



EQUITON®

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# REAL ESTATE INCOME AND DEVELOPMENT FUND TRUST

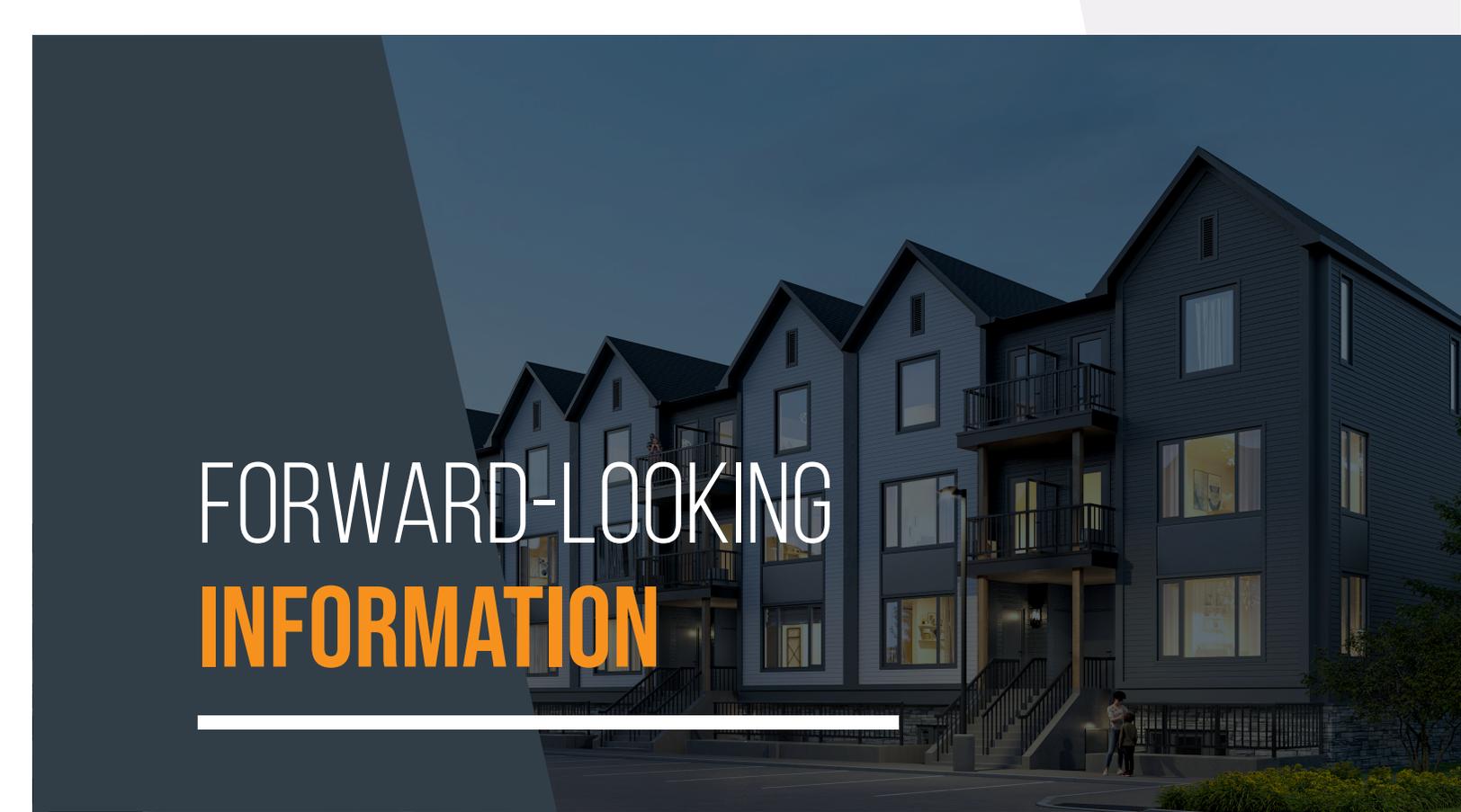


ANNUAL REPORT  
2022

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# FORWARD-LOOKING INFORMATION

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Certain information in this communication contains “forward-looking information” within the meaning of applicable securities legislation. Forward-looking information may relate to future events or the Trust’s performance. Forward-looking information includes, but is not limited to, information regarding the Trust’s distributions, growth potential and volatility, investor returns, ability to achieve operational efficiencies, objectives, strategies to achieve those objectives, beliefs, plans, estimates, projections and intentions; and similar statements concerning anticipated future events, results, circumstances, performance or expectations and other statements that are not historical facts. These statements are based upon assumptions that the management of the Trust believes are

reasonable, but there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking information involves numerous assumptions, known and unknown risks, and uncertainties that contribute to the possibility that the forward-looking statements will not occur and may cause actual results to differ materially from those anticipated in such forward-looking statements. Some of these risks are discussed in the section “Risk Factors” in the Offering Memorandum. These forward-looking statements are made as of the date of this communication and the Trust is not under any duty to update any of the forward-looking statements after the date of this communication other than as otherwise required by applicable legislation.

# LETTER FROM SENIOR MANAGEMENT



Jason Roque, CEO

Helen Hurlbut, CFO

We are pleased to report that the Equiton Real Estate Income and Development Fund Trust (the Trust) had a successful year of financial performance, demonstrating our dedication to providing Unitholders with reliable risk-adjusted income and capital growth. We are proud to have achieved positive results and are confident that our strategy will continue to drive value.

Unitholders benefit from ongoing lease and interest income, while simultaneously gaining capital appreciation from the properties and receiving special distributions from developments projects. Throughout the past year, we moved the Trust forward in tangible ways including a significant portfolio AUM growth of 43%. The Trust has a targeted annual net return of 12-16% over a 10-year period.

The Trust made significant progress on its joint venture, Marquis Modern Towns, in Guelph, Ontario. The development will have stacked townhomes across four buildings at the rear of the property, and a modern retail

store. Phase one of this two-phase development broke ground in Q1'22 and is nearing completion; it involves relocating the retail store to create space on the site for development. Phase two will consist of building 96 stacked townhomes on the reclaimed space. Site work at the retail store is estimated to be completed by Q2'23. Upon completion, the project is expected to have a total value of \$64.5 million.

In August, the Trust acquired an 11% stake in the Sandstones Condo project which has a total estimated completion value of \$285 million. Sandstones will be a modern, urban 12-storey mid-rise condo located near downtown Toronto. The project is planned to have 300 residential units and approximately 7,300 square feet of commercial space. At the time the project commenced, it was estimated to take 5.3 years to complete and is expected to be ready for occupancy by Q3'27.

The Trust's multi-tenanted commercial asset at 1960 - 1980 Hyde Park, London had strong operating performance during 2022. The retail plaza's ideal location, in a fast-growing residential development node, resulted in the property maintaining an average occupancy rate over 96% during the year, with commitments secured to fully lease the property in Q2'23. The property generated an annual NOI of \$598,000, with average net rents approaching \$30 PSF. The property is well levered with an LTV of 55% and a healthy debt service ratio of 1.49x.

The mortgage and loan portfolio grew to \$2.9M of outstanding loans as at

December 31, 2022, compared to \$1.6M as at December 31, 2021. The portfolio has a blended weighted average interest rate of 9.5%, which increased by 20% from 7.9% in the prior year. During the year, one loan in the amount of \$1M was fully repaid and the capital was reinvested.

Management is committed to providing Unitholders with reliable risk-adjusted income and long-term growth. We would like to thank our Unitholders and Stakeholders and are confident that our strategy will continue to bring value and look forward to another successful year.

*“Throughout the past year, we moved the Trust forward in tangible ways including a significant portfolio AUM growth of 43%.”*



# CORPORATE PROFILE

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Established in 2015, Equiton has become a leader in private equity investments. Our remarkable growth is a result of our leadership team's expertise in the industry and their ability to generate long-term wealth through real estate investments. We know that finding the right opportunities involves time, experience, and discipline. Our strategy is always forward looking, anticipating trends and adapting our approach to strengthen our market position. We focus on capitalizing on value creation opportunities and building the most robust portfolio possible for our Investors. We create value by investing in real estate and leveraging opportunities for improvement, optimization, and redevelopment. At Equiton, we make private equity real estate investments more accessible to all Canadians and believe everyone should be able to build their wealth through these solutions.

*“We know that finding the right opportunities involves time, experience, and discipline.”*



## MISSION

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Equiton believes in creating lasting value by investing in people and communities. We strive to deliver superior real estate investment solutions so our customers can build their wealth and financial security.

## VISION

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To be a leading force in making high-quality private real estate investing accessible to all Canadians while building lasting relationships with our Stakeholders.

# CORE VALUES

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## INTEGRITY

Rigorous adherence to a set of moral and ethical standards focused on respect, honesty, and fairness.



## ACCOUNTABILITY

Individual responsibility for delivering on our commitments and being accountable for our decisions, actions, and results.



## EXPERTISE

Offering the highest level of professional expertise, quality service and knowledgeable insights.



## CUSTOMER FOCUSED

We recognize our customers are the reason for our success and know by putting their needs first, we foster trusting, long-term relationships.



## ENTREPRENEURIAL SPIRIT

Focusing on a growth mindset, continuous improvement, embracing change, and recognizing goals are achieved through dedication and hard work.

