overall capitalization rate applicable to the REIT's entire portfolio was 6.56% as at September 30, 2023, (December 31, 2022 – 6.42%). The REIT's valuation inputs are supported by quarterly market reports from an independent appraiser. The historical book value of the investment properties owned by the REIT as at September 30, 2023 was \$1,054,172 (December 31, 2022 – \$947,622).

In accordance with the REIT's valuation policy, an independent appraiser is engaged to prepare valuations on a portion of the portfolio annually, such that the entire portfolio is appraised at least once every three years. In addition, any investment property which represents greater than 15% of the overall portfolio value will be appraised annually.

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 investment properties of approximately \$45,500 or \$(42,100), respectively, as of September 30, 2023.

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 \$94,700 or \$(81,300), respectively, as of September 30, 2023.

Changes in Fair Values of Class B LP Units, Unit-based compensation and Interest Rate Swaps

The Class B LP Units, Unit-based compensation and the interest rate hedges (see Section 7 "Liquidity and Capital Resources" in this MD&A) are required to be presented under relevant accounting standards at fair value on the balance sheet. The resulting changes in these items are recorded in net income and comprehensive income.

Under IFRS, the Class B LP Units and Unit-based compensation are classified as financial liabilities and measured at fair value through profit and loss (FVTPL). The fair value of the Class B LP Units and Unit-based compensation will be measured every period by reference to the traded value of the REIT Units, with changes in measurement recorded in net income and comprehensive income. Distributions on the Class B LP Units will be recorded in interest expense and other financing charges in the period in which they become payable.

The impact of the movement in the traded value of the REIT Units resulted in a increase in fair value adjustment for Class B LP Units and Unit-based compensation of \$10,641 in Q3 2023 (Q3 2022 – increase of \$2,258), and a increase of \$25,728 for YTD 2023 (YTD 2022 – increase of \$17,411).

The REIT enters into interest rate swaps to limit its exposure to fluctuations in the interest rates on variable rate financings for certain of its Credit Facilities. Gains or losses arising from the change in the fair value of the interest rate derivative contracts are recognized in the consolidated statements of income and comprehensive income.

The fair value adjustment for interest rate swaps resulted in a gain of \$8,335 for Q3 2023 (Q3 2022 – gain of \$2,444) and a gain of \$13,233 for YTD 2023 (YTD 2022 – gain of \$26,179). The variance reflects an increase in interest rates in the derivative market as at September 30, 2023, compared to December 31, 2022.

SECTION 6 — NON-IFRS FINANCIAL MEASURES

Reconciliation of NOI, Cash NOI, FFO and AFFO to Net Income and Comprehensive Income

The REIT uses the following non-IFRS key performance indicators and ratios: NOI, Cash NOI, FFO, AFFO, FFO payout ratio and AFFO payout ratio. The REIT believes these non-IFRS measures and ratios provide useful supplemental information to both management and investors in measuring the financial performance and financial condition of the REIT. These measures and ratios do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures and ratios presented by other publicly traded real estate investment trusts and should not be construed as an alternative to other financial measures determined in accordance with IFRS (see “Non-IFRS Financial Measures”). The calculations of these measures and the reconciliation to net income and comprehensive income are set out in the following table:

(\$000s, except per Unit amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Variance	2023	2022	Variance
Calculation of NOI						
Property revenue	\$23,378	\$20,691	\$2,687	\$69,193	\$61,960	\$7,233
Property costs	(3,707)	(2,972)	(735)	(10,521)	(9,014)	(1,507)
NOI (including straight-line adjustments)	\$19,671	\$17,719	\$1,952	\$58,672	\$52,946	\$5,726
Adjustments:						
Land lease payments	(86)	(86)	-	(259)	(259)	-
Straight-line adjustment	(372)	(416)	44	(1,387)	(1,417)	30
Cash NOI	\$19,213	\$17,217	\$1,996	\$57,026	\$51,270	\$5,756
Reconciliation of net income to FFO and AFFO						
Net income and comprehensive income	\$28,332	\$8,897	19,435	\$66,190	\$69,777	(\$3,587)
Adjustments:						
Change in fair value — Interest rate swaps	(8,335)	(2,444)	(5,891)	(13,233)	(26,179)	12,946
Distributions on Class B LP Units	1,874	1,874	-	5,624	5,745	(121)
Change in fair value — Class B LP Units and Unit-based compensation	(10,641)	(2,258)	(8,383)	(25,728)	(17,411)	(8,317)
Change in fair value — investment properties	779	5,762	(4,983)	3,345	4,076	(731)
ROU asset net balance of depreciation/interest and lease payments ⁽¹⁾	(42)	(40)	(2)	(127)	(269)	142
FFO	\$11,967	\$11,791	\$176	\$36,071	\$35,739	\$332
Adjustments:						
Straight-line adjustment	(372)	(416)	44	(1,387)	(1,417)	30
Capital expenditure reserve	(96)	(87)	(9)	(286)	(257)	(29)
AFFO	\$11,499	\$11,288	\$211	\$34,398	\$34,065	\$333
Number of Units outstanding (including Class B LP Units)	49,054,833	49,054,833	-	49,054,833	49,054,833	-
Weighted average Units Outstanding — basic	49,054,833	49,041,338	13,495	49,054,833	49,024,638	30,195
Weighted average Units Outstanding — diluted	50,052,016	49,834,877	217,139	50,036,392	49,778,034	258,358
FFO per Unit — basic⁽²⁾	\$0.244	\$0.240	\$0.004	\$0.735	\$0.729	\$0.006
FFO per Unit — diluted⁽³⁾	\$0.239	\$0.237	\$0.002	\$0.721	\$0.718	\$0.003
AFFO per Unit — basic⁽²⁾	\$0.234	\$0.230	\$0.004	\$0.701	\$0.695	\$0.006
AFFO per Unit — diluted⁽³⁾	\$0.230	\$0.227	\$0.003	\$0.688	\$0.684	\$0.004
Distributions per Unit	\$0.201	\$0.201	-	\$0.603	\$0.603	-
FFO payout ratio	84.1%	84.8%	(0.7%)	83.6%	84.0%	(0.4%)
AFFO payout ratio	87.4%	88.5%	(1.1%)	87.6%	88.2%	(0.6%)

- (1) Includes the payment of \$168 in respect of the termination of the Langley Land Lease in the first quarter of fiscal 2022.
- (2) The FFO and AFFO per Unit — basic is calculated by dividing the total FFO and AFFO by the amount of the total weighted-average number of outstanding REIT Units and Class B LP Units.
- (3) The FFO and AFFO per Unit — diluted is calculated by dividing the total FFO and AFFO by the amount of the total weighted-average number of outstanding REIT Units, Class B LP Units and Unit-based compensation granted to certain Independent Trustees and management of the REIT.

FFO, AFFO and Cash NOI

In Q3 2023, FFO increased 1.5% to \$11,967, or \$0.239 per Unit (diluted), compared to \$11,791, or \$0.237 per Unit (diluted), in Q3 2022. The increase was primarily due to the properties acquired subsequent to Q3 2022 and contractual rent increases.

In YTD 2023, FFO increased 0.9% to \$36,071, or \$0.721 per Unit (diluted), as compared to \$35,739, or \$0.718 per Unit (diluted), in YTD 2022. The increase was primarily due to the properties acquired subsequent to YTD 2022 and contractual rent increases.

In Q3 2023, AFFO increased 1.9% to \$11,499, or \$0.230 per Unit (diluted), as compared to \$11,288, or \$0.227 per Unit (diluted), in Q3 2022. Cash NOI in Q3 2023 was \$19,213 on revenue of \$23,378, as compared to Cash NOI of \$17,217 on revenue of \$20,691 in Q3 2022. The increases were primarily due to the properties acquired subsequent to Q3 2022 and contractual rent increases.

In YTD 2023, AFFO increased 1.0% to \$34,398, or \$0.688 per Unit (diluted), as compared to \$34,065, or \$0.684 per Unit (diluted), in YTD 2022. Cash NOI in YTD 2023 was \$57,026 on revenue of \$69,193, compared to Cash NOI of \$51,270 on revenue of \$61,960 in YTD 2022. The increases were primarily due to the properties acquired subsequent to YTD 2022, and contractual rent increases.

