

ALL ISLAND EQUITY REIT
Consolidated Financial Statements

Year Ended December 31, 2020
Expressed in Canadian Dollars

To the Unitholders of All Island Equity REIT:

Opinion

We have audited the consolidated financial statements of All Island Equity REIT and its subsidiaries (the "Investment Trust"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of earnings, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Investment Trust as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may

- involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Investment Trust's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Investment Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Investment Trust to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Investment Trust to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Vancouver, British Columbia

February 25, 2021

MNP LLP
Chartered Professional Accountants

Independent Auditor' Report

Consolidated Financial Statements

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

As at December 31	2020	2019
ASSETS		
Non-current assets		
Investment properties (Note 5)	\$93,537,695	\$78,099,000
Properties under development for use	172,235	-
	93,709,930	78,099,000
Current assets		
Cash and cash equivalents (Note 4)	5,934,611	6,720,606
Trade and other receivables	53,853	46,791
Prepaid expenses and deposits	867,799	128,934
	6,856,263	6,896,331
Total assets	\$100,566,193	\$84,995,331
LIABILITIES AND UNITHOLDERS' EQUITY		
Non-current liabilities		
Long term portion of loans (Note 6)	38,087,034	30,215,715
	38,087,034	30,215,715
Current liabilities		
Trade payables and accruals	383,066	457,631
Security deposits	251,393	177,149
Deferred revenue	-	45,228
Current portion of long-term loans (Note 6)	3,889,089	4,059,147
	4,523,548	4,739,155
Total liabilities	42,610,582	34,954,870
Unitholders' equity (Note 7)	57,955,611	50,040,461
Total liabilities & unitholders' equity	\$100,566,193	\$84,995,331

Nature of operations and basis of presentation (Note 1 and 2)

Approved on behalf of the Trustee of All Island Equity REIT

"Garth Busch" Director

"Ben Vanderhorst" Director

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

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

For the years ended December 31	2020	2019
REVENUES		
Rental income	6,388,322.56	5,524,527.16
RENTAL EXPENSES		
Insurance	447,807	213,876
Property taxes	597,342	513,845
Property operating expenses	588,212	438,202
Repairs and maintenance	355,837	416,260
	1,989,198	1,582,183
NET RENTAL INCOME	4,399,124	3,942,344
ADMINISTRATIVE EXPENSES		
Bank charges	6,807	3,272
Consulting fees	1,050	55,931
Director's fees (Note 11)	47,088	33,468
Salaries and management fees (Note 11)	869,367	840,598
Professional fees	161,330	145,755
Other	41,554	14,132
	1,127,196	1,093,155
NET INTEREST EXPENSES (INCOME)		
Interest expense (Note 6)	1,190,421	1,178,211
Amortization of mortgage transaction cost (Note 6)	94,758	71,467
Interest income	(14,721)	(4,786)
	1,270,458	1,244,892
NET OPERATING INCOME		
Fair value adjustments to investment properties (Note 5)	2,001,470	1,604,297
	3,999,881	3,448,242
NET EARNINGS FOR THE YEAR	\$6,001,351	\$5,052,539
Earnings per trust units		
Basic and diluted	\$1.57	\$1.60
Weighted average number of trust units		
Basic and diluted	3,830,123	3,149,910