# APPROACH TO ENVIRONMENTAL SUSTAINABILITY

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Management's commitment to Environmental, Social and Governance (ESG) helps attract and retain the best people in the industry while better serving Residents, Investors, and other key Stakeholders within the communities in which the Trust operates. By investing in technology, innovation, and our people, Management will continue to strengthen and enhance operations to ensure achievement of the highest possible returns for Investors.

Management's approach to ESG integration is one that is comprehensive and holistic in its approach, considering the environmental, social and governance factors that are associated with the industry. Management uses this information to create an investment strategy that is tailored to the individual Investor's needs. This approach is beneficial as it allows for a more informed and effective decision-making process, leading to greater returns.



# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE STRATEGY



Residents, Employees and Investors can remain confident in our delivery of a clear ESG disclosure, now and in the years to come. This year Equiton will be submitting our first assessment to Global Real Estate Sustainability Benchmark (GRESB), an industry-leading global assessor of the ESG performance of real estate assets and their managers. This will help to identify the most material issues affecting key Stakeholders. All of the Trust's investment opportunities are carefully viewed with an ESG perspective and evaluated, researched and analyzed to minimize risk and maximize returns.

TAKING A  
FORWARD-LOOKING  
APPROACH IS  
ALWAYS PART OF  
OUR STRATEGY,  
**WE DO THIS BY:**

- ✓ Responding and adapting to trends that strengthen our market position
- ✓ Capitalizing on value creation opportunities
- ✓ Increasing the value of communities by leveraging opportunities for improvement and redevelopment
- ✓ Building the most robust portfolio possible for our Investors

Management will also look to evolve our understanding and commitment to demonstrating alignment on matters such as climate-related risks and opportunities, which are increasingly relevant to our Residents, Employees, Investors, and the communities served. Management will continue to prioritize Resident comfort and satisfaction to maintain high occupancies.

Taking this vision forward and continuing to build on all that has been achieved energizes Management and our team. Management is excited about the Trust's future. Looking ahead, Management remains dedicated to advancing ESG initiatives and reporting our progress. In the spirit of our commitment to be a premier place to work, live and invest, Management is excited to showcase what Equiton's success looks like throughout our 2022 ESG Report.



# BUSINESS OVERVIEW

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The Trust was formed on April 30, 2018 pursuant to the Declaration of Trust and has not carried on any activities since its inception other than the sale of Trust Units and purchasing LP Units of the Partnership. The Trust was formed under the laws of the province of Ontario on April 30, 2018 pursuant to the filing of a limited Trust declaration, and has not carried on any active business since its inception other than entering into the material agreements set out under the heading “Material Agreements” and the purchase of limited Trust units of the Commercial Partnership, the Development Partnership and the Financial Partnership.

# OBJECTIVES

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## **Long-Term Objectives**

The long-term objective of the Trust is to maximize Trust Unitholders' value with regular and growing cash distributions, payable monthly from investments in LP Units. The Trust seeks to invest in (a) existing residential, commercial, industrial, mixed-use, hybrid and other income-producing properties; (b) real estate development and construction; and (c) real estate financing and lending.

## **Short-Term Objectives**

The primary objective of the Trust in the ensuing 12 months is to seek out Subscribers, close the offering and complete additional offerings. The Trust will invest funds raised by such offerings in the Trust by way of purchase of LP Units which will in turn initially invest in income-producing investments in Canada.





# INVESTMENT OBJECTIVES AND STRATEGY

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The objectives of the Trust are (i) to provide LP Unitholders, including the Trust, with regular and growing cash distributions, payable monthly from investments in (a) existing residential, commercial, industrial, mixed-use, hybrid and other income-producing properties; (b) real estate development and construction; and (c) real estate financing and lending; and (ii) to maximize LP Unit value through the ongoing management of the Trust's investments and through future investments in North American real estate assets.

## **Income-Producing Property**

The Trust, through the Commercial Partnership, may indirectly invest in income-producing properties, including multi-residential apartments, student housing, retirement residences, retail and

commercial space, offices, industrial space and mixed-use properties, as well as hybrid-type properties like flex-space and specialty properties like self-storage.

In addition to different categories of income-producing properties, investments can be further subdivided into those that currently generate positive cash flow and value-add opportunities. The Trust may, through its investment in the Commercial Partnership, invest in cash flow and value-add investments. Value-add investments typically require significant capital and may also require operational improvements. They are acquired at a discount to replacement value and can generate greater returns than most regular cash-flowing properties but may not make distributions for a period of three or more years.

## Development and Construction

The Trust, through the Development Partnership, may invest in residential, commercial, industrial or other real estate development projects. Initially, the focus of the Trust is on residential development projects, like low-rise subdivisions, townhomes and condos.

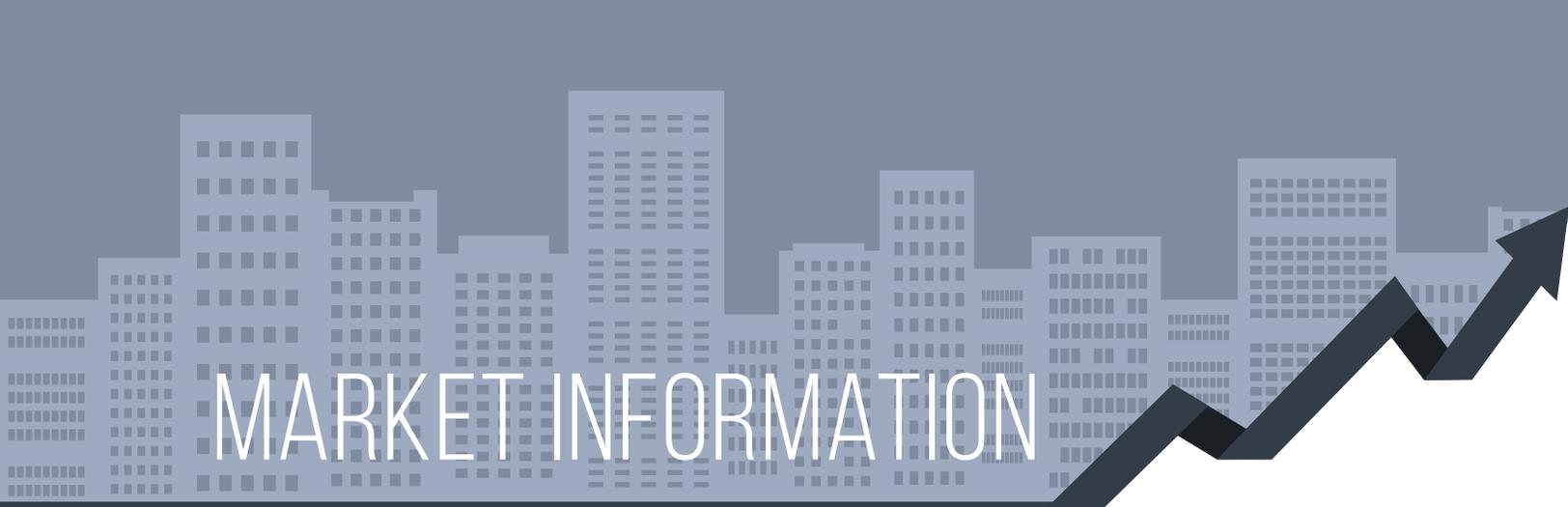
Such projects may include ancillary commercial or mixed-use components to the developments, such as high-rise residential condo projects where the zoning requires retail commercial space on the ground floor. The Trust may invest by entering joint ventures with reputable developers – providing equity in exchange for a share of a

development's profits. Development partners (which could be Related Parties) would provide project oversight and management.

## Lending and Financing

The Trust, through its investment in the Financial Partnership, invests in real estate lending. The primary focus is investing in pre-development, construction, and term financing mortgages. Types of lending could include: first and second mortgages, mezzanine financing, land loans and construction financing. The average term-to-maturity for mortgage investments is expected to be 12 to 24 months depending on the specifics of the loan.





# MARKET INFORMATION

As of the end of 2022, the professionally-managed global real estate investment market<sup>1</sup> had grown to US\$11.4 trillion with Canada and the U.S. accounting for approximately US\$421 billion and US\$4.12 trillion, respectively. On a global basis, Canada and the U.S. rank as the 7<sup>th</sup> and 1<sup>st</sup> largest professionally managed global real estate markets.

The Trust believes that both Canada and the U.S. real estate markets are supported by strong economies, stable monetary policies and demographic trends that are advantageous for commercial real estate.

The Trust believes that favourable long-term trends should continue to contribute to the attractiveness and performance of well-managed multi-residential and commercial income producing and development properties in both Canada and the U.S.:

- Population growth, through natural means and immigration, will continue to increase demand for new places to live, shop and work, both in Canada and the U.S.
- Canada has the fastest growth rates of any G7 nation<sup>2</sup> and is growing faster than many other industrialized countries including Germany, the United States and the United Kingdom. Canada's population has surpassed 38 million. Its average growth rate has remained relatively stable over the last 30 years at just over 1.0% per year<sup>3</sup> before coming to a virtual halt in 2020 mainly due to global border and travel restrictions implemented to slow the spread of COVID-19 which drastically reduced the number of permanent and temporary immigrants arriving in Canada. Immigration has accounted for most of Canada's population growth since the early 2000's including almost all of the 2.7% increase in 2022 and the federal government has set higher targets for immigration over the next few years to address labour shortages in key sectors of the economy.