In Q3 2023, the REIT declared and paid distributions to Unitholders of \$9,859, or \$0.201 per Unit (Q3 2022 – \$9,858 declared and \$9,856 paid), and for YTD 2023, the REIT declared and paid distributions of \$29,581 or \$0.603 per unit (YTD 2022 – \$29,565 declared and \$29,564 paid). This resulted in an AFFO payout ratio of 87.4% in Q3 2023 (Q3 2022 – 88.5%) and 87.6% in YTD 2023 (YTD 2022 – 88.2%). The AFFO payout ratio decreased for Q3 2023 and YTD 2023, primarily due to the increase in NOI from properties acquired subsequent to YTD 2022 and contractual rent increases.

Same Property Cash Net Operating Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Variance	2023	2022	Variance
Same property base rental revenue	\$17,235	\$16,815	\$421	\$50,548	\$49,355	\$1,194
Land lease payments	(86)	(86)	-	(259)	(259)	-
Same Property Cash NOI	\$17,149	\$16,729	\$421	\$50,289	\$49,096	\$1,194

Same Property Cash NOI increased 2.5% to \$17,149 in Q3 2023 from \$16,729 in Q3 2022 and increased 2.4% to \$50,289 in YTD 2023 from \$49,096 in YTD 2022. The increases were primarily a result of contractual rent increases.

Reconciliation of Cash Flow from Operating Activities to ACFO

The REIT uses the following non-IFRS key performance indicator and ratio: ACFO and ACFO payout ratio. The REIT calculates its ACFO in accordance with the Real Property Association of Canada's *White Paper on Adjusted Cash Flow from Operations (ACFO) for IFRS* issued in February 2019. The REIT believes that ACFO provides useful supplemental information to both management and investors in measuring the financial performance and financial condition of the REIT. ACFO does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures utilized by other publicly traded real estate investment trusts and should not be considered as an alternative to other financial measures determined in accordance with IFRS (see "Non-IFRS Financial Measures"). To date, the REIT has not incurred capital expenditure costs. The capital expenditure reserve of 0.5% of base rent is

based on the lease terms, assumed renewal retention rates, triple-net lease structure and management's best estimate of cost on a per square foot basis related to sustaining/maintaining existing space that the REIT may incur. The calculation of ACFO and the reconciliation to cash flow from operating activities are set out in the table below:

(\$000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Variance	2023	2022	Variance
Cash flow from operating activities	\$20,704	\$15,019	\$5,685	\$54,207	\$46,696	\$7,521
Change in non-cash working capital	(2,709)	1,351	(4,060)	787	2,142	(1,355)
Interest paid	(6,030)	(4,356)	(1,674)	(17,496)	(12,418)	(5,078)
Amortization of financing fees	(246)	(205)	(41)	(729)	(582)	(147)
Amortization of indemnification fees	(72)	(213)	141	(172)	(484)	312
Net interest expense and other financing charges in excess of interest paid	(6)	102	(108)	(19)	236	(255)
Capital expenditure reserve	(96)	(86)	(10)	(286)	(170)	(116)
ACFO	\$11,545	\$11,613	(\$68)	\$36,292	\$35,422	\$870
ACFO payout ratio	85.4%	84.9%	0.5%	81.5%	83.5%	(2.0%)

ACFO decreased in Q3 2023 to \$11,545, as compared to \$11,613 in Q3 2022. In YTD 2023, ACFO increased to \$36,292 as compared to \$35,422 in YTD 2022. This resulted in an ACFO payout ratio of 85.4% in Q3 2023 (Q3 2022 – 84.9%), and 81.5% in YTD 2023 (YTD 2022 – 83.5%). The increases in YTD 2023 were primarily attributable to properties acquired subsequent to Q3 2022, and contractual rent increases. REIT's Q3 2023 distributions were funded from cash flows from operating activities as well as cash on hand. The REIT believes that future distributions will be funded through cash flows from operating activities. As at September 30, 2023, the REIT had \$60,821 of undrawn capacity under its Credit Facilities, cash on hand of \$342 and five unencumbered properties with an aggregate value of \$70,570.

SECTION 7 — LIQUIDITY AND CAPITAL RESOURCES

Capital Structure

Key Terms							
<i>Debt</i>	Term (yrs)	Hedged Term (yrs)	Interest Rate	Payments & Interest/Amortization	Effective Interest Rate (fixed)	Outstanding as at September 30, 2023	Outstanding as at December 31, 2022
Facility 1	3.8 ⁽¹⁾	1.3 to 9.1	BA + 150 bps, Prime +25 bps	⁽¹⁾	4.34%	\$259,091	\$223,926
Facility 2	1.3 ⁽²⁾	0.8 to 7.2	BA + 150 bps, Prime +25 bps	⁽²⁾	3.64%	82,218	85,901
Facility 3	2.7 ⁽³⁾	1.8 to 9.2	BA + 150 bps, Prime +50 bps	⁽³⁾	4.33%	164,353	100,672 ⁽³⁾
Mortgages	3.8 to 7.6	n/a	Fixed 2.21% to 5.05 %	P&I, 20 yrs and 25yrs	3.52%	31,434	23,258
						\$537,096	\$433,757
Financing fees						(2,963)	(2,682)
Weighted Average /Total	3.1	5.1⁽⁷⁾			4.18%⁽⁷⁾	\$534,133	\$431,075
Class B LP Units and Unit-based compensation						\$107,120	\$130,558
Cash Balance						\$342	\$396

Key Financing Metrics and Debt Covenants⁽⁴⁾⁽⁵⁾	Debt Covenant	Declaration of Trust⁽⁶⁾	As at September 30, 2023	As at December 31, 2022
Interest coverage	-	-	2.8	3.5
Debt to GBV	<60% ⁽⁸⁾	<60% ⁽⁸⁾	44.5%	40.0%
Unitholders' Equity (including Class B LP Units, and Unit-based compensation)	>\$120,000	-	\$670,299	\$651,502
Debt Service Coverage Ratio	>1.35	-	1.5	1.7
AFFO payout ratio	⁽⁹⁾ ⁽¹⁰⁾	-	87.4%	89.5%

(1) Facility 1 and the associated revolving facility matures in June 2027.

(2) Facility 2 and the associated revolving facility matures in January 2025.

(3) Facility 3 and the associated revolving facility matures in June 2026. In January 2023, the REIT increased the non-revolving portion of Facility 3 by \$70,000 at the same credit spread.

(4) The calculations of these ratios, which are non-IFRS measures, are set out under "Financing Metrics and Debt Covenants" below. See also Section 1, "General Information and Cautionary Statements – Non-IFRS Financial Measures".

(5) The debt agreements for Facility 1, Facility 2 and Facility 3 have other covenants that do not directly relate to the REIT's consolidated financial position. Management believes that the REIT is in compliance with all such covenants and with the debt agreement covenants for Facility 1, Facility 2, Facility 3 and the Mortgages. The debt service coverage ratio represents rolling four quarters.

(6) The Declaration of Trust contains other operating covenants that do not relate to leverage or debt service/coverage. The Declaration of Trust is available on SEDAR+ at www.sedarplus.ca and is described in the AIF. Management believes that the REIT is in compliance with these operating covenants.

(7) Includes the extension of a swap for \$20,614 under Facility 1, for a five-year term at an interest rate of 4.88%, effective July 2023. Also, includes the extension of a swap for \$8,939 under Facility 2, for a four-year term at an interest rate of 4.83%, effective June 2023.

(8) Including convertible debentures, the maximum ratio is 65%.

(9) The AFFO payout ratio in respect of Facility 1 may exceed 100% so long as (i) the REIT's Debt to GBV ratio is less than 55% or (ii) the REIT's 12 month retrospective rolling AFFO payout ratio is less than 100%.

(10) The AFFO payout ratio in respect of Facility 3 may exceed 100% (four quarter rolling) so long as (i) the REIT's Debt to GBV ratio is less than 55% and (ii) the REIT's cash on hand plus the cumulative amount available to be drawn under the revolving Credit Facilities exceeds \$17,000.