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

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

	Number of Class A PAY units	Number of Class F PAY units	Number of Class A DRIP units	Number of Class F DRIP units	Total Units	Total
Balance as of January 1, 2019	81,064	410,184	908,281	1,604,057	3,003,586	\$37,115,604
Unit Issuance - Raised	77,885	86,324	264,257	303,276	731,742	9,044,331
Unit Issuance - Distribution	-	-	23,149	50,409	73,558	909,174
Distribution - Paid	-	-	-	-	-	(210,331)
Distribution - Trailer fees	-	-	-	-	-	(58,892)
Distribution - DRIP	-	-	-	-	-	(909,174)
Unit Redemptions	(4,393)	(2,771)	(12,223)	(28,764)	(48,151)	(590,714)
Class Switch	28,794	62,049	(87,781)	(3,063)	-	-
Employee Bonus Units	-	-	-	2,650	2,650	30,104
Unit Issuance Costs	-	-	-	-	-	(342,180)
Net earnings for the year	-	-	-	-	-	5,052,538
Balance as of December 31, 2019	183,350	555,786	1,095,683	1,928,565	3,763,384	\$50,040,461
	Number of Class A PAY units	Number of Class F PAY units	Number of Class A DRIP units	Number of Class F DRIP units	Total Units	Total
Balance as of January 1, 2020	183,350	555,786	1,095,683	1,928,565	3,763,384	\$50,040,461
Unit Issuance - Raised	684	30,008	85,849	110,684	227,225	3,022,093
Unit Issuance - Distribution	-	-	23,742	61,353	85,095	1,131,765
Distribution - Paid	-	-	-	-	-	(291,144)
Distribution - Trailer fees	-	-	-	-	-	(150,999)
Distribution - DRIP	-	-	-	-	-	(1,131,765)
Unit Redemptions	(8,647)	(6,117)	(20,060)	(6,495)	(41,319)	(544,479)
Class Switch	(5,809)	91,071	(59,143)	(26,119)	-	-
Employee Bonus Units	-	-	-	-	-	-
Unit Issuance Costs	-	-	-	-	-	(121,670)
Net earnings for the year	-	-	-	-	-	6,001,351
Balance as of December 31, 2020	169,578	670,748	1,126,072	2,067,987	4,034,385	\$57,955,611

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

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

Year ended December 31	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$6,001,351	\$5,052,538
Items not affecting cash:		
Accretion of mortgage transaction costs	94,758	71,467
Fair value adjustment to investment properties	(3,999,881)	(3,448,242)
Issuance of staff units	-	30,104
Changes in non-cash working capital items:		
Increase in receivables	(7,062)	(7,780)
Increase in prepaid expenses	(738,865)	(41,364)
Increase in accounts payable and accruals	(74,564)	148,375
Increase in security deposits	74,244	(32,902)
Increase in deferred revenue	(45,228)	2,988
Net cash received from operating activities	1,304,752	1,775,184
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of new investment property	(10,717,681)	(2,931,001)
Properties under development for use	(172,235)	-
Capital additions to investment properties	(721,133)	(946,449)
Net cash used in investing activities	(11,611,049)	(3,877,450)
CASH FLOWS FROM FINANCING ACTIVITIES		
Gross proceeds from issuance of units	3,022,093	9,044,331
Cash distribution	(442,143)	(269,222)
Unit redemption	(544,479)	(590,714)
Issuance costs and commissions	(121,670)	(342,180)
Mortgage proceeds received	12,279,604	-
Mortgage transaction costs	(480,261)	-
Repayment of mortgages	(4,192,840)	(997,111)
Net cash received from (used in) financing activities	9,520,302	6,845,104
Net change in cash and cash equivalents	(785,995)	4,742,837
Cash and cash equivalents, beginning of year	6,720,606	1,977,768
CASH AND CASH EQUIVALENTS, END OF YEAR	\$5,934,611	\$6,720,606

Supplementary cash flow information in Note 12

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

1. NATURE OF OPERATIONS

All Island Equity REIT (the "REIT") is a limited purpose, unincorporated open-ended investment trust, governed by the terms and conditions of a Declaration of Trust dated March 1, 2017, as amended on May 29, 2018, and by the general laws of trusts and the laws of British Columbia, Canada. The principal office of the REIT is in Nanaimo, BC.

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

During the year, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the REIT as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the REIT has put risk mitigation processes in place the extent of the impact of COVID-19 is unknown. We anticipate that this outbreak may cause changes in tenant demand, disruptions in procurement, affect staff, and increased government regulations, all of which may negatively impact the REIT's business and financial condition.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

a. Statement of compliance

These consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the IFRS Interpretations Committee ("IFRICs") and effective for the year ended December 31, 2020.

These consolidated financial statements for the year ended December 31, 2020 were authorized for issue by the Board of Directors of the Trustee (the "Board") on February 25, 2021.

b. Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties which have been measured at fair value.