<sup>1</sup>MSCI Inc. Real Estate Market Size 2021/22.

<sup>2</sup>Statistics Canada Database. Canada's population estimates: Age and sex, July 1, 2021.

<sup>3</sup>Statistics Canada Database. Annual Average Growth Rate, Natural Increase and Migratory Increases per Intercensal Period, Canada, 1851 to 2056.

- The population of the U.S. has continued to grow, and similar to Canada, is driven by a high level of immigration. The latest data from the U.S. Census Bureau indicates that population growth has seen an average increase of 0.66% per year in the U.S. since 2010.<sup>4</sup> The population growth rate fell to a historical low in 2021 with decreased net international migration, decreased fertility and increased mortality due in part to the COVID-19 pandemic but an uptick was seen in 2022 due to a rise in immigration.
- As Millennials, who account for 20%<sup>5</sup> and 22%<sup>6</sup> of the Canadian and U.S. populations, respectively, come of age and “leave the nest”, their preference to live in urban centres combined with high single-family home prices has contributed to an increase in demand for rental apartments. This trend which has driven Canadian vacancy rates down to 3.1%<sup>7</sup> while simultaneously increases average rents by 3.5% in Ontario as of October 2021. In the U.S., the national apartment vacancy rate was 4.7% as at the end of 2021.<sup>8</sup>
- The rapid growth of e-commerce in Canada and the U.S. has sparked tremendous expansion in both countries’ logistic and distribution sectors which Equiton Partners expects will significantly increase demand for industrial space.

<sup>4</sup>Statistics Canada, Table 051-0001, Estimates of Population, by Age Group and Sex for July 1, Canada, Provinces and Territories.

<sup>5</sup>Statista – Population distribution in the United States in 2020, by generation.

<sup>6</sup>Canada Mortgage and Housing Corporation Rental Market Report (February 2022).

<sup>7</sup>Canada Mortgage and Housing Corporation Rental Market Report. (January 2023).

<sup>8</sup>Moody’s Analytics (December 20, 2022). Q4 2022 Preliminary Trend Announcement - Apartment.





## Income-Producing Properties

An income-producing property is typically either actively generating regular income or newly constructed and substantially leased. There are various types of income-producing properties: multi-residential; retail; offices; and industrial making up the bulk of the properties with hotels, mini-storage, parking lots, seniors care housing and other specialty properties rounding out the asset class.

## Multi-Family Residential Properties

As an asset class, multi-family residential properties span a wide spectrum that technically includes all buildings containing at least two housing units, which are adjacent vertically or horizontally. Multi-family residential property types include townhouses, condominiums and apartments, which share physical systems such as walls, roofs, heating and cooling, utilities or amenities. The real estate industry “grades” multi-family properties as Class A, B or C based on criteria such as age, quality, amenities, rent and location, among other factors.

Multi-family residential properties generally deliver regular returns because people always need a place to live irrespective of the stage of the economic cycle. Therefore, in normal markets, residential occupancy tends to stay reasonably high. Another factor contributing to the stability of residential property is that the loss of a single tenant has a minimal impact on a multi-residential portfolio’s bottom line, whereas losing a tenant in other types of property can have detrimental effects. The diminishing supply of developable land in several major North American cities continues to put pressure on affordable home ownership, thereby increasing demand for rental housing. In many cities across Canada, demographic trends suggest a long-term increase in renting versus ownership. In addition, in many North American markets, there are significant barriers to building brand-new developments.

## Retail Properties

Retail properties consist of many property types, which include large regional malls, outlet centres, grocery-anchored shopping

centres, power centres that feature big box retailers, strip centres and single tenant free-standing retail boxes. Retail properties can be in metropolitan city centres and suburban neighbourhoods and are often part of an integrated project consisting of not only retail outlets but other amenities such as bowling alleys, cinemas and skating rinks.

Retail properties located in high traffic flow areas are highly regarded investments and enjoy several advantages over other property types. Firstly, larger retail properties often enjoy a high barrier of entry. This is especially true in urban centres where the supply of land is limited and the release of land for retail purposes is highly regulated by the government. Furthermore, the cost of building a mall is prohibitively expensive, and banks typically only fund the construction of a mall or shopping centre project if the developer has a well-established track record in this sector. For this reason, retail properties are unlikely to face oversupply or any serious competition from new market entrants.

Another advantage of retail properties is that established properties are an essential consumer service and despite the emergence of online shopping, many consumer staples – fresh groceries, haircuts, dining out, shopping and entertainment are purchased in person. As such, retailers still need brick and mortar structures to deliver these services. Also, regardless of how poorly the economy may be doing, spending on these weekly staples is unlikely to deteriorate as much, compared to sub-sectors with non-essential services such as hotel occupancy levels.

Retail properties often have more favourable lease agreements (triple net leases, rent bumps and agreement to retain portions of profits from the tenants when sales reach target levels) with their tenants as compared to other property types. When retail properties enter into favourable lease agreements with their tenants, the owner of the property has effectively absolved itself of the major expenditures of running the property while ensuring sustained income growth. Costs of insurance, building repairs and property taxes are all passed onto the tenants, allowing the property owners to retain as much of the property yield as possible. Lease agreements like these are rarely the case for other property types.

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*“Another advantage of retail properties is that established properties are an essential consumer service.”*

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## Office Properties

Office properties can range from skyscrapers in central business districts to office parks and stand-alone buildings, which are typically found in adjacent suburban areas. The various types of office properties cater to a diverse tenant group ranging from multinational corporations to entrepreneurial start-ups.

One of the key advantages of office properties is that their tenants, especially anchor tenants, usually take on relatively long leases as compared to tenants occupying industrial or retail properties. Therefore, office properties have relatively longer weighted average lease expiry (WALE) compared to other commercial property types. These leases provide a more secure income stream which makes up a large part of the investment return for commercial property, so the length of those leases help underpin the value. For example, a long WALE of five years or more indicates that future income streams from the asset are relatively secure.

## Industrial Properties

Industrial properties come in all shapes and sizes and provide for a wide range of business types. Industrial properties can generally be broken down into specialty properties and flex space properties. Specialty properties typically meet the needs of a specific tenant or type of tenant. There is a limited ability, however, to be able to significantly repurpose specialty properties if the need arises. Examples of specialty properties include large warehouse/distribution buildings, manufacturing buildings, refrigeration/cold storage buildings, and telecom/data housing centres.

Flex-space properties may be more easily repurposed, often capable of housing a wide range of users and typically consist of more

than a single facility. Light manufacturing buildings with office space, research and development buildings, showroom buildings, which combine retail display space with extensive onsite storage and distribution, and small warehouse and distribution centres are typical flex-space properties.

Unlike many other forms of commercial real estate such as hotels or shopping malls, industrial properties take a shorter time to build and will rarely exceed a year of construction time. As such, developments of industrial buildings are considered more responsive to current economic conditions and are not as susceptible to excessive overbuilding. Another advantage of industrial properties is that they are relatively more configurable and can be adapted to meet specific space demands throughout the economic cycle. As the economy slows down and floor inventory piles up, space that was previously used for manufacturing activity can be quickly converted into a warehousing facility or even office space.

Lastly, but perhaps most importantly, industrial properties often require relatively more modest capital expenditures, or CAPEX, in comparison to other property types. Again, unlike hotels and shopping malls, industrial properties have little need for periodic aesthetic makeovers or asset enhancement initiatives. Modest CAPEX would usually translate into higher per property income.



## Real Estate Construction and Development

Real estate construction and development can encompass a wide variety of activities for the purpose of adding value in some way to an existing property. Project processes and activities can be numerous and oftentimes complicated. It can involve property acquisition, various types of financing, municipal planning and approvals, engineering, environmental work, sales and marketing, land development and construction. It can also involve the coordination of numerous consultants, suppliers, and contractors.

Development and construction projects vary and can be for the purpose of renovating or repurposing an existing building for re-lease or sale. They can also include the purchase of raw land (or existing structures for demolition) for the purposes of building a new structure such as a residential subdivision, commercial centre or high-rise building.

Opportunities in real estate development are numerous and can be in metropolitan centres and suburban markets. They can encompass multiple types of development project types including retail, office,

industrial, mixed-use, mid- and high-rise condominiums, subdivided lots and residential subdivisions.

## Real Estate Lending and Financing

In North America's most populated cities, major institutions, banks, and trust companies compete for the tier-one, high volume, secured or insurable loan opportunities with an oversupply of capital to opportunities. In all other markets, there exists a near constant imbalance of capital to demand for commercial mortgage funds for mid-tier real estate properties, development, and construction projects. In these markets, private lenders compete for lower volume, development, and construction loan opportunities with a usual oversupply of opportunities to appropriately priced capital.

## Land and Pre-Development Mortgages

Land acquisition, pre-development and infrastructure mortgages occur at an early stage in a project's development and are often characterized as pre-development mortgages because of the use of funds to finance the acquisition of land, and the funding of pre-development costs during the approval process.