Facility 1, Facility 2 and Facility 3 described above are collectively referred to as the "Credit Facilities" and the mortgages described above are referred to as the "Mortgages".

The AFFO payout ratio debt covenant is based on the rolling average of the last four fiscal quarters. For the four quarters ended September 30, 2023, the AFFO payout ratio was approximately 89.3%.

In January 2023, as a result of the acquisition of the 2023 Quebec Properties, the REIT increased the non-revolving portion of Facility 3 by \$70,000 at the same credit spread. The principal is repayable in quarterly blended payments based on a 25-year amortization. The REIT entered into floating-to-fixed interest rate swaps for a weighted-average term of 7.6 years at a blended rate of 4.91%.

In January 2023, the REIT extended an interest rate swap for \$20,614 under Facility 1 for a new term of five years at an interest rate of 4.88%, effective July 2023.

In March 2023, the REIT also extended an interest rate swap for \$8,939 under Facility 2 for a new term of four years at an interest rate of 4.83%, effective June 2023.

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

In May 2023, the REIT converted \$25,000 of previously amortized principal payments within Facility 1 from a revolving balance to a non-revolving balance, thereby decreasing the revolving balance and increasing the non-revolving balance, currently at floating rates. There were no changes to terms and credit spreads relating to Facility 1 as a result of this conversion.

In order to maintain or adjust its capital structure, the REIT may increase or decrease the amount of distributions paid to Unitholders, issue new REIT Units and debt, or repay debt. Factors affecting such decisions include:

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

Principal repayments are as follows:

Remainder of 2023	\$6,436
2024	25,832
2025	93,795
2026	157,847
2027	230,976
Thereafter.....	<u>22,210</u>
Total	<u>\$537,096</u>

The REIT's liquidity position as at September 30, 2023 includes approximately \$60,821 of undrawn capacity under its revolving Credit Facilities, which management believes is sufficient to carry out its obligations, discharge liabilities as they come due and fund distributions to Unitholders. Capital requirements in the next two years are low and capital expenditure requirements are expected to be insignificant. Nonetheless, the current economic, operating and capital market environment of higher inflation and increased interest rates has led to an increased emphasis on liquidity. While the REIT has not changed its objectives in managing its capital structure, the current focus has been on ensuring that the REIT retains sufficient liquidity.

As at the date of this MD&A, the REIT has approximately \$65,850 of undrawn capacity under its Credit Facilities and five unencumbered properties with an aggregate value of approximately \$70,570. Capital required for investing activities will be addressed through additional borrowings or issuances of equity as acquisition and development opportunities arise.

Debt Financing

The REIT's overall borrowing policy is to obtain secured credit facilities, principally on a fixed rate or effectively fixed rate basis, which will allow the REIT to: (i) achieve and maintain staggered maturities to lessen exposure to re-financing risk in any particular period; (ii) achieve and maintain fixed rates to lessen exposure to interest rate fluctuations; and (iii) extend loan terms and fixed rate periods as long as possible when borrowing conditions are favourable. Subject to market conditions and the growth of the REIT, management currently intends to target Indebtedness of approximately 50%-53% of GBV. As at September 30, 2023, the REIT's Debt to GBV ratio was 44.5% (December 31, 2022 – 40.0%; September 30, 2022 – 41.2%). The increase as compared to December 31, 2022 is primarily attributable to the acquisition of the 2023 Quebec Properties and the Taschereau Volvo and JLR Property completed during YTD 2023 which the REIT funded, in part, by drawing on its existing Credit Facilities. Management expects that the ratio of Debt to GBV may increase, at least temporarily, following an acquisition by the REIT of one or more additional properties. Interest rates and loan maturities will be reviewed on a regular basis to ensure appropriate debt management strategies are implemented.

Pursuant to the Declaration of Trust, the REIT may not incur or assume any Indebtedness, if after giving effect to the incurring or assumption of such Indebtedness, the total Indebtedness of the REIT would exceed 60% of GBV (or 65% of GBV including convertible debentures).

Secured Credit Facilities, Mortgages and Interest Rate Swap Arrangements

All of the REIT's Credit Facilities and Mortgages are with Canadian Schedule 1 banks and one life insurance company and are secured by all but five of the REIT's investment properties as at September 30, 2023.

As at September 30, 2023, the REIT had total revolving Credit Facilities of \$85,000 (\$30,000 in Facility 1, \$15,000 in Facility 2, and \$40,000 in Facility 3), of which \$60,821 was undrawn.

Financing Fees

The REIT incurred financing fees of \$23 during Q3 2023 and \$1,011 during YTD 2023. (Q3 2022 - \$34 and YTD 2022 - \$1,176). The amounts are accounted for using the effective interest method. As at September 30, 2023, \$2,963 remains unamortized (December 31, 2022 - \$2,682).

Interest Rate Swaps

The REIT enters into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates payable on its variable rate financings under 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.

The following table sets out the combined borrowings under Facility 1, Facility 2 and Facility 3 and the remaining expected term to maturity of the related interest rate swaps as at September 30, 2023, giving effect to: (i) the REIT's extension of a swap for \$20,614 under Facility 1, for a five-year term at an interest rate of 4.88%, effective July 2023; and (ii) the REIT's extension of a swap for \$8,939 under Facility 2, for a four-year term at an interest rate of 4.83%, effective June 2023.

Remaining Term Range (yrs)	Amount (\$000s)	Total Swapped Fixed Rate Debt (%)
Less than 1 Year	-	-
1-2 Years	42,193	9.2
2-5 Years	124,917	27.3
5-7 Years	162,784	35.6
Greater than 7 Years	127,398	27.9
5.1	457,292	100.0

As at September 30, 2023, the notional principal amount of the interest rate swaps was approximately \$457,292 (December 31, 2022 – approximately \$405,168) and the fair value adjustment of the interest rate swaps was \$8,335 and \$13,233 for the three and nine-month periods ended September 30, 2023, respectively, as compared to \$2,444 and \$26,179 for the three and nine-month periods ended September 30, 2022, respectively. This resulted in an asset balance of \$32,359 as at September 30, 2023 (December 31, 2022 – \$19,127).

The weighted average interest rate swap term and Mortgage term remaining was 5.1 years as at September 30, 2023.

Unitholders' Equity (including Class B LP Units and Unit-based compensation)

Unitholders' equity consists of the Units described below:

REIT Units

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

Each REIT Unit is transferable and represents an equal, undivided beneficial interest in the REIT and any distributions from the REIT. All REIT 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 holders of REIT Units and holders of Special Voting Units (as defined below) or in respect of any written resolution thereof.

Holders of REIT Units are entitled to receive distributions from the REIT if, as and when declared by the board of trustees of the REIT (the “Board”). Upon the termination or winding up of the REIT, holders of REIT Units 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. REIT 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 REIT Units, 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.

As at September 30, 2023, the total number of REIT Units outstanding was 39,727,346.

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. The Class B LP Units are economically equivalent to REIT Units, and are exchangeable at the option of the holder for REIT Units on a one-for-one basis (subject to certain anti-dilution adjustments), are accompanied by a special voting unit (a “Special Voting Unit”) (which provides the holder with that number of votes at any meeting of holders of REIT Units to which a holder of the number of REIT 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 REIT 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. Under IFRS, the Class B LP Units are classified as financial liabilities and measured at fair value through profit and loss (FVTPL). The fair value of the Class B LP Units will be measured every period by reference to the traded value of the REIT Units, with changes in measurement recorded in net income and comprehensive income. Distributions on the Class B LP Units will be recorded in interest expense and other financing charges in the period in which they become payable.

As at September 30, 2023, the total number of Class B LP Units outstanding was 9,327,487.

Unit-based compensation

The REIT offers an Equity Incentive Plan whereby DUs, PDUs and RDUs may be granted to Trustees, officers and employees of the REIT and other eligible persons (collectively, “Participants”) on a discretionary basis by the Governance, Compensation and Nominating Committee of the Board. The maximum number of REIT Units available for issuance under the Plan is 1,750,000. Each DU, PDU and RDU is economically equivalent to one REIT Unit, however, under no circumstances shall they be considered REIT 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 REIT Unit by the REIT on its REIT 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 REIT Units. The holder of such DUs, PDUs, RDUs and IDUs cannot settle these instruments in cash.