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

c. Functional and presentation currency

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

Assets and liabilities related to properties held in a foreign entity with a functional currency other than the Canadian dollar are translated at the rate of exchange at the consolidated balance sheet dates. Revenues and expenses are translated at average rates for the period unless exchange rates fluctuate significantly during the period in which case the exchange rates at the dates of the transactions are used. The resulting unrealized foreign currency translation adjustments are recognized in other comprehensive income. The REIT has no properties held in foreign jurisdictions.

3. SIGNIFICANT ACCOUNTING POLICIES

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

A. *Basis of consolidation*

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

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

Intra-group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of the REIT and its 100% owned subsidiary, All Island Equity REIT Limited Partnership (the "REIT LP") (collectively, the "Limited Partnership").

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

B. *Property acquisitions and business combinations*

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

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

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

C. *Investment properties*

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

C. *Investment properties (continued)*

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the statement of net income and other comprehensive income in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

D. *Properties under development for use*

Properties under development for use are carried at cost and are not subject to depreciation. Cost includes initial acquisition costs, project costs, professional fees, management fees, and interest during the development period. The development period ends when the assets are available for use and construction is complete. Upon completion, properties under development for use are transferred to the appropriate asset classes.

E. *Cash and cash equivalents*

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

F. *Equity issuances and redemption*

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

G. *Revenue recognition*

Rental revenue is recognized in income on a straight-line basis over the lease term subject to ultimate collection being reasonably assured. Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred, and collectability is reasonably assured. Parking and other incidental income are recognized in the period when the services were performed. Contracts with customers for residential condominium units generally include one distinct performance obligation. Revenue is recognized at the transaction price agreed under the contracts and is recognized at the point in time in which control over the property has transferred to the tenant.

H. *Net earnings per unit*

Basic net earnings per unit has been calculated based on the weighted average number of units outstanding.

I. *Financial instruments*

All financial instruments must be recognised, initially, at fair value on the Statement of Financial Position. The REIT has classified each financial instrument at amortized cost. Subsequent measurement of the financial instrument is based on their respective classification. Financial instrument classified as amortized cost are measured at amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Financial instruments (continued)

Financial asset/liability	Classification
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Trade payables and accruals	Amortized cost
Security deposits	Amortized cost
Loans	Amortized cost

Amortized cost

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

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

Impairment of financial assets

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

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

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

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

J. Income taxes

The REIT is taxed as a "mutual fund trust" under the Income Tax Act (Canada). Pursuant to the Declaration of Trust and subject to the specific investment flow through ("SIFT") rules, the Board intends to distribute or designate all taxable income to the unitholders of the REIT and to deduct such distributions and designations for Canadian Income Tax purposes. Accordingly, the REIT is not taxable on its income provided all of its taxable income is distributed to the unitholders.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Fair value

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

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

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

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

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

L. Significant accounting judgments and estimates

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

a. Judgments

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

(i) Asset acquisitions

The REIT acquires individual investment properties. At the time of acquisition, the REIT considers whether or not the acquisition represents the acquisition of a business. The REIT accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the property (e.g., maintenance, cleaning, security, bookkeeping, etc.).

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Significant accounting judgments and estimates (continued)

(ii) Lease contracts

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

b. Estimates

The significant areas of estimation include the following:

Valuation of investment properties

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

The determination of the fair value of the investment properties requires the use of estimates such as future cash flows from assets (based on factors such as tenant profiles, future revenue streams and overall repair and condition of the property), capitalization rates and discount rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

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

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

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

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

The significant assumptions used by management in estimating the fair value of investment property are set out in Note 5.

M. Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

N. *Standards, Amendments and Interpretations Issued and Adopted*

Adoption of IFRS 16- Leases

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 – Leases (“IAS 17”), with the distinction between operating leases and finance leases being retained. The REIT did not have any impact to its consolidated financial statements on the adoption of this standard.

Business Combinations

IFRS 3, Business Combinations – issued by the IASB in January of 2008. IASB has issued the amendments to IFRS 3, which relate to the definition of a business. The amendments are as follows:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2020, and to asset acquisitions that occur on or after the beginning of that period. There was no impact upon adoption for the REIT.

O. *New and revised standards and interpretations*

New accounting standards adopted

The listing below includes issued standards, amendments, and interpretations that the REIT reasonably expects to be applicable at a future date and intends to adopt when they become effective.