## Development and Construction Mortgages

Development and construction mortgages follow pre-development mortgages as projects move through the development cycle. Development and construction mortgages finance the installation and construction of roads, drainage, sewage, utilities, and similar improvements on a property and the construction of residential or commercial structures. Mortgage terms in all segments average 12 to 24 months in duration.

## Term Financing Mortgages

Term financing mortgages enable an owner of a completed or substantially completed income-producing property to defer arranging longer-term financing until conditions warrant more favourable financing terms. Mortgage rates vary depending on the borrower, property location, property type and loan-to-value ratio. These mortgages are usually short- to mid-term as the borrower's need for funding is driven by a specific opportunity for use of the funds on an interim basis or as a method of bridging financing until the property qualifies for long-term, low cost institutional lender programs.

Loans in this segment typically average six to 24 months, however, changes in market conditions or institutional lender criteria will create the opportunity for longer-term mortgages. In real estate capital structures, just like corporate capital structures, debt investments maintain a higher priority, meaning commercial real estate debt investors maintain a lower-risk position than their equity counterparts, which offer better protection against changes in market valuations. Debt holders have a priority claim and are normally directly secured by the underlying property and the improvements put in place. The Trust may invest in sectors that are not described herein but are considered appropriate subject to the Investment Guidelines. See "Material Agreements – Declaration of Trust – Investment Guidelines".

# INVESTMENT GUIDELINES AND OPERATING POLICIES

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## Investment Guidelines

The Declaration of Trust provides for certain guidelines on investments which may be made by the Trust. Additionally, the guidelines below are intended to set out generally the parameters under which any Subsidiary of the Trust or the Partnership will be permitted to invest. References to the Trust below shall include each such Subsidiary or Partnership. The guidelines are as follows:

- a) the Trust shall focus its investment activities primarily on the following:
  - i. the acquisition, holding, maintaining, improving, leasing or managing of income-producing properties, including multi-residential apartments, student housing, retirement residences, commercial, retail, office and industrial space, mixed-use properties, hybrid properties and specialty properties (in each case, as determined by the Trustees) (collectively, “Income-Producing Properties”);
  - ii. residential, commercial, industrial or other real estate development projects or re-development and value-add projects (collectively, “Construction and Development or Re-Development and Value-Add Activities”); and
  - iii. general real estate financing and lending (“Financing and Lending Activities”); (collectively, the “Trust Investment Activities” and each a “Trust Investment Activity”);
- b) notwithstanding anything contained in the Declaration of Trust to the contrary, the Trust shall not, or permit a Subsidiary to, make or hold any investment, take any action or omit to take any action which would, at any time, result in:
  - i. the Trust failing or ceasing to qualify as a “unit trust” and “mutual fund trust” for purposes of the *Income Tax Act* (Tax Act); or
  - ii. the Trust or any Subsidiary being liable to the tax payable by a SIFT Trust pursuant to section 122 of the Tax Act or by a SIFT partnership pursuant to section 197 of the Tax Act;

- c) from and after the date on which the Trust has a Gross Book Value of at least one hundred and fifty million dollars (\$150,000,000), the Trust shall seek to target the following portfolio allocations:
- i. Income-Producing Properties – 25% to 80% of the Trust’s portfolio;
  - ii. Construction and Development or Re-Development and Value-Add Activities – up to 50% of the Trust’s portfolio;
  - iii. Financing and Lending Activities – up to 50% of the Trust’s portfolio;  
and
  - iv. Cash and cash equivalents – up to 100%;
- d) the Trust may make its investments and conduct its activities, directly or indirectly, through an investment in one or more Persons on such terms as the Trustees may from time to time determine, including by way of joint ventures, partnerships (general or limited), unlimited liability companies and limited liability companies, or through any other means the Trust deems appropriate;
- e) except for temporary investments held in cash, deposits with a Canadian or U.S. chartered bank or Trust company registered under the laws of a province of Canada, short-term government debt securities or money market instruments of, or guaranteed by, a Schedule I Canadian chartered bank maturing prior to one year from the date of issue and except as permitted pursuant to the investment guidelines and operating policies of the Trust, the Trust directly or indirectly, may not hold securities of a Person other than to the extent such securities would constitute a Trust Investment Activity (as determined by the Trustees) and provided further that, notwithstanding anything contained in the Declaration of Trust to the contrary, but in all events subject to (a) and (b) above, the Trust may hold securities of a Person acquired in connection with the carrying on, directly or indirectly, of the Trust Investment Activities;
- f) no investment will be made, directly or indirectly, in operating businesses unless such investment is incidental to a transaction: where revenue will be derived, directly or indirectly, principally from a Trust Investment Activity;
- i. which principally involves the ownership, maintenance, improvement, leasing or management, directly or indirectly, of real property held for investment purposes;
  - ii. which may invest in real estate lending, such as first and second mortgages, mezzanine financing, land loans and construction financing; or
  - iii. which may invest in construction and development relating to residential, commercial, industrial or other real estate development projects;

- g) notwithstanding any other provisions of this section, the securities of a reporting issuer in Canada may be acquired provided that:
  - i. the activities of the issuer are focused on a Trust Investment Activity; and
  - ii. in the case of any proposed investment or acquisition which would result in the beneficial ownership of more than 10% of the outstanding equity securities of the securities issuer, the investment or acquisition is of strategic interest to the Trust as determined by the Trustees in their discretion;
- h) no investments will be made in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;
- i) notwithstanding any other provisions hereof, investments may be made which do not comply with the provisions of this section (other than paragraph (b)) provided:
  - i. the aggregate cost thereof (which, in the case of an amount invested to acquire real property, is the purchase price less the amount of any indebtedness assumed or incurred in connection with the acquisition and secured by a mortgage on such property) does not exceed 15% of the Gross Book Value; and
  - ii. the making of such an investment would not contravene the Declaration of Trust. The Trust has complied with the guidelines set out above since its formation.

## Operating Policies

The operations and affairs of the Trust shall be conducted in accordance with the following operating policies:

- a) title to each real property shall be held by and registered in the name of a corporation or other entity wholly-owned or jointly-owned, directly or indirectly, by the Trust or on its behalf, the General Partner, or a corporation or other entity wholly-owned indirectly by the Trust or jointly owned indirectly by the Trust with joint venturers or partners or on its behalf;
- b) no indebtedness shall be incurred or assumed if,
  - i. for real property income, after giving effect to the incurring or assumption thereof of the indebtedness, the total indebtedness including amounts drawn under an acquisition and operating facility but not including Mortgage Insurance Fees incurred in connection with the incurrence or assumption of such indebtedness as a percentage of Gross Book Value, would be more than 75%; or

- ii. for Construction and Development or Re-Development and Value-Add Activities, the total indebtedness incurred in connection with the incurrence or assumption of such indebtedness shall not exceed typical industry standards relating to loans for similar business purposes;
- c) the Trust will not directly or indirectly guarantee any indebtedness or liabilities of any Person unless such guarantee is given in connection with or incidental to an investment that is otherwise permitted under the Declaration of Trust, and the guarantee would not result in the Trust ceasing to qualify as a mutual fund trust for purposes of the Tax Act;
- d) the Trust will not engage in any Financing and Lending Activities unless,
  - i. acceptable security for the loan (as determined by the Trustees) is provided; and
  - ii. the total indebtedness incurred in connection with the incurrence or assumption of such indebtedness is within typical industry standards relating to loans for similar business purposes;
- e) the Trust will not engage in any Construction and Development or Redevelopment and Value-Add Activities unless it is an acceptable project (as determined by the Trustees);
- f) at all times insurance coverage will be obtained and maintained in respect of potential liabilities of the Trust and the accidental loss of value of any of the Trust Property from risks, in amounts and with such insurers, in each case as the Trustees consider appropriate, taking into account all relevant factors including the practices of holders of comparable assets and, for clarity, the Trust is not required to title insure;
- g) a Phase I environmental audit shall be conducted or obtained in circumstances in which the Trustees deem it appropriate or necessary; and
- h) the Trust will not invest in any Trust Investment Activity until and unless it has conducted the appropriate due diligence (as determined by the Trustees) for such Trust Investment Activity. For the purpose of the foregoing operating policies, the assets, indebtedness, liabilities and transactions of a corporation, trust, partnership or other entity in which the Trust has an interest, directly or indirectly, will be deemed to be those of the Trust on a proportionate consolidated basis, except to the extent that such treatment would be inconsistent with the applicable requirements under the Tax Act or the Trustees consider such treatment to be inappropriate under the circumstances. In addition, any references in the foregoing to investment in real property will be deemed to include an investment in a joint venture arrangement.