Certain DUs and RDUs awarded under the Plan will vest over time. PDUs awarded under the Plan will vest upon the achievement of applicable performance vesting conditions, which may include but are not limited to, financial or operational performance of the REIT, total unitholder return or individual performance criteria, measured over a performance period.

During YTD 2023, a total of 208,978 DUs, PDUs, RDUs and IDUs were granted, of which 83,838 PDUs, RDUs and 20,453 IDUs were accounted for in accordance with the vesting schedule. As at September 30, 2023, a total of 1,017,798 DUs, PDUs, RDUs and IDUs have been granted, of which 923,266 were accounted as outstanding and vested.

Distributions

Holders of REIT Units 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, holders of REIT Units 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, as the Board in its sole discretion may determine. REIT Units have no associated conversion or retraction rights.

In determining the amount of the monthly cash distributions paid to holders of REIT Units, the Board applies discretionary judgment to forward-looking information, which includes forecasts, budgets and many other factors including provisions in the Declaration of Trust, the macro-economic and industry-specific environment, debt maturities and covenants, and taxable income. The REIT is currently paying monthly cash distributions to Unitholders of \$0.067 per Unit, representing \$0.804 per Unit on an annualized basis.

The Board regularly reviews the REIT's rate of distributions to ensure an appropriate level of cash distributions.

Net income prepared in accordance with IFRS recognizes certain revenues and expenses at time intervals that do not match the receipt or payment of cash. Therefore, in applying judgment, consideration is given to AFFO (which is the product of the earnings performance) and other factors when establishing cash distributions to holders of REIT Units.

Financing Metrics and Debt Covenants

The calculations of financial metrics and debt covenants are set out in the table below:

<i>Calculations of financial metrics and debt covenants</i>		As at September 30, 2023	As at December 31, 2022
Net Asset Value			
Investment properties, IFRS value		\$1,179,775	\$1,071,308
Cash, prepaid and other assets		35,467	22,510
Accounts payable and accrued liabilities		(10,810)	(11,241)
Credit Facilities, Mortgages and interest rate swaps		<u>(534,133)</u>	<u>(431,075)</u>
Total Net Asset Value		\$670,299	\$651,502
Total Net Asset Value excluding interest rate swaps		\$637,940	\$632,375
REIT Units and Class B LP Units outstanding		49,054,833	49,054,833
Debt to GBV			
<i>Indebtedness outstanding:</i>			
Credit Facilities & Mortgages (excludes deferred financing costs)	A	\$537,096	\$433,757
Lease Liability	A1	3,628	3,820
<i>Gross Book Value</i>			
Total assets	B	1,215,242	1,093,818
Debt to GBV ⁽¹⁾	((A+A1)/B) X 100	44.5%	40.0%
Unitholders' Equity & Unit-based compensation			
Unitholders' Equity		\$563,179	\$520,944
Value of Unit based compensation		9,648	9,580
Value of Class B LP Units		<u>97,472</u>	<u>120,978</u>
Total Unitholders' Equity & Unit-based compensation		\$670,299	\$651,502

Calculations of financial metrics and debt covenants

Interest Coverage Ratio		Q3 2023	Q3 2022	YTD 2023	YTD 2022
Cash NOI ⁽²⁾		\$19,213	\$17,217	57,026	\$51,270
General and administrative expenses		<u>(1,392)</u>	<u>(1,225)</u>	<u>(4,268)</u>	<u>(3,701)</u>
Income before interest expense and fair value adjustments	C	17,821	15,992	52,759	47,569
Interest expense and other financing charges	D	(6,270)	4,663	(18,206)	13,237
Interest Coverage Ratio⁽³⁾	C/D	2.8X	3.4X	2.9X	3.6X
Debt Service Coverage Ratio					
Consolidated net income		\$28,332	\$8,897	\$66,190	\$69,777
Interest expense and other financing charges		6,270	4,663	18,206	13,237
Distribution expense on Class B LP Units		1,874	1,874	5,624	5,745
Amortization of other assets		47	47	140	151
Fair value adjustments, net		<u>(18,197)</u>	<u>1,060</u>	<u>(35,616)</u>	<u>(39,514)</u>
EBITDA ⁽²⁾	E	18,326	16,541	54,544	49,396
Principal payments on (pay down of) debt		6,417	5,379	18,954	15,607
Interest payments on debt (excludes other financing charges)		<u>6,030</u>	<u>4,356</u>	<u>17,496</u>	<u>12,418</u>
Debt Service	F	12,447	9,735	36,450	28,025
Debt Service Coverage Ratio⁽⁴⁾	E/F	1.5X	1.7X	1.5X	1.8X
AFFO payout ratio					
AFFO ⁽²⁾		<u>11,499</u>	<u>11,288</u>	<u>34,398</u>	<u>34,065</u>
Distributions on REIT Units		7,985	7,982	23,955	23,819
Distributions on Class B LP Units		<u>1,874</u>	<u>1,874</u>	<u>5,624</u>	<u>5,745</u>
		9,859	9,856	29,581	29,564
AFFO payout ratio⁽²⁾⁽⁵⁾		87.4%	88.5%	87.6%	88.2%

Notes:

- (1) The Debt to GBV ratio as at September 30, 2023 increased as compared to December 31, 2022, primarily due to the property acquisitions completed in 2023 which were funded through the REIT drawing on its existing Credit Facilities.
- (2) Cash NOI, EBITDA, AFFO and AFFO payout ratio are non-IFRS measures or non-IFRS ratios, as applicable. See Section 1, "General Information and Cautionary Statements – Non-IFRS Financial Measures" and Section 6, "Non-IFRS Financial Measures" of this MD&A.
- (3) The Interest Coverage Ratio for Q3 2023 was lower compared to the same period in the previous year, due to an increase in interest expense and other financing charges resulting from higher debt placed as a result of the property acquisitions completed in 2023.
- (4) The Debt Service Coverage Ratio for Q3 2023 was lower compared to the same period in the previous year, primarily due to an increase in interest expense and other financing charges resulting from higher debt placed as a result of the property acquisitions completed in 2023.
- (5) The AFFO payout ratio is calculated as distributions per REIT Unit divided by the AFFO per Unit – diluted.

SECTION 8 — RELATED PARTY TRANSACTIONS

The REIT's largest Unitholder and lead tenant is the Dilawri Group, which as at September 30, 2023 held an approximate 31.4% (September 30, 2022 – 29.9%) effective interest in the REIT on a fully diluted basis, through its ownership of all of the issued and outstanding Class B LP Units and 6,421,020 REIT Units.

In the normal course of its operations, the REIT enters into various transactions with related parties and the REIT's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions and in accordance with the Related Party Transaction Policy adopted by the Board and the Declaration of Trust.

In consideration of the applicable Dilawri Tenants leasing the entirety of two of the Initial Properties with third-party tenants (and thereby bearing occupancy, rental and other risks associated with the portions of those properties to be subleased to third party tenants for the initial lease terms of 12 and 15 years for those properties), 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).

In addition, 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. The REIT subsequently issued letters of credit to the land transfer tax authority in the amount of approximately \$753 to defer the land transfer tax, on behalf of specific members of the Dilawri Group that sold certain of the Initial Properties to the REIT in connection with the IPO, of which \$579 remains outstanding as at September 30, 2023 (the "LCs"). The Dilawri Group held all of the 9,933,253 issued and outstanding Class B LP Units for three 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.

For additional information on related party agreements and arrangements with Dilawri, please refer to the REIT's AIF, which can be found on SEDAR+ at www.sedarplus.ca and on the REIT's website www.automotivepropertiesreit.ca.

Strategic Alliance Agreement

In connection with the IPO, the REIT and Dilawri entered into the Strategic Alliance Agreement which establishes a preferential and mutually beneficial business and operating relationship between the REIT and the Dilawri Group. The Strategic Alliance agreement will be in effect so long as the Dilawri Organization and the applicable transferors of the Initial Properties own, control or direct, in the aggregate, an effective interest of at least 10% (on a fully-diluted basis) in the REIT. Among other things, 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. The REIT did not acquire any investment properties pursuant to the Strategic Alliance Agreement in 2022 or YTD 2023.