Interest Rate Benchmark Reform: Amendments to IFRS 9 and IFRS 7

In September 2019, IASB issued Phase 1 of its amendments to IFRS 9 – Financial Instrument sand IFRS 7 – Financial Instruments: Disclosures, to amend certain requirements for hedge accounting and provide relief during the period of uncertainty arising from the phase out of interest rate benchmarks (e.g. interbank offered rates [“IBOR”s]). These amendments modify hedge accounting requirements, allowing entities to assume that the interest rate benchmark on which the cash flows of the hedged item and the hedging instrument are based are not altered as a result of IBOR reform, thereby allowing hedge accounting to continue. Mandatory application of the amendments ends at the earlier of when the uncertainty regarding the timing and amount of interest rate benchmark-based cash flows is no longer present and the discontinuation of the hedging relationship. Phase 2 of the IASB’s project on IBOR is underway and will address transition from IBOR. The Phase 1 amendments will be effective for annual periods beginning on or after January 1, 2020, with early adoption permitted. The REIT does not expect any potential impact of these amendments on hedge accounting relationships.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

O. New and revised standards and interpretations (continued)

Insurance Contracts

In May 2017, the International Accounting Standards Board (“IASB”) issued IFRS 17 – Insurance Contracts (“IFRS 17”), that replaces IFRS 4 – Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue, and claims-related expenses. IFRS 17 is effective for annual periods beginning on or after January 1, 2021. In June 2019, the IASB proposed an amendment to IFRS 17 providing a deferral of one year of the effective date to January 1, 2022. Early adoption is permitted. The REIT does not except any potential impact of this standard.

4. CASH AND CASH EQUIVALENTS

The REIT’s cash and cash equivalents balances are as follows:

As at December 31,	2020	2019
Cash in bank	\$5,933,011	\$6,718,906
Petty Cash	1,600	1,700
	\$5,934,611	\$6,720,606

5. INVESTMENT PROPERTIES

The balance of the investment properties as at December 31, 2020 and December 31, 2019 is as follows:

As at December 31,	2020	2019
Balance, beginning of year	\$78,099,000	\$70,773,308
Purchase of new investment properties	10,717,681	293,100
Properties under development for use	172,235	-
Capital additions	721,133	946,449
Disposal of investment properties	-	-
Changes in fair value adjustments to investment properties	3,999,881	3,448,242
Balance, end of year	\$93,537,695	\$78,099,000

The fair value of recently acquired investment property would be the purchase price plus acquisition costs and capital additions since acquisition. In subsequent years, the fair value of the investment properties will be determined on a fair value basis.

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

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

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5. INVESTMENT PROPERTIES (continued)

The significant assumptions made to the fair value of the investment properties as at December 31, 2020 and December 31, 2019 are set out below:

For December 31, 2020	Weighted average	Range
Capitalization rate (%)	4.91%	4.15% - 6.61%
Net operating income (\$)	\$4,596,000	\$15,175 - \$622,627

For December 31, 2019	Weighted average	Range
Capitalization rate (%)	4.95%	3.79% - 6.25%
Net operating income (\$)	\$3,865,076	\$15,175 - \$622,627

Valuations determined by the income method are most sensitive to changes in capitalization rates. The table below summarizes the sensitivity of the fair value of investment properties to changes in the capitalization rate as at December 31, 2020 and 2019.

For December 31, 2020:

Change in capitalization rate	Fair value	Change in fair value	Percentage change
-0.45%	\$102,967,897	\$9,430,202	10.08%
-0.30%	99,620,093	6,082,398	6.50%
-0.15%	96,483,129	2,945,434	3.15%
December 31, 2020	93,537,695	-	0%
0.15%	90,766,770	2,770,925	-2.96%
0.30%	88,155,291	5,382,404	-5.75%
0.45%	\$85,689,881	\$7,847,814	-8.39%

For December 31, 2019:

Change in capitalization rate	Fair value	Change in fair value	Percentage change
-0.45%	\$85,890,578	\$7,791,944	9.98%
-0.30%	83,119,914	5,021,280	6.43%
-0.15%	80,552,417	2,423,783	3.10%
December 31, 2019	78,099,000	-	0%
0.15%	78,098,634	2,312,830	-2.96%
0.30%	73,620,495	4,478,139	-5.73%
0.45%	\$71,575,481	\$6,523,153	-8.35%

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6. LOANS

Loans are recorded at amortized cost and are secured by first charges on the REIT's investment properties, with a carrying and fair value of \$41,976,123 and \$42,760,071 (2019 - \$34,274,862 and \$34,673,307), respectively. Included in loans are unamortized mortgage transaction costs, which are amortized over the term of each mortgage using the effective interest rate method.