The term “indebtedness” means (without duplication):

- a) any obligation, directly or indirectly, of the Trust for borrowed money;
- b) any obligation, directly or indirectly, of the Trust incurred in connection with the acquisition of property, assets or business other than the amount of future income tax liability arising out of indirect acquisitions;
- c) any obligation, directly or indirectly, of the Trust issued or assumed as the deferred purchase price of property;
- d) any capital lease obligation, directly or indirectly, of the Trust;
- e) any obligation, directly or indirectly, of the type referred to in clauses (a) through (d) of another Person, the payment of which the Trust has, directly or indirectly, guaranteed or for which the Trust is responsible for or liable; and
- f) any amounts secured by any of the assets of the Trust;

provided that (i) for the purposes of (a) through (d), an obligation (other than convertible debentures) will constitute indebtedness only to the extent that it would appear as a liability on the consolidated balance sheet of the Trust in accordance with IFRS in Canada, (ii) obligations referred to in clauses (a) through (d) exclude trade accounts payable, distributions payable and accrued liabilities arising in the ordinary course of business; (iii) convertible debentures will constitute indebtedness to the extent of the principal amount outstanding; and (iv) the issuance of redeemable units will not constitute indebtedness; and (v) obligations referenced in clauses (a) through (d) may be excluded by the Trustees if the Trustees consider such treatment to be inappropriate under the circumstances.

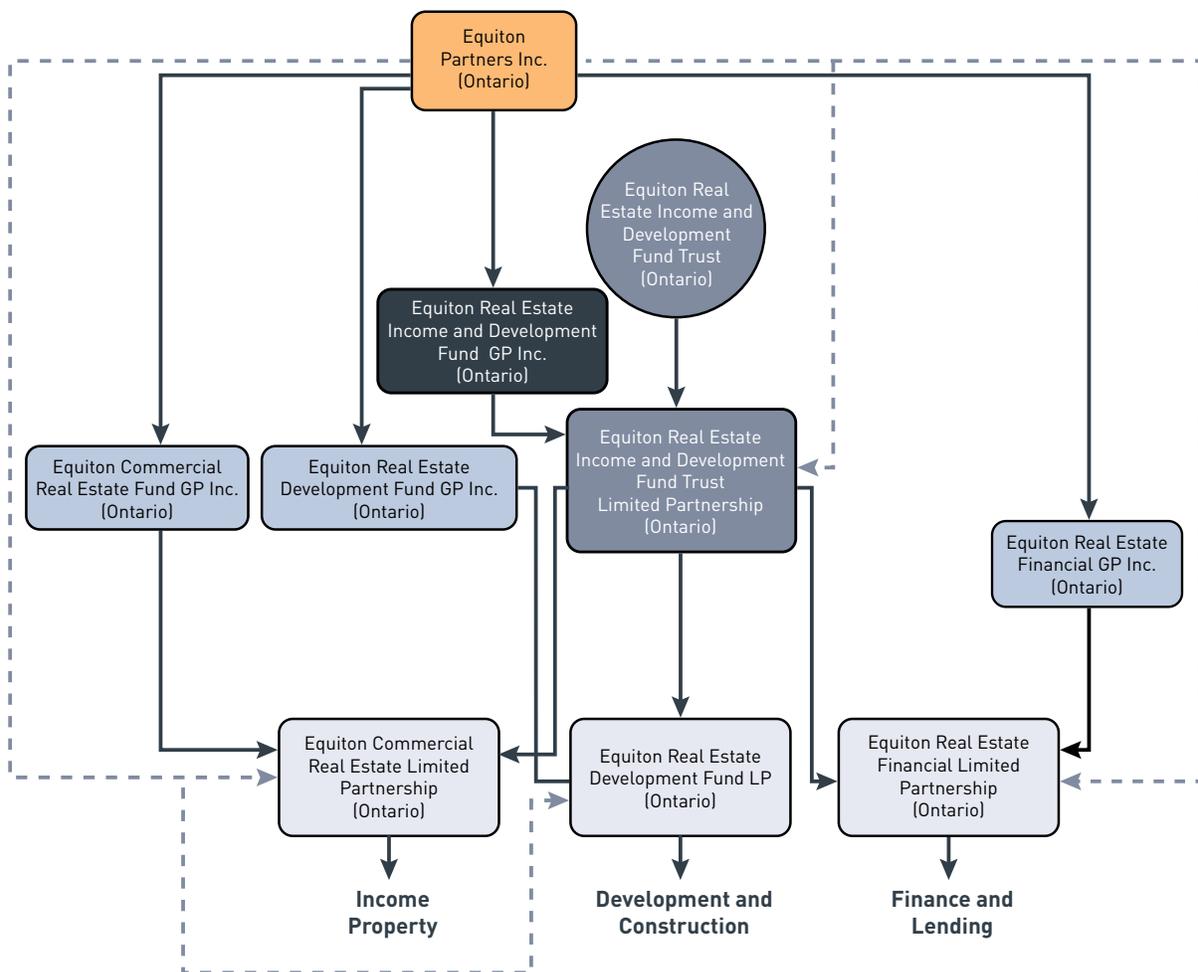
The Trust has complied with the operating policies set out above since its formation.

## **Amendments to Investment Guidelines and Operating Policies**

Subject to the Declaration of Trust, any of the investment guidelines and operating policies of the Trust set forth in this section may be amended by an Ordinary Resolution at a meeting of the Voting Unitholders called for the purpose of amending the investment guidelines or by written resolution unless such change is necessary to ensure compliance with applicable laws, regulations or other requirements by applicable regulatory authorities from time to time or to maintain the status of the Trust as a “unit trust” and “mutual fund trust” for the purposes of the Tax Act or to respond to amendments to the Tax Act or to the interpretation thereof.

# THE TRUST STRUCTURE

The Trust is an unincorporated open-ended real estate investment trust formed pursuant to a declaration of trust dated April 30, 2018 and governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein. See “Declaration of Trust” and “Terms of Trust Units”. The Trust was established with the objective of investing indirectly in the business of the Trust through its acquisition of LP Units. All or substantially all of the net proceeds of the Offering will be invested in the Trust through the purchase of LP Units. The following diagram sets out the principal operating structure of the Trust:



The Trustees are responsible for the general control and direction of the Trust. The only business of the Trust will be to own LP Units of the Trust, which in turn will indirectly invest in limited partnerships which are intended to own the Trust Properties.

# OPERATING HIGHLIGHTS

## KPI Summary

As at December 31,	2022	2021
<b>Portfolio Performance</b>		
Total Fund AUM (\$ Million)	\$25.8	\$18.0
<b>Commercial Operations</b>		
<b>Hyde Park Commons</b>		
Weighted Average Occupancy Rate	96.15%	100.00%
Weighted Average Net Retail Rental Rate (\$ per occupied sq. ft)	29.2	29.3
Operating Revenues <sup>1</sup>	\$959,147	\$57,363
NOI <sup>1</sup>	\$597,731	\$37,942
NOI Margin <sup>1</sup>	62.32%	66.14%
Mortgage Debt to Gross Book Value	55.5%	57.6%
Weighted Average Time Remaining on the Mortgage (years)	4.25	0.33
Debt Service Coverage (times)	1.49	2.10
Interest Coverage (times)	1.97	2.10
Weighted Average Lease Term to Maturity (years)	5.28	5.09
Gross Leasable Area (sq. ft.)	19,526	19,526
Occupied Area (sq. ft.)	17,269	19,526
Vacant Area (sq. ft.)	2,257	0

<sup>1</sup> 2021 Hyde Park Commons financials are from December 10, 2021 through December 31, 2021. The property was purchased in late 2021 and does not represent a full year comparison.

# OPERATING HIGHLIGHTS

## KPI Summary

As at December 31,	2022	2021
<b>Financial Lending Operations</b>		
<b>Loan to Marquis Modern Towns</b>		
Loan Receivable <sup>2</sup>	\$581,846	\$581,846
Interest Rate	10.50%	9.50%
Time Remaining to Maturity (months) <sup>3</sup>	2	3
<b>Loan to Sandstones Condo</b>		
Loan Receivable	\$2,350,000	NA
Interest Rate	Prime Rate+2.80% <sup>4</sup>	NA
Time Remaining to Maturity (months) <sup>5</sup>	3	NA
<b>Loan to Property Under Development in Cobourg, Ontario</b>		
Loan Receivable	NA	\$1,000,000
Interest Rate	NA	7.00%
Time Remaining to Maturity (months)	NA	2
<b>Development Operations</b>		
Active Development Projects	1	1
Development Expenditures <sup>6</sup>	\$2,580,042	\$723,145
Land Loan Information <sup>7</sup>	\$4,250,000	\$4,250,000

<sup>2</sup> Loan to Marquis Modern Towns by Financial LP reported at 100%.

<sup>3</sup> Subsequent to year end, the loan was extended to May 2023.

<sup>4</sup> The floor interest rate on this loan is 7.50% per annum.

<sup>5</sup> Subsequent to year end, the loan was extended to June 2023.

<sup>6</sup> Development Expenditure as of December 31, 2022 from inception is \$12.3 Million and expected future development expenditure is \$34.4 Million.

<sup>7</sup> Loan at 85% share of the co-ownership.