SECTION 9 — OUTLOOK

The REIT is subject to risks associated with rising inflation, interest rates and the availability of capital. The REIT anticipates that elevated interest rates and inflation may have an adverse effect on consumer demand and the overall economy. The REIT will continue to monitor these factors and strategically move its floating and short-term debt into fixed rate and/or long-term debt in an effort to minimize the impact of any potential future interest rate increases. The fluctuation in the interest rate environment, inflation and credit environment impacts rental growth and capitalization rates overall in the real estate industry and may also provide attractive buying opportunities for the REIT.

The financial markets continually fluctuate, and it is therefore difficult for management to quantify the impact that the factors described above will have on the cost and availability of debt and equity capital to the REIT. Management and the Trustees are continuing to closely monitor the impact of elevated inflation and interest rates on the REIT's business and will continue to prudently manage the REIT's available financial resources. As at the date of this MD&A, the REIT

has approximately \$65,850 of undrawn capacity under its Credit Facilities and five unencumbered properties with an aggregate value of approximately \$70,570. Management will continue to prudently manage growth of the REIT while also focusing on liquidity and overall capital market and debt financing conditions.

Vehicle supply continues to be generally constrained for specific models and brands. Management believes these supply constraints will continue into the foreseeable future but will not have a significant impact on the REIT's tenants' ability to pay rent.

Overall, the REIT believes that the fundamentals of the automotive dealership business remain solid, and that the industry is resilient and essential.

As the only publicly traded Canadian real estate entity focused on owning automotive properties, the REIT provides a unique opportunity for automotive dealership owners to monetize the real estate underlying their dealerships while retaining ownership and control of their core automotive dealership businesses. This provides dealership owners with liquidity to advance their individual strategic objectives, whether it be succession planning, directly investing in upgrading their dealerships, or facilitating acquisitions in this period of industry consolidation. The Canadian automotive dealership industry is highly fragmented, and the REIT expects continued consolidation over the mid to long term due to increased industry sophistication and growing capital requirements for owner operators, which encourages them to pursue increased economies of scale.

SECTION 10 — OTHER DISCLOSURES

Environmental and Corporate Social Responsibility

The REIT has a triple-net lease structure and has adopted a written Environmental and Corporate Social Responsibility Policy (the "ESG Policy") to formally recognize the REIT's approach to addressing its environmental and social responsibilities as a good corporate citizen. The ESG Policy acknowledges the nature of the REIT's business as an owner of automotive dealership properties in Canada and its efforts to promote a culture of improvement with regards to sustainability and social responsibility for the benefit of all its stakeholders, including employees, tenants, suppliers, Unitholders and local communities.

The ESG Policy articulates the REIT's commitment to: (i) protecting its investors by managing sustainability-related risks; (ii) informing its tenants, suppliers and investment partners of sustainable options; (iii) sourcing with integrity; (iv) collaborating on sustainability with industry bodies; (v) compliance with applicable Canadian federal, provincial, territorial and municipal laws relating to environmental matters; (vi) making, or requiring its tenants to make, the necessary capital and operating expenditures to comply with environmental laws and address any material environmental issues; (vii) requiring its officers and other staff to adhere to the REIT's policies and procedures regarding the environment, sustainability and compliance with environmental legislation, and report any non-compliance with such policies and procedures; and (viii) offering a safe place to work.

Oversight of the ESG Policy is within the mandate of the Governance, Compensation and Nominating Committee (the "GCN Committee"). As part of that oversight, management reports to the GCN Committee at each quarterly meeting of the GCN Committee in respect of, among other things, compliance with the ESG Policy and any environmental and corporate social responsibility ("ESG") initiatives undertaken by management. Furthermore, commencing in 2022, the GCN Committee and the Board made ESG a stand-alone metric in the REIT's short-term incentive plan for named executive officers in recognition of the importance of ESG to the REIT. In 2022, the REIT also retained an outside consultant to assist management with the creation of an ESG and sustainability plan and related updates to the ESG Policy, among other things. The REIT's ESG and sustainability plan was approved by the Board in early 2023 and is available on the REIT's website at www.automotivepropertiesreit.ca. The REIT has also established an ESG committee comprised of REIT management and employees that makes recommendations to management in respect of ESG initiatives and engagement.

Commitments and Contingencies

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:

Within 1 year.....	\$136
After 1 year, but not more than 5 years.....	1,419
More than 5 years.....	<u>2,073</u>
Total.....	<u>\$3,628</u>

Disclosure Controls and Internal Controls over Financial Reporting

The REIT's certifying officers have designed a system of disclosure controls and procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the REIT, including its consolidated subsidiaries, is made known to them by others; and (ii) information required to be disclosed by the REIT in its annual filings, interim filings and other reports filed or submitted by the REIT under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Also, the REIT's certifying officers have designed a system of internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

There have been no changes to the REIT's ICFR during Q3 2023 that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR.

Management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure or internal controls and procedures occur and/or mistakes happen, the REIT intends to take whatever steps are necessary to minimize the consequences thereof.

Consistent with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, the REIT has filed certificates on Form 52-109F2.

SECTION 11 — QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected consolidated financial information for each of the eight most recently completed quarters:

(\$ thousands except where otherwise indicated)	Third Quarter 2023	Second Quarter 2023	First Quarter 2023	Fourth Quarter 2022	Third Quarter 2022	Second Quarter 2022	First Quarter 2022	Fourth Quarter 2021
Number of Properties	77 ⁽ⁱ⁾	77 ⁽ⁱ⁾	76	70	72	72	72	66
GLA (sq. ft.)	2,872,139 ⁽ⁱ⁾	2,872,139 ⁽ⁱ⁾	2,821,724	2,638,177	2,679,533	2,679,533	2,679,533	2,524,491
Rental revenue	23,378	22,939	22,876	20,901	20,691	20,835	20,434	19,781
Net Operating Income	19,671	19,544	19,457	17,629	17,719	17,684	17,543	16,776
Net Income	28,332	20,866	16,967	13,588	8,897	31,174	29,706	10,409
Net Income per Unit — basic ⁽ⁱⁱ⁾	0.578	0.425	0.346	0.277	0.181	0.636	0.606	0.212
Net Income per Unit — diluted ⁽ⁱⁱⁱ⁾	0.566	0.417	0.340	0.273	0.179	0.626	0.597	0.209
FFO per Unit — basic ^(iv)	0.244	0.246	0.245	0.224	0.240	0.245	0.244	0.234
FFO per Unit — diluted ^(v)	0.239	0.241	0.241	0.221	0.237	0.241	0.240	0.231
AFFO per Unit — basic ^(iv)	0.234	0.234	0.233	0.217	0.230	0.233	0.232	0.223
AFFO per Unit — diluted ^(v)	0.230	0.230	0.229	0.213	0.227	0.229	0.228	0.220
AFFO payout ratio	87.4%	87.4%	87.8%	94.4%	88.5%	87.8%	88.2%	91.4%
Distribution declared per Unit	0.201	0.201	0.201	0.201	0.201	0.201	0.201	0.201
Weighted average Units — basic	49,054,833	49,054,833	49,054,833	49,054,833	49,041,338	49,031,407	49,031,407	49,013,407

Weighted average Units — diluted	50,052,016	50,024,870	49,889,062	49,847,669	49,834,877	49,799,512	49,748,964	49,733,057
Market price per REIT Unit — close (end of period)	\$10.45	\$11.49	\$11.54	\$12.97	\$13.25	\$13.49	\$14.57	\$14.95
Total assets	1,215,242	1,209,897	1,189,459	1,093,818	1,109,437	1,112,169	1,101,997	1,051,650
Debt to GBV	44.5%	45.1%	45.2%	40.0%	41.2%	41.2%	41.6%	40.2%
Debt service coverage ratio	1.5X	1.5X	1.5X	1.6X	1.7X	1.7X	1.9X	1.9X

Notes:

- (i) Includes 100% of the GLA of the Taschereau Volvo and JLR Property.
- (ii) Net Income per Unit – basic is calculated in accordance with IFRS by dividing the Net Income by the amount of the weighted average number of outstanding REIT Units and Class B LP Units.
- (iii) Net Income per Unit – diluted is calculated in accordance with IFRS by dividing the Net Income by the amount of the weighted average number of outstanding REIT Units, Class B LP Units, DUs, PDUs, RDUs and IDUs granted as at September 30, 2023, to certain Trustees and management of the REIT.
- (iv) The FFO and AFFO per Unit – basic is calculated by using the weighted average number of outstanding REIT Units and Class B LP Units. The FFO and AFFO per Unit basic comparable numbers were adjusted in accordance with the Real Property Association of Canada's White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2019. FFO and AFFO per Unit are non-IFRS ratios. See Section 1 "General Information and Cautionary Statements – Non-IFRS Financial Measures" of this MD&A.
- (v) The FFO and AFFO per Unit – diluted is calculated by using the weighted average number of outstanding REIT Units, Class B LP Units, DUs, PDUs, RDUs and IDUs granted as at September 30, 2023 to certain Trustees and management of the REIT. The FFO and AFFO per Unit — diluted comparable numbers were adjusted in accordance with the Real Property Association of Canada's White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2019. FFO and AFFO per Unit are non-IFRS ratios. See Section 1 "General Information and Cautionary Statements – Non-IFRS Financial Measures" of this MD&A.