As at December 31,	2020	2019
CMLS Financial Ltd. mortgage loan, bearing interest at 3.26%, payable in monthly blended installment payments of \$20,197, with a term expiring on June 1, 2022, secured by certain investment properties	\$3,750,356	\$3,865,552
Less: unamortized mortgage transaction costs	(9,485)	(16,199)
	3,740,871	3,849,353
Coast Capital Savings Credit Union term loans, bearing interest between 3.15% to 3.47%, payable in total monthly blended installment payments of \$63,474, with terms expiring on June 1, 2022, secured by certain investment properties	11,089,292	11,473,764
Less: unamortized mortgage transaction costs	(10,340)	(17,660)
	11,078,952	11,456,104
Industrial Alliance Financial Group term loans, bearing interest between 3.40% to 3.45%, payable in total monthly blended installment payments of \$21,854, with terms expiring between December 1, 2021 and April 1, 2022, secured by certain investment properties	3,687,067	6,977,162
Less: unamortized mortgage transaction costs	(2,451)	(4,419)
	3,684,616	6,972,743
Vancity loans, bearing interests at 3.99%, payable in a total monthly blended installment payment of \$2,760, with terms expiring April 25, 2021, secured by certain investment properties	490,384	503,807
Less: unamortized mortgage transaction costs	(19,386)	(34,945)
	470,998	468,862
People's Trust loans, bearing interest between 1.69% to 3.22%, payable in total monthly blended installment payments of \$84,965, with terms expiring ranging from March 1, 2028 to June 1, 2030, secured by certain investment properties	19,177,921	11,853,022
Less: unamortized mortgage transaction costs	(569,288)	(325,222)
	18,608,633	11,527,800
RBC loan, bearing interest at 1.80%, payable in a total monthly blended installment payment of \$19,147, with term expiring July 1, 2030, secured by certain investment properties	4,565,051	-
Less: unamortized mortgage transaction costs	(172,998)	-
	4,392,053	-
	41,976,123	34,274,862
Unamortized mortgage transaction costs	(783,948)	(398,445)
Current portion of long-term debt	3,889,089	4,059,147
Long-term portion of long-term debt	38,870,982	30,614,160
	\$41,976,123	\$34,274,862

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6. LOANS (continued)

During the year ended December 31, 2020, the REIT incurred interest expense of \$1,190,421 (2019 - \$1,178,211) and amortization expense of \$94,758 (2019 - \$71,467). Under the terms of the loan agreements, the REIT is required to comply with certain loan covenants. As at December 31, 2020 and 2019, all covenants were met.

Principal repayments based on scheduled repayments to be made on the long-term debt are as follows as of December 31, 2020:

2021	\$3,889,089
2022	16,466,728
2023	693,815
2024	710,691
Thereafter	<u>20,999,747</u>
	<u>\$42,760,071</u>

7. UNITHOLDERS' EQUITY

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

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

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

As at December 31, 2020, total unitholders equity was \$57,955,611 (2019 - \$50,040,461) which consists of unitholder contributions, distributions declared, DRIP units issued, issuance costs and net earnings for the year ended December 31, 2020.

a. Unit Issuance

The REIT issued the following units:

for the year ended 31 December, 2020	Units Issued	Gross Proceeds	Price Per Unit
Class A PAY	684	\$9,097	\$13.30
Class F PAY	30,008	399,106	13.30
Class A DRIP	85,849	1,141,792	13.30
Class F DRIP	110,684	1,472,097	13.30
Total	227,225	\$3,022,093	\$13.30

for the year ended 31 December, 2019	Units Issued	Gross Proceeds	Price Per Unit
Class A PAY	77,885	\$962,659	\$12.36
Class F PAY	86,324	1,066,965	12.36
Class A DRIP	264,257	3,266,217	12.36
Class F DRIP	303,276	3,748,491	12.36
Total	731,742	\$9,044,331	\$12.36