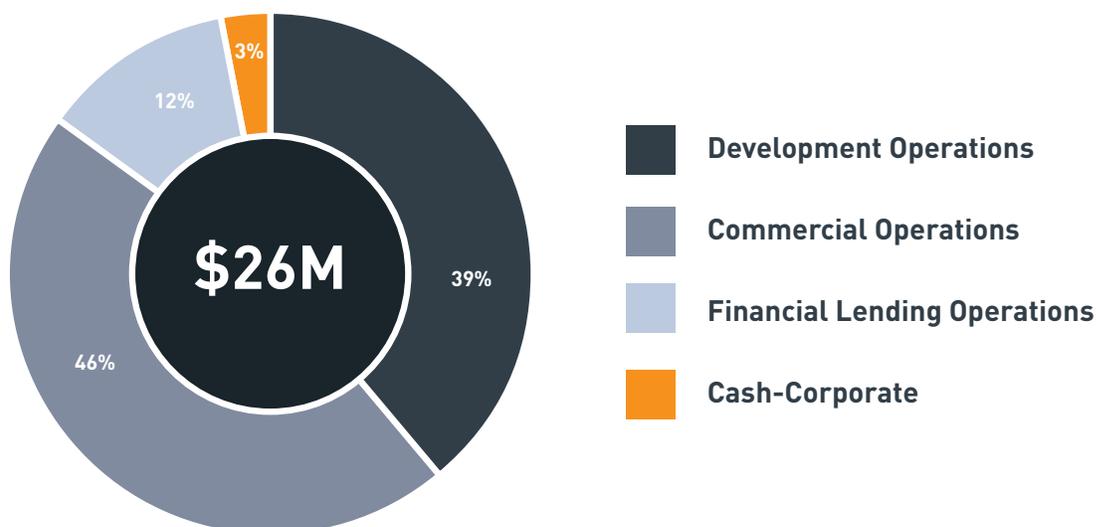
# OPERATING HIGHLIGHTS

## Assets Under Management (AUM)

	2022	2021
<b>Commercial Operations</b>		
Investment in Hyde Park Commons	11,715,494	11,710,156
Cash	141,214	0
<b>Commercial Operations</b>	<b>\$11,856,707</b>	<b>\$11,710,156</b>
<b>Financial Lending Operations</b>		
Loan Receivable	2,931,846	1,581,846
Cash	152,776	19,303
<b>Financial Lending Operations</b>	<b>\$3,084,622</b>	<b>\$1,601,149</b>
<b>Development Operations</b>		
Cash Investment in Marquis Modern Towns <sup>1</sup>	5,758,830	3,174,418
Investment in Sandstones	4,300,000	0
Cash	2,672	2,837
<b>Development Operations</b>	<b>\$10,061,502</b>	<b>\$3,177,256</b>
<b>Cash - Corporate</b>		
	<b>\$771,796</b>	<b>\$1,477,068</b>
<b>AUM (\$)<sup>2</sup></b>	<b>\$25,774,628</b>	<b>\$17,965,629</b>

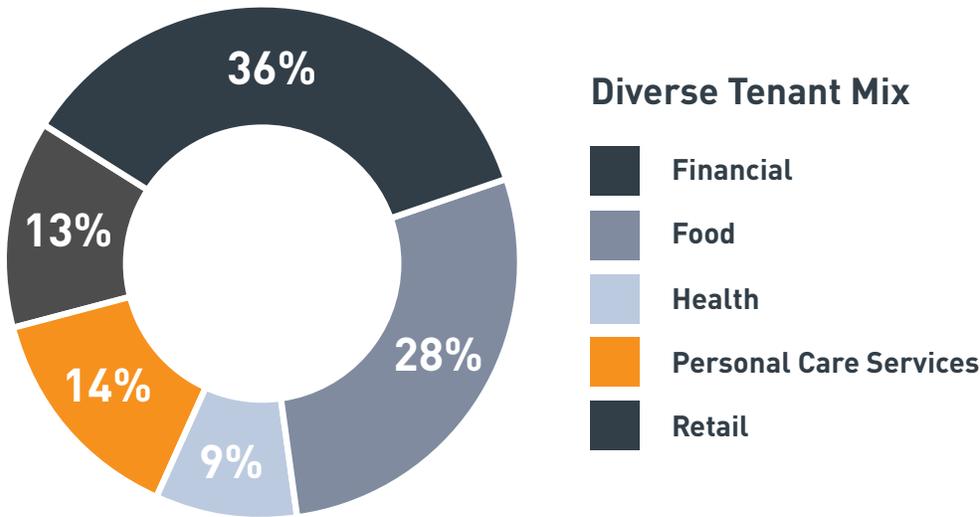
<sup>1</sup> Does not include adjustment required to reflect the Development LP proportionate share ownership in Marquis Modern Towns.

<sup>2</sup> AUM is before the elimination of inter-entity transactions. Inter-entity transactions between the respective operations have been eliminated in the Trust's consolidated statements.



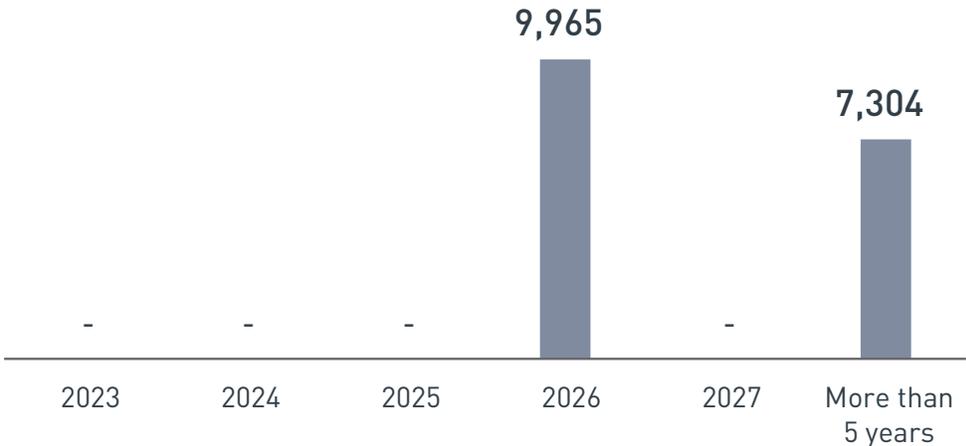
# INCOME-PRODUCING COMMERCIAL TENANT PORTFOLIO

## Commercial Tenant Occupancy - By Area



## Commercial Tenant Maturity Profile - By Area (Sq. Ft.)

Weighted Average Lease Term to Maturity: 5.28 Years



# 2022 ACQUISITIONS AND DISPOSITIONS

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## ACQUISITIONS



### **Sandstones Condo, Toronto, ON | Acquired:** August 2022

In August 2022, the Trust acquired an 11% stake in Sandstones Condo, a planned 12-storey mid-rise in Toronto with 300 units, 7,300 sq. ft. commercial space. Entitlement process is underway and construction is projected to begin in Q3'25. It's a 1.01-acre corner lot, 4 mins from Scarborough Bluffs, 25 mins from downtown Toronto.

## DISPOSITIONS: None



# INCLUDED IN THE PORTFOLIO

## Income-Producing Commercial Property

### Hyde Park Commons

1960 - 1980 Hyde Park Road, London, Ontario

The commercial property portfolio consists of a property located at 1960-1980 Hyde Park Road in London, Ontario. The multi-tenant retail plaza has a gross leasable area of 19,565 sq. ft., including six units in an open-air retail building and two free-standing pad sites with drive-through features, on 2.63 acres. The leasing profile includes a diverse tenant mix of retail, financial, recreational and restaurant occupancies that are anchored by Wendy's and CIBC. This property is ideally located in Northwest London, a retail hotspot, and one of the city's fastest growing residential development areas. It is situated in a high-traffic and high-visibility location along Hyde Park Road, just south of Fanshawe Park Road West and just west of Wonderland Road North. It is accessible by public transit and offers 104 parking spaces.

The property maintained an average occupancy rate of ~96% throughout 2022 and has an average remaining lease term of approximately 5.3 years as of December 31, 2022. The property is currently fully leased with committed occupancy to Q2'23. The site contributed ~\$598,000 of net operating income during the year, with an average \$29.20 net rent per occupied square foot. The property is financed through a mortgage with First National Financial at an effective interest rate of 4.43%, with a loan to value of 55.5% as at December 31, 2022.



## Mortgages and Loans

As at December 31, 2022, the Trust's mortgage and loan portfolio consisted of two loans receivable with an outstanding balance of \$2.9M and a blended weighted average interest rate of 9.5%. The loans are secured against two development projects in the Greater Golden Horseshoe Area and are scheduled to mature in Q2'23. During the year, a \$1M mortgage on a residential development project in Cobourg, Ontario matured and was fully repaid. Management continues to evaluate mortgage and development loan lending opportunities in its core markets.

*“The Mortgages and Loans portfolio consists of two loans receivable with an outstanding balance of \$2.9M and a blended weighted average interest rate of 9.5%”*



Concepts/images are proposed or for illustrative purposes. Subject to change.

## Active Development Project

### Marquis Modern Towns

710 Woolwich Street, Guelph, Ontario

Significant progress was made on the Marquis Modern Towns development in Guelph, Ontario that will include 96 upscale stacked townhomes across four buildings at the rear of the property and a modern retail store at the front of the property. For this project, the decision was made to pivot the investment strategy from purpose-built rentals, to build for sale. This change in strategy will be beneficial for the Fund with forecasted IRR increasing to 45% compared to 26.3% return for purpose-built rental. Phase one of this two-phase development broke ground in Q1'22 and is well underway; it involves relocating the existing retail store to create space on the site for the residential development. The previous store will continue to operate in its original location while the new store is being built, causing no loss in revenue. Phase two will consist of building townhomes on the reclaimed space. As at December 2022, this development project was 17.5% under budget.