The increase in rental revenue and NOI are primarily attributable to property acquisitions subsequent to 2021. Net income is also impacted by fluctuations in fair value adjustments to Class B LP Units, investment properties and interest rate swaps.

SECTION 12 — RISKS & UNCERTAINTIES, CRITICAL JUDGMENTS & ESTIMATES

The risks inherent in the REIT's business are identified in the REIT's Management's Discussion and Analysis for the year ended December 31, 2022 (the "Annual MD&A") and in its AIF, all of which remain unchanged at the date of this MD&A and are available at www.sedarplus.ca.



Automotive Properties Real Estate Investment Trust
Unaudited Condensed Consolidated Interim Financial Statements
For the period ended September 30, 2023

Automotive Properties REIT

Condensed Consolidated Interim Balance Sheets (Unaudited)

<i>(in thousands of Canadian dollars)</i>		As at September 30, 2023	As at December 31, 2022
	Note		
ASSETS			
Cash and cash equivalents		\$342	\$396
Accounts receivable and other assets	5	2,766	2,987
Interest rate swaps	6	32,359	19,127
Investment properties	4	1,179,775	1,071,308
Total assets		\$1,215,242	\$1,093,818
LIABILITIES AND UNITHOLDERS' EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	7	\$10,810	\$11,241
Credit facilities and mortgages payable	6	534,133	431,075
Unit-based compensation	10	9,648	9,580
Class B LP Units	9	97,472	120,978
Total liabilities		652,063	572,874
Unitholders' equity		563,179	520,944
Total liabilities and unitholders' equity		\$1,215,242	\$1,093,818

See accompanying notes to the unaudited condensed consolidated interim 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

Condensed Consolidated Interim Statements of Income and Comprehensive Income (Unaudited)

		Three months ended September 30,		Nine months ended September 30,	
(in thousands of Canadian dollars)	Note	2023	2022	2023	2022
Net Property Income					
Rental revenue from investment properties	11	\$23,378	\$20,691	\$69,193	\$61,960
Property costs	11	(3,707)	(2,972)	(10,521)	(9,014)
		\$19,671	\$17,719	\$58,672	\$52,946
Other Income (Expenses)					
General and administrative expenses		\$(1,392)	\$(1,225)	\$(4,268)	\$(3,701)
Interest expense and other financing charges		(6,270)	(4,663)	(18,206)	(13,237)
Fair value adjustment on interest rate swaps	6	8,335	2,444	13,233	26,179
Distribution expense on Class B LP Units	8	(1,874)	(1,874)	(5,624)	(5,745)
Fair value adjustment on Class B LP Units and Unit-based compensation	9, 10	10,641	2,258	25,728	17,411
Fair value adjustment on investment properties	4	(779)	(5,762)	(3,345)	(4,076)
Net Income and Comprehensive Income		\$28,332	\$8,897	\$66,190	\$69,777

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Automotive Properties REIT

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity (Unaudited)

For the nine months ended September 30, 2023
(in thousands of Canadian dollars)

	Note	Trust Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
Unitholders' Equity at December 31, 2022		\$404,708	\$268,886	\$(152,650)	\$520,944
Issuance of Units		—	—	—	—
Net income and comprehensive income		—	66,190	—	66,190
Distributions	8	—	—	(23,955)	(23,955)
Unitholders' Equity at September 30, 2023		\$404,708	\$335,076	\$(176,605)	\$563,179

For the nine months ended September 30, 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
Issuance of Units	9	9,014	—	—	9,014
Net income and comprehensive income		—	69,777	—	69,777
Distributions	8	—	—	(23,820)	(23,820)
Unitholders' Equity at September 30, 2022		\$404,708	\$255,298	\$(144,664)	\$515,342

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Automotive Properties REIT

Condensed Consolidated Interim Statements of Cash Flow (Unaudited)

(in thousands of Canadian dollars)	Note	Three months ended September 30,		Nine months ended September 30,	
		2023	2022	2023	2022
OPERATING ACTIVITIES					
Net income		\$28,332	\$8,897	\$66,190	\$69,777
Straight-line rent		(372)	(416)	(1,387)	(1,417)
Non-cash compensation expense		486	208	1,792	1,074
Fair value adjustment on interest rate swaps		(8,335)	(2,444)	(13,232)	(26,179)
Distribution expense on Class B LP Units		1,874	1,874	5,625	5,745
Land lease termination		-	-	-	(168)
Fair value adjustment on Class B LP Units and Unit-based compensation		(10,641)	(2,258)	(25,729)	(17,411)
Fair value adjustment on investment properties		779	5,762	3,345	4,076
Interest expense and other financing charges		6,024	4,458	17,477	12,654
Financing fees		246	205	729	582
Amortization of other assets		72	213	172	484
Change in non-cash operating accounts	16	2,239	(1,480)	(775)	(2,521)
Cash Flow from operating activities		20,704	15,019	54,207	46,696
INVESTING ACTIVITIES					
Acquisitions of investment properties		-	-	(109,196)	(40,980)
Cash Flow used in investing activities		-	-	(109,196)	(40,980)
FINANCING ACTIVITIES					
Proceeds from Credit Facilities and Mortgages		1,600	4,500	122,300	52,600
Principal and Revolver repayment on Credit Facilities and Mortgages		(6,417)	(5,379)	(18,954)	(15,607)
Interest paid		(6,030)	(4,356)	(17,496)	(12,418)
Financing fees paid		(23)	(34)	(1,011)	(1,176)
Repayments on lease liabilities		(108)	(110)	(323)	(328)
Cost of issuances of Units		-	302	-	564
Distributions to REIT unitholders and Class B LP unitholders		(9,859)	(9,856)	(29,581)	(29,564)
Cash Flow from (used in) financing activities		(20,837)	(14,933)	54,935	(5,929)
Net increase (decrease) in cash and cash equivalents during the period					
		(133)	86	(54)	(213)
Cash and cash equivalents, beginning of period		475	175	396	474
Cash and cash equivalents, end of period		\$342	\$261	\$342	\$261

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three and nine months ended September 30, 2023 and 2022
(in thousands of Canadian dollars, except Unit and per Unit amounts)

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 31.4% effective interest in the REIT on a fully diluted basis as at September 30, 2023 (December 31, 2022 – 31.5%), 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 6,421,020 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 September 30, 2023, the REIT owned a portfolio of 77 income-producing commercial properties. The properties are located in metropolitan areas across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, totaling approximately 2.9 million square feet of gross leasable area ("GLA") on approximately 249 acres of land. The Dilawri Tenants are the REIT's major tenant, occupying 38 of the REIT's 77 income-producing commercial properties as at September 30, 2023.

The subsidiaries of the REIT included in the REIT's unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements of the REIT are prepared in accordance with International Accounting Standard ("IAS") 34 — Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed consolidated interim financial statements should be read in conjunction with the REIT's audited annual consolidated financial statements as at and for the year ended December 31, 2022 and the accompanying notes thereto. These unaudited condensed consolidated interim financial statements do not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

These unaudited condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Trustees of the REIT (the "Board") on November 13, 2023.