7. UNITHOLDERS' EQUITY (continued)

b. Unit Classification and redemption rights

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

The total amount payable by the REIT in any calendar month will not exceed amount payable by the Trust by cash payment in respect of the redemption of Units for the calendar quarter in which the Redemption Date occurs will not exceed \$50,000; and (b) the total amount payable by the Trust by cash payment in respect of the redemption of Units in any twelve month period ending at the end of the calendar quarter in which the Redemption Date occurs will not exceed 1/4 of 1% of the aggregate Subscription Price of all Units that were issued and outstanding at the start of such twelve month period.

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

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

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7. UNITHOLDERS' EQUITY (continued)

b. Unit Classification and redemption rights (continued)

The REIT redeemed the following units:

	2020		2019	
	Units Redeemed	Redemption Amount	Units Redeemed	Redemption Amount
Class A PAY	8,647	\$115,005	4,393	\$54,302
Class F PAY	6,117	81,357	2,771	34,248
Class A DRIP	20,060	261,731	12,223	147,227
Class F DRIP	6,495	86,386	28,764	354,937
Total	41,319	\$544,479	48,151	\$590,714

c. Distributions

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

The REIT distributed the following:

for the year ended 31 December, 2020	Distributions Declared	Distributions Reinvested	Units Issued through DRIP	Trailer Fee Paid
Class A PAY	\$69,385	\$0	-	\$20,080
Class F PAY	241,839	-	-	130,919
Class A DRIP	446,691	315,772	23,742.27	-
Class F DRIP	815,993	815,993	61,352.84	-
Total	\$1,573,908	\$1,131,765	85,095	\$150,999

for the year ended 31 December, 2019	Distributions Declared	Distributions Reinvested	Units Issued through DRIP	Trailer Fee Paid
Class A PAY	\$36,799	\$0	-	\$6,126
Class F PAY	338,886	-	-	52,766
Class A DRIP	179,657	286,120	23,149	-
Class F DRIP	623,055	623,054	50,409	-
Total	\$1,178,397	\$909,174	73,558	\$58,892

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8. OPERATING LEASES – REIT as a lessor

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

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

	2020	2019
Within one year	\$982,974	\$840,987
Two to five years	1,937,220	1,651,997
Over five years	504,563	96,942
	\$3,424,758	\$2,589,926

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

9. CAPITAL MANAGEMENT

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

10. FINANCIAL INSTRUMENTS

Fair value of financial instruments

For certain REIT financial instruments, including cash and cash equivalents, trade and other receivables, trade payable and accruals and security deposits, the carrying amounts approximate their fair values due to the immediate or short-term maturity of these financial instruments.

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

The following table presents the carrying amounts and fair values of the REIT's financial instruments:

As at December 31,	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$5,934,611	\$5,934,611	\$6,720,606	\$6,720,606
Trade and other receivables	53,853	53,853	46,791	46,791
Trade payable and accruals	383,066	383,066	457,631	457,631
Security deposits	251,393	251,393	177,149	177,149
Loans	\$41,976,123	\$42,760,071	\$34,274,862	\$34,673,307

10. FINANCIAL INSTRUMENTS (continued)

Financial risk management

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

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

a. Credit risk

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

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

Trade and other receivables are comprised primarily of current balances owing and the REIT has not experienced any significant receivable write-offs. The REIT performs frequent reviews of its receivables and has determined there is no significant provision for doubtful accounts as at December 31, 2020 and 2019. The table below shows trade receivables due from tenants:

Aged trade receivables	December 31, 2020	December 31, 2019
Current	\$2,727	\$8,496
Past due 31 – 60 days	9,556	8,213
Past due 61 – 90 days	35,087	-
Past due 90+ days	6,484	30,082
	\$53,853	\$46,791

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

b. Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The REIT will be exposed to interest rate risk on the fixed rate debt it carries against the investment properties as at December 31, 2020 and December 31, 2019 at maturity.

c. Foreign currency risk

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

10. FINANCIAL INSTRUMENTS (continued)

d. Liquidity risk

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

The REIT's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due. As at December 31, 2020, the REIT had sufficient cash to settle current liabilities.