Concepts/images are proposed or for illustrative purposes. Subject to change.

## Active Development Project

### Sandstones Condo

2257 Kingston Road, Toronto, Ontario

In August 2022, the Trust acquired an 11% stake in Sandstones Condo, a new multi-phase development project of a modern and urban 12-storey mid-rise condo in Toronto. This development offering from Equiton Developments features lake and Toronto downtown skyline views with close proximity to Toronto's downtown core. The project consists of approximately 300 residential condo units for sale, two levels of underground parking and nearly 7,300 sq. ft. of commercial space. The distribution of capital will be threefold: first when the construction loan is repaid; second with the return of invested capital; and third when the profits are split, with 80% of profits distributed to Investors. After closing on the property in Q3'22, the entitlement process is underway and construction is targeted to begin in Q3'25.

This development is a build for sale project with a location that will be extremely attractive to buyers. It is a 1.01-acre corner lot with frontage along Kingston Road. It's located four minutes from the Scarborough Bluffs and 25 minutes from downtown Toronto. It has an elementary school score of 100, walk score of 86, transit score of 80 and a grocery store score of 80. With a projected project term of 5.3 years, this development project is planned to be completed and ready for occupancy in Q3'27.





# RISKS AND UNCERTAINTIES

There are certain risk factors inherent in an investment in the Trust Units and in the activities of the Trust, including, but not limited to, risks related to availability of distributable income, liquidity and potential price fluctuations of the Trust Units, redemption risk, tax-related risks, litigation risks, risks of real estate investment and ownership, mortgage refinancing, availability of cash flow, risk of changes in government regulation, environmental matters, Trust Unitholder liability, dependence on key personnel, potential conflicts of interest, changes in legislation, investment eligibility and dilution arising from the issue of additional Trust Units. See "OFFERING MEMORANDUM" for full list of Risks.

# SENIOR MANAGEMENT TEAM

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**Jason Roque**  
Chief Executive  
Officer



**Helen Hurlbut**  
Chief Financial  
Officer



**Greg Placidi**  
Chief Investment Officer  
& Portfolio Manager



**Don Cant**  
General Counsel & Chief  
Compliance Officer



**Bill Flinders**  
Chief Technology  
Officer



**Aaron Pittman**  
SVP, Head of Canadian  
Institutional Investments



**Paul Holowaty**  
VP, Operations Income-  
Producing Properties



**Kathy Gjamovska**  
VP, Marketing  
& Communications



**Ryan Donkers**  
VP, Acquisitions



**Alan Dillabough**  
VP, Development



**Martha Varinsky**  
VP, Human Resources

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## Income and Development **Independent Board Members**



**Bill Zigomanis**



**William Woods**



**Robert Mongeau**



## Consolidated Financial Statements

Equiton Real Estate Income and Development  
Fund Trust (Formerly Equiton Balanced Real  
Estate Fund Trust)

For the years ended December 31, 2022 and  
2021

# Contents

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Consolidated Statements of Changes in Net Assets Attributable to Unitholders	43
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# Independent Auditor's Report

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Grant Thornton LLP  
11th Floor  
200 King Street West, Box 11  
Toronto, ON  
M5H 3T4  
T +1 416 366 0100  
F +1 416 360 4949

To the Trustees of

## Equiton Real Estate Income and Development Fund Trust

### Opinion

We have audited the consolidated financial statements of **Equiton Real Estate Income and Development Fund Trust** (formerly named “**Equiton Balanced Real Estate Fund Trust**”) (the “Trust”), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in net assets attributable to unitholders and consolidated statements of cash flows for the year ended December 31, 2022 and December 31, 2021, 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 financial position of **Equiton Real Estate Income and Development Fund Trust** as at December 31, 2022 and December 31, 2021, and its financial performance and its cash flows for the year ended December 31, 2022 and December 31, 2021, in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 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 Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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 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 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 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 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Grant Thornton LLP*

Toronto, Canada  
March 21, 2023

Chartered Professional Accountants  
Licensed Public Accountants

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Audit | Tax | Advisory  
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## Equiton Real Estate Income and Development Fund Trust Consolidated Statements of Financial Position

As at December 31

2022

2021

### Assets

Cash	\$ 1,412,769	\$ 1,539,149
Restricted cash (Note 4)	39,866	172,450
Accounts receivable	374,538	38,788
Prepays	302,364	191,675
Investment property (Note 5)	11,715,494	11,710,156
Investment property under development (Note 6)	10,559,513	7,905,801
Due from related parties (Note 7)	21,810	2,810
Investment in Sandstones Condo Trust (Note 8)	4,300,000	-
Mortgage receivable (Note 10)	<u>2,424,744</u>	<u>1,085,986</u>

### Total assets

	<u>\$ 31,151,098</u>	<u>\$ 22,646,815</u>
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### Liabilities

Payables and accruals	\$ 999,868	\$ 575,467
Unit subscriptions held in Trust	39,866	66,875
Security deposit	61,958	61,958
Due to related parties (Note 7)	396,765	94,219
Due to RHH Rental Properties Ltd. (Note 11)	378,903	342,197
Mortgages payable (Note 12)	<u>10,628,156</u>	<u>10,901,944</u>
	<u>12,505,516</u>	<u>12,042,660</u>

### Net assets attributable to Unitholders

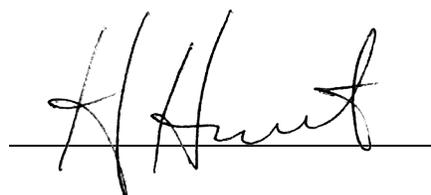
	<u>18,645,582</u>	<u>10,604,155</u>
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### Total liabilities and unitholders' equity

	<u>\$ 31,151,098</u>	<u>\$ 22,646,815</u>
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Approved on behalf of the Trust

 \_\_\_\_\_ Trustee

 \_\_\_\_\_ Trustee

See accompanying notes to the consolidated financial statements.

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## Equiton Real Estate Income and Development Fund Trust

### Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2022 2021

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Revenue		
Rental income	\$ 957,774	\$ 312,872
Interest income	144,033	41,652
Other income	<u>33,937</u>	<u>16,224</u>
	<u>1,135,744</u>	<u>370,748</u>
Expenses		
Asset managements fees (Note 14)	370,363	163,527
Bank fees	5,054	3,586
Dues and subscriptions	15,339	9,318
General and administrative	103,938	115,775
Interest and finance costs	333,113	254,391
Origination fees (Note 14)	77,532	26,622
Participation fees (Note 14)	47,607	12,280
Professional fees	234,407	186,994
Property operating expenses	<u>430,599</u>	<u>19,421</u>
	<u>1,617,952</u>	<u>791,914</u>
Net loss and comprehensive loss	<u>\$ (482,208)</u>	<u>\$ (421,166)</u>

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See accompanying notes to the consolidated financial statements.

## Equiton Real Estate Income and Development Fund Trust

### Consolidated Statements of Changes in Net Assets

#### Attributable to Unitholders

For the years ended December 31, 2021 and 2022

	<u>Units</u>	<u>Deficit</u>	<b>Net Assets attributable to Unitholders</b>
Net assets attributable to Unitholders, January 1, 2021	\$ 5,959,112	\$ (953,082)	\$ 5,006,030
Issuance of Class A Trust units	6,576,986	-	6,576,986
Redemptions of Class A Trust units (Note 13)	(153,761)	-	(153,761)
Issuance of Class F Trust units (Note 13)	967,722	-	967,722
Issuance costs (Note 7 & 13)	(714,563)	-	(714,563)
Distributions to Unitholders	-	(657,093)	(657,093)
Net loss	-	(421,166)	(421,166)
<b>Net assets attributable to Unitholders, December 31, 2021</b>	<b><u>\$ 12,635,496</u></b>	<b><u>\$ (2,031,341)</u></b>	<b><u>\$ 10,604,155</u></b>
Net assets attributable to Unitholders, January 1, 2022	\$ 12,635,496	\$ (2,031,341)	\$ 10,604,155
Issuance of Class A Trust units (Note 13)	7,042,777	-	7,042,777
Redemptions of Class A Trust units (Note 13)	(197,669)	-	(197,669)
Issuance of Class F Trust units (Note 13)	3,269,896	-	3,269,896
Issuance of Class B Trust units (Note 13)	409,024	-	409,024
Issuance of Class C Trust units (Note 13)	163,538	-	163,538
Issuance costs (Note 7 & 13)	(893,179)	-	(893,179)
Distributions to Unitholders	-	(1,270,752)	(1,270,752)
Net loss	-	(482,208)	(482,208)
<b>Net assets attributable to Unitholders, December 31, 2022</b>	<b><u>\$ 22,429,883</u></b>	<b><u>\$ (3,784,301)</u></b>	<b><u>\$ 18,645,582</u></b>

## Equiton Real Estate Income and Development Fund Trust

### Consolidated Statements of Cash Flows

For the years ended December 31

2022

2021

Increase (decrease) in cash

#### Operating activities

Net loss	\$ (482,208)	\$ (421,166)
Items not affecting cash:		
Amortization of deferred financing charges	29,210	(9,306)
Changes in non-cash operating items:		
Accounts receivable	(335,750)	24,187
Due from/to related parties	283,546	17,198
Due to RHH Rental Properties Ltd.	36,706	342,197
Security deposit	-	61,958
Unit subscriptions held in trust	(27,009)	66,875
Payables and accruals	364,583	186,667
Prepays	(110,689)	(191,675)
Cash (used in) provided by operating activities	<u>(241,611)</u>	<u>76,935</u>