(b) Basis of Presentation

The unaudited condensed consolidated interim 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 4;
- interest rate swaps as described in Note 6;
- Class B LP Units which are exchangeable for Units at the option of the holder as described in Note 9; 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 10.

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, the REIT’s functional and reporting currency.

(c) Basis of Consolidation

These unaudited condensed consolidated interim 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.

On June 2, 2023, the REIT entered into a 50/50 joint arrangement (the “Joint Arrangement”) with StorageVault Canada Inc. (“StorageVault”) to jointly acquire an automotive dealership property located in Brossard, Quebec, from a third party vendor. The Joint Arrangement is accounted for in accordance with IFRS 11 — Joint arrangements (“IFRS 11”). Under IFRS 11, the Joint Arrangement is considered to be joint operations. The accounting treatment for joint operations requires each venturer to recognize its share of assets, liabilities, revenues, and expenses related to the joint operation in proportion to their respective interest therein.

(d) Significant accounting policies

Except as described above in “Basis of Consolidation” as it relates to the Joint Arrangement, the accounting policies applied by the REIT in these unaudited condensed consolidated interim financial statements are the same as those applied by the REIT in its audited consolidated financial statements as at and for the year ended December 31, 2022.

(e) Critical account judgements and estimates

The REIT will continue to review its discounted cash flow projections, changes in capitalization rates and the impact on the fair value of its investment properties. Valuation inputs and assumptions relating to rental income, rent collection, reserves and discount rates may change over time.

3. ACQUISITIONS AND DISPOSITIONS

On January 3, 2023, the REIT acquired the real estate underlying six full-service automotive dealership properties located in Quebec (the “2023 Quebec Properties”) from separate third parties, for approximately \$98,500, plus acquisition costs of \$3,493. Four of the 2023 Quebec Properties are located in Laval and St. Eustache in the Greater Montreal Area (Hamel Honda, Honda Ste-Rose, Chomedey Toyota and Mazda de Laval), and two of the 2023 Quebec Properties are located in Sorel-Tracy, northeast of Montreal (Hyundai Sorel and Kia Sorel). The 2023 Quebec Properties total 187,421 square feet of GLA in aggregate. The REIT funded the acquisitions of the 2023 Quebec Properties through draws on its non-revolving and revolving credit facilities and cash on hand.

On June 2, 2023, the REIT entered into the Joint Arrangement with Storage Vault to jointly acquire the real estate underlying the Volvo and Jaguar Land Rover automotive dealership located in Brossard, Quebec (the “Taschereau Volvo and JLR Property”), from a third-party vendor. Under the terms of the Joint Arrangement, the REIT and StorageVault each funded 50% of the \$16,100 purchase price, plus acquisition costs of \$382 each. The Taschereau Volvo and JLR Property is a full-service automotive dealership, totaling 50,415 square feet of GLA situated on approximately 3.4 acres of land and is currently under triple-net leases with Groupe Park Avenue Volvo and Jaguar Land Rover. The REIT funded its portion of the acquisition by drawing on its revolving credit facilities and cash on hand.

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	Magog/Sherbrooke, QC	January 17, 2022	\$24,516
Langley Acura Land	Langley, BC	January 20, 2022	15,175
Walkley Road	Ottawa, ON	February 1, 2022	703
Tesla Quebec	Quebec City, QC	February 25, 2022	16,511
Tesla Barrie	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.

4. INVESTMENT PROPERTIES

	Income producing properties	Right-of-use assets	Total September 30, 2023	Total December 31, 2022
Balance, beginning of period	\$1,068,033	\$3,275	\$1,071,308	\$1,025,207
Acquisitions ⁽¹⁾	110,425	-	110,425	67,188
Additions	-	-	-	-
Dispositions	-	-	-	(17,952)
Fair value adjustment on investment properties	(3,280)	(65)	(3,345)	(2,285)
Land lease termination	-	-	-	(2,547)
Straight-line rent ⁽²⁾	1,387	-	1,387	1,697
Balance, end of period	\$1,176,565	\$3,210	\$1,179,775	\$1,071,308

(1) Includes acquisition costs of \$3,875.

(2) Includes a deduction for amortization of tenant allowance of \$65 (December 31, 2022 - \$65).

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 that 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. For the three months ended September 30, 2023, the REIT adjusted the discount rates for properties across all markets to reflect current market conditions. The overall capitalization rate applicable to the REIT's entire portfolio increased to 6.56% as at September 30, 2023 (June 30, 2023 – 6.52%). The following table highlights the significant valuation inputs used in determining the fair value of the REIT's income producing properties:

Significant Valuation Inputs

Total Income Producing Properties	September 30, 2023		December 31, 2022	
	Range	Weighted average	Range	Weighted average
Discount rate	4.85% - 9.50%	7.46%	4.65% - 9.25%	7.18%
Terminal capitalization rate	4.60% - 9.25%	7.07%	4.45% - 9.05%	6.88%

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 \$45,500 or \$(42,100), respectively, as of September 30, 2023.

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 \$94,700 or \$(81,300), respectively, as of September 30, 2023.

Rental Commitments

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

Within 1 year.....	\$90,871
After 1 year, but not more than 5 years.....	309,211
More than 5 years.....	473,572
	<u>\$873,654</u>

5. ACCOUNTS RECEIVABLE AND OTHER ASSETS

As at	September 30, 2023	December 31, 2022
Prepaid indemnity fee	\$395	\$450
Right-of-use assets, net of depreciation	150	191
Prepaid and other receivables	2,221	2,346
	<u>\$2,766</u>	<u>\$2,987</u>

6. CREDIT FACILITIES AND MORTGAGES PAYABLE

(a) Credit Facilities and Mortgages payable consists of:

As at	September 30, 2023	December 31, 2022
Facility 1 ⁽ⁱ⁾	\$259,091	\$223,926
Facility 2 ⁽ⁱⁱ⁾	82,218	85,901
Facility 3 ⁽ⁱⁱⁱ⁾	164,353	100,672
Mortgages ^(iv)	31,434	23,258
Total	\$537,096	433,757
Financing fees ^(v)	(2,963)	(2,682)
	<u>\$534,133</u>	<u>\$431,075</u>

(i) Facility 1 includes:

A non-revolving loan in the amount of \$235,491 (December 31, 2022 - \$218,047) 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 2023, the REIT increased the non-revolving portion of Facility 1 by \$25,000. The REIT entered into floating-to-fixed interest rate swaps, with remaining terms of 1.2 to 9.1 years as at September 30, 2023, which resulted in a weighted average effective interest rate of 4.34% (December 31, 2022 - 4.20%).

A revolving credit facility in the amount of \$30,000 bearing interest at Prime plus 25 bps or the BA rate plus 150 bps, maturing in June 2027, of which \$23,600 was drawn as at September 30, 2023 (December 31, 2022 - \$5,300) and of which \$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 \$82,218 (December 31, 2022 - \$85,901) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, maturing in 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 0.7 to 7.2 years as at September 30, 2023, which resulted in a weighted average effective interest rate of 3.64% (December 31, 2022 - 3.52%).

A revolving credit facility in the amount of \$15,000 bearing interest at Prime plus 25 bps or the BA rate plus 150 bps, maturing in January 2025, of which \$nil was drawn as at September 30, 2023 (December 31, 2022 - \$nil).

(iii) Facility 3 includes:

A non-revolving loan in the amount of \$164,353 (December 31, 2022 - \$100,672) bearing interest at the BA rate plus 150 bps or Prime plus 50 bps, maturing in June 2026. The principal is repayable in monthly blended payments based on a 20 year amortization. In January 2023, the REIT increased the non-revolving portion of Facility 3 by \$70,000. The REIT entered into floating-to-fixed interest rate swaps with remaining terms of 2.2 to 9.2 years as at September 30, 2023, which resulted in a weighted average effective interest rate of 4.33% (December 31, 2022 - 3.91%).

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 September 30, 2023 (December 31, 2022 - \$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 5.05% and have maturity dates that range from June 2027 to April 2031 (the "Mortgages"). In February 2023, the REIT entered into a new Mortgage in the amount of \$9,000 for a term of 5 years. As at September 30, 2023, the weighted average interest rate of the Mortgages was 3.52% (December 31, 2022 - 3.25%).