The following are the contractual maturities of financial liabilities as at December 31, 2020.

	Amortized cost	Due in 1 year	Over 1 year
Trade payable and accrued liabilities	\$383,066	\$383,066	-
Long-term debt	\$41,976,123	\$3,889,089	\$38,087,034

e. Environmental risk

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

f. Redemption risk

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

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

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

10. FINANCIAL INSTRUMENTS (continued)

f. Redemption risk (continued)

Payment of Redemption Price in Specie

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

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

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

g. Lease rollover risk

Lease rollover risk arises from the possibility that the REIT may have trouble renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. The REIT tries to sign long term leases with commercial tenants to minimize lease rollover risk. As at December 31, 2020, the occupancy rate across all of the commercial properties is 88.80% (2019 - 97.94%). For any vacant space, the REIT uses qualified third-party leasing agents to actively market the space.

11. RELATED PARTY TRANSACTIONS

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

Transactions with All Island Equity Management Inc. (the "Manager")

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

As of December 31, 2020, the Limited Partnership Agreement was amended so that net income or loss of the Limited Partnership from the ordinary course of operations of the properties will be allocated as follows:

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

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

11. RELATED PARTY TRANSACTIONS (continued)

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

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

For the years ended December 31, 2020 and 2019, all acquisition fees were waived by the Manager.

- b.* An asset management fee up to 0.50% of the Gross Asset Value (2020 - \$91,157,043 and 2019 - \$77,048,910) (defined as the fair market value of all assets of the Trust, as measured on the financial statements of the Trust as at the end of each month) payable quarterly, no later than the last day of each quarter. The Manager may waive the obligation of the REIT LP to pay all or any portion of the asset management fee for any year or any one or more months within any such year, provided that the waiver of the obligation shall not act as a waiver of such obligation in subsequent years.

For the year ended December 31, 2020, the Manager was entitled to asset management fees totaling \$455,847 (2019 - \$385,245) plus GST, if applicable, of which \$45,585 (2019 - \$175,000) was paid to the Manager, and \$410,263 (2019 - \$210,245) was waived during the year.

The portion of the fee paid in 2019 of \$175,000 plus GST represents a one-time management fee related to the amendments made to the Limited Partnership Agreement. This management fee has been included in trade payables as at December 31, 2019.

Transactions with All Island Equity Services Inc. (the “Trustee”)

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

During the years December 31, 2020 and 2019, there were no transactions with the Trustee.

During the years December 31, 2020 and 2019, the REIT paid director fees of \$47,088 (2019 - \$33,468).

12. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash transaction

The REIT issued 85,095 Units (2019 - 73,558) as part of the DRIP program, of which 23,742 was issued as Class A DRIP (2019 - 23,149) and 61,353 was issued as a Class F DRIP (2019 - 50,409), for a total value of \$1,131,765 (2019- \$909,175) of distributions reinvested (Note 7).

13. SEGMENTED DISCLOSURE

The REIT operates in one business segment, being the owning and operating of investment properties in Canada. As at December 31, 2020, the Realty Trust operates thirty-three investment properties located in British Columbia, Canada.

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2020 the REIT redeemed 1,625 Class A DRIP and 3,008 Class F Pay units for a total payment of \$61,620 to unitholders.

On January 20, 2021 the REIT closed the purchase of an investment property located in Campbell River, British Columbia for \$7,730,000. The REIT obtained a CMHC insured mortgage from National Bank, with a principal amount of \$4,319,738, bearing interest at 1.95%, payable in a total monthly blended installment payment of \$18,188, maturing March 1, 2031, secured by this property.

On February 4, 2021 the REIT removed conditions on an offer to purchase of an investment property located in Campbell River, British Columbia for \$1,825,000. Closing for the property is expected March 7, 2021.

15. COMPARATIVE FIGURES

Comparative figures have been re-classified to conform to current presentation.