#### Financing activities

Proceeds from issuance of Class A units	6,124,258	6,056,626
Proceeds from issuance of Class F units	3,160,294	950,000
Proceeds from issuance of Class B units	406,549	-
Proceeds from issuance of Class C units	163,300	-
Redemption of Class A units	(197,669)	(153,763)
Distributions	(180,097)	(76,803)
Issuance costs	(893,182)	(714,563)
Deferred financing charges	(54,708)	(88,623)
Proceeds from mortgage payable	(248,290)	6,750,000
Cash provided by financing activities	<u>8,280,455</u>	<u>12,722,874</u>

#### Investing activities

Issuance of mortgage receivable	(1,338,758)	(1,000,000)
Purchase of investment property	(5,338)	(11,710,156)
Investment in Sandstones Condo Trust	(4,300,000)	-
Additions to property under development	(2,653,712)	(723,145)
Cash used in investing activities	<u>(8,297,808)</u>	<u>(13,433,301)</u>

Net decrease in cash during the year (258,964) (633,492)

Cash, beginning of year 1,711,599 2,345,091

Cash, end of year \$ 1,452,635 \$ 1,711,599

#### Cash presented as:

Cash	\$ 1,412,769	\$ 1,539,149
Restricted cash	39,866	172,450

#### Supplemental disclosure relating to non-cash financing

Issuance of units under distribution reinvestment plan	\$ 1,030,834	\$ 538,082
Distributions under distribution reinvestment plan	(1,030,834)	(538,082)

See accompanying notes to the consolidated financial statements.

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# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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### 1. Nature of operations

Equiton Balanced Real Estate Fund Trust is an open-ended real estate investment trust (“REIT”) established on April 30, 2018 under the laws of the Province of Ontario. The Trust’s head office is located at 1111 International Boulevard, Suite 500, Burlington, Ontario L7L 6W1. The name was formerly changed on June 27, 2022 to Equiton Real Estate Income and Development Fund Trust to better reflect the nature of the business of the Trust (the “Trust”).

As at December 31, 2022 and 2021, the Trust qualified as a “mutual fund trust” (pursuant to subsection 132(6) of the Income Tax Act) and it was formed primarily to indirectly invest in a diversified pool of North American based real estate assets which include income producing property, real estate development and construction, and real estate financing and lending.

As of December 31, 2022 and 2021, the Trust has a 99.999% interest in Equiton Balanced Real Estate LP (the “Limited Partnership”) and the Limited Partnership has a 99.999% interest in three different limited partnerships: Equiton Real Estate Development Fund LP (“Development LP”), Equiton Commercial Real Estate Fund LP and Equiton Real Estate Financial LP. Development LP has an 85% interest in an investment property under development through a joint operation with RHH Rental Properties Ltd.

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### 2. General information and statement of compliance with IFRS

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

These financial statements are presented in Canadian dollars, which is the Trust’s functional currency.

The financial statements were approved and authorized for issuance by the Trustees on March 21, 2023.

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### 3. Summary of significant accounting policies

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

#### Principles of consolidation

The consolidated financial statements comprise the financial statements of the Trust and its controlled investment in other entities. Control exists when the Trust is exposed or has rights to variable returns from its involvement with the investee entities and has the ability to affect those returns through its power over its investments in those entities. The investments are consolidated from the date on which control is transferred to the Trust and will cease to be consolidated from the date on which control is transferred out of the Trust.

The Trust has an investment in the Limited Partnership which is controlled via contractual arrangements that provide the Trust with control over this Limited Partnership. The results of investments acquired or disposed of during the year are included in the consolidated statements of loss and comprehensive loss from the effective date of acquisition and up to the effective date of disposal, as appropriate.

# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

### 3. Summary of significant accounting policies (continued)

#### Principles of consolidation (continued)

Intra-group balances and transactions, and any unrealized gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with the investments are eliminated to the extent of the Trust's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

The consolidated financial statements of the Trust set out the assets, liabilities, revenues, expenses, and cash flows of the Trust and its direct and indirect investments in the following limited partnerships:

Entity	Direct ownership interest at December 31,	
	2022	2021
Equiton Balanced Real Estate Fund LP	99.999%	99.999%
	Indirect ownership interest at December 31,	
	2022	2021
Equiton Real Estate Financial LP	99.999%	99.999%
Equiton Commercial Real Estate Fund Limited Partnership	99.999%	99.999%
Equiton Real Estate Development Fund LP	99.999%	99.999%

These consolidated financial statements have been prepared on the historical cost basis except for the investment property under development, the investment property and the investment in the Sandstones Condo Trust units which are measured at fair value through profit and loss ("FVTPL").

## **Investment property**

Property that is held for long-term rental yields or for capital appreciation or both, is classified as investment property. Investment property also include property that are being constructed or will be developed for future use as investment properties.

Investment property is measured initially at their cost, including related transaction costs, initial leasing commissions, and where applicable, borrowing costs. Investment property also include tenant improvements, leasing costs (commissions and straight-line rent adjustments) in order to avoid double counting when establishing the fair value of the investment property.

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Trust and the cost of the item can be measured reliably. Such costs include suite preparation costs, which are incurred to improve the condition of a space to enhance its lease ability, and capital expenditures. All other repairs and maintenance costs are expensed when incurred.

After initial recognition, investment property is carried at fair value. Fair value is based upon valuations performed by an appraiser accredited through the Appraisal Institute of Canada, using valuation techniques including the direct capitalization and discounted cash flow methods. Recent real estate transactions with similar characteristics and location to the Trust's assets are also considered.

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# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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### 3. Summary of significant accounting policies (continued)

#### Investment property (continued)

Changes in fair value are recognized in the statement of income and comprehensive income. Investment property are derecognized when they have been disposed.

See below for details of the treatment of leasing costs capitalized within the carrying amount of the related investment property.

#### Investment property under development

The cost of property under development includes all expenditures incurred in connection with the acquisition, including all direct development costs, realty taxes and lease-up of the building to prepare it for its productive use, the applicable portion of general and administrative expenses and borrowing costs directly attributable to the development. Borrowing costs associated with direct expenditures on properties under development or redevelopment is capitalized. Borrowing costs are also capitalized on the purchase costs of a site or property acquired specifically for redevelopment in the short-term if the activities necessary to prepare the asset for development or redevelopment are in progress. The amount of borrowing costs capitalized is determined by reference to interest incurred on debt specific to the development project. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. The Trust considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally, this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Where the Trust has pre-leased space as of or prior to the start of the development and the lease requires the Trust to construct tenant improvements which enhance the value of the property, practical completion is considered to occur on completion of such improvements.

Property under development is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably determinable.

#### Leasing costs

Leasing costs are costs incurred by the Trust to induce a tenant to enter into a lease for space in the properties. Leasing costs consist of five categories of costs, with accounting treatments as follows:

i) Leasing commissions

Leasing commissions are incurred by the lessor in the negotiation and execution of leasing transactions. These costs are capitalized to investment properties and are considered in the fair value adjustment of the investment properties if material, otherwise they are expensed.

ii) Tenant improvements

Tenant improvements are costs incurred to make leasehold improvements to the tenants' space. These costs are capitalized to investment properties and are considered in the determination of the fair value of the investment properties.

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# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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### 3. Summary of significant accounting policies (continued)

#### Leasing costs (continued)

iii) Tenant incentives

Tenant incentives include cash payments, the buy-out of previous lease obligations, and payment of moving expenses. Tenant incentives are recognized as a receivable and amortized as a reduction of rental revenue over the initial term of the related leases. These receivables are included in investment properties and are considered in the determination of the fair value of the investment properties.

iv) Rent free or lower than market rate rents

Incentives in the form of free rent or lower than market rate rent form part of the straight-line rent adjustments. The accounting of straight-line rents is described in the revenue recognition note.

v) Marketing costs

Marketing costs include advertising, space plans, credit checks and promotion costs. These costs are expensed as incurred.

The Trust may incur certain significant costs for repair or replacement items that are recoverable from tenants. If such costs incurred meet the criteria for betterment, they are capitalized to investment properties in the period incurred. Otherwise, they are recognized as an operating expense in the statement of loss and comprehensive loss in the period incurred.

Long term repairs and replacement items are recovered from tenants at cost plus interest over a number of periods. The amount recovered in the current period is included in operating expense recoveries. No receivable is set up for potential future recoveries of the long-term items due to the lack of certainty of collection.

#### Joint arrangements

A joint arrangement is a contractual arrangement pursuant to which the Trust or a controlled entity and other parties undertake an economic activity that is subject to joint control, whereby the strategic financial and operating policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control. Joint arrangements are of two types - joint ventures and joint operations. A joint operation is a joint arrangement in which the Trust has rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement in which the Trust has rights to only the net assets of the arrangement.

The Trust is party to a single joint arrangement, which is a joint operation, through Development LP's