(v) During the nine-month period ended September 30, 2023, the REIT incurred financing fees of \$1,011 (September 30, 2022 - \$1,176). The amounts are accounted for using the effective interest method, and \$2,963 remains unamortized as at September 30, 2023 (December 31, 2022 - \$2,682).

The credit facilities described above (the "Credit Facilities") and the Mortgages are secured by the REIT's investment properties. As of September 30, 2023, the REIT had five unencumbered properties with an aggregate fair value of approximately \$70,570 (December 31, 2022 ten unencumbered properties with an aggregate fair value of approximately \$120,000).

Principal repayments are as follows:

Remainder of 2023	\$6,436
2024	25,832
2025	93,795
2026	157,847
2027	230,976
Thereafter	<u>22,210</u>
Total	<u>\$537,096</u>

(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 unaudited condensed consolidated interim statements of income and comprehensive income (terms described in Note 6(a)(i), (ii) and (iii) above).

As at September 30, 2023, the notional principal amount of the interest rate swaps was approximately \$457,292 (December 31, 2022 - approximately \$405,168) and the fair value adjustment of the interest rate swaps was \$8,335 and \$13,233 for the three- and nine-month periods ended September 30, 2023, respectively, compared to \$2,444 and \$26,179 for the three- and nine-month periods ended September 30, 2022, respectively. This resulted in an asset balance of \$32,359 (December 31, 2022 - \$19,127).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

As at	September 30, 2023	December 31, 2022
Accounts payable and accrued liabilities	\$3,463	\$3,757
Accrued interest	432	377
Distributions payable (Note 8)	3,287	3,287
Lease liabilities	3,628	3,820
	\$10,810	\$11,241

As at September 30, 2023, 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	\$136
After 1 year, but not more than 5 years	1,419
More than 5 years	<u>2,073</u>
Total	<u>\$3,628</u>

8. DISTRIBUTIONS

	Three months ended September 30, 2023			Three months ended September 30, 2022		
	Units	Class B LP Units	Total	Units	Class B LP Units	Total
Paid in Cash	\$7,985	\$1,874	\$9,859	\$7,982	\$1,874	\$9,856
Declared	7,985	1,874	9,859	7,984	1,874	9,858
Payable as at period end	2,662	625	3,287	2,662	625	3,287

	Nine months ended September 30, 2023			Nine months ended September 30, 2022		
	Units	Class B LP Units	Total	Units	Class B LP Units	Total
Paid in Cash	\$23,955	\$5,624	\$29,579	\$23,819	\$5,745	\$29,564
Declared	23,955	5,624	29,579	23,820	5,745	29,565
Payable as at period end	2,662	625	3,287	2,662	625	3,287

9. 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 nine months ended September 30, 2023

	Units	Amount
Units, beginning of period	39,727,346	\$404,708
Units issued, net of costs	-	-
Total Units, end of period	39,727,346	\$404,708
Class B LP Units, beginning of period	9,327,487	\$120,978
Fair value adjustment on Class B LP Units	-	(23,506)
Total Class B LP Units, end of period	9,327,487	\$97,472
Total Units and Class B LP Units, end of period	49,054,833	\$502,180

For the year ended December 31, 2022

	Units	Amount
Units, beginning of year	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 year	39,727,346	\$404,708
Class B LP Units, beginning of year	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 year	9,327,487	\$120,978
Total Units and Class B LP Units, end of year	49,054,833	\$525,686

10. 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 – *Financial Instruments: Presentation* (“IAS 32”). As the exemption under IAS 32 does not apply to IFRS 2 — *Share Based Payments*, the DUs, PDUs, RDUs and IDUs are 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 nine months ended September 30, 2023, the REIT accrued for short-term incentive awards in the amount of \$422 (September 30, 2022 - \$345) which will be settled by the granting of DUs and cash assuming achievement of performance targets.

All independent trustees of the REIT elected to receive board and committee compensation 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. A summary of Unit-based compensation outstanding under the Plan is outlined below:

As at September 30, 2023

	Units Granted ⁽¹⁾⁽²⁾	Units Outstanding	Outstanding Unit-based compensation End of Period ⁽²⁾
DUs	635,363	641,298	6,701
PDUs	100,142	56,886	594
RDUs	78,420	55,731	582
IDUs	203,873	169,351	1,771
Total	1,017,798	923,266	\$9,648

As at December 31, 2022

	Units Granted	Units Outstanding	Outstanding Unit-based compensation End of Year ⁽²⁾
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

(1) For the nine-month period ended September 30, 2023, 208,978 DUs, PDUs, RDUs and IDUs were granted, of which 83,838 PDUs and RDUs and 20,453 IDUs were accounted for in accordance with the vesting schedule.

(2) Includes a fair value adjustment of \$2,223 for the nine months ended September 30, 2023 (September 30, 2022 – \$781).

11. RENTAL REVENUE AND PROPERTY COSTS

(a) Rental Revenue

<i>For the three months ended September 30,</i>	2023	2022
Base rent	\$19,299	\$17,303
Property tax recoveries	3,707	2,972
Straight line rent adjustment	372	416
Rental revenue	\$23,378	\$20,691

<i>For the nine months ended September 30,</i>	2023	2022
Base rent	\$57,285	\$51,361
Property tax recoveries	10,521	9,182
Straight line rent adjustment	1,387	1,417
Rental revenue	\$69,193	\$61,960

(b) Property Costs

<i>For the three months ended September 30,</i>	2023	2022
Property tax expense	\$3,707	\$2,972
Property cost	\$3,707	\$2,972

<i>For the nine months ended September 30,</i>	2023	2022
Property tax expense	\$10,521	\$9,182
Land lease termination ⁽¹⁾	-	(168)
Property cost	\$10,521	\$9,014

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

12. 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.

13. CAPITAL MANAGEMENT

The REIT defines its capital as the aggregate of Unitholders' equity, Class B LP Units, Credit Facilities and Mortgages which, as at September 30, 2023, totaled \$1,194,784 (December 31, 2022 – \$1,072,997). 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 September 30, 2023, the REIT was in compliance with each of the covenants under these agreements.

14. 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. References to "FVTPL" refer to the fair value through profit or loss.

The following table provides the classification and measurement of non-current financial assets and liabilities as at September 30, 2023:

Financial Assets/(Liabilities)	Classification/ Measurement	Carrying Value	Fair Value
Credit Facilities and Mortgages Payable	Amortized Cost	\$(534,133)	\$(537,096)
Interest Rate Swaps	FVTPL	32,359	32,359
Class B LP Units	FVTPL	(97,472)	(97,472)
Unit-based compensation	FVTPL	(9,648)	(9,648)
		\$(608,894)	\$(611,857)

The following table provides the classification and measurement of non-current 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)
		\$(542,506)	\$(545,188)

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 September 30, 2023 is \$1,179,775 (December 31, 2022 – \$1,071,308) (Level 3). See Notes 4 and 2 (e).

(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 September 30, 2023 is \$32,359 (December 31, 2022 – \$19,127). 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 September 30, 2023 is \$97,472 (December 31, 2022 – \$120,978). The fair value of the Class B LP Units is based on the traded value of the Units as at September 30, 2023 (Level 1).

(v) Unit-based compensation

The fair value of Unit-based compensation as at September 30, 2023 is \$9,648 (December 31, 2022 – \$9,580). The fair value of Unit-based compensation is based on the traded value of the Units as at September 30, 2023 (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 13. 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.

15. 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 53.3% and 53.6% of the REIT's rental income for the three-and nine-month periods ended September 30, 2023, respectively (58.4% and 58.8% for the three-and nine-month periods ended September 30, 2022, respectively).

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 approximately \$753, of which \$579 remains outstanding as at September 30, 2023, 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 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.

16. SUPPLEMENTARY INFORMATION

Changes in non-cash operating accounts

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Accounts receivable and other assets	2,377	\$(294)	48	\$(1,075)
Accounts payable and accrued liabilities	(138)	(1,186)	(823)	(1,446)
Change in non-cash operating accounts	2,239	\$(1,480)	(775)	\$(2,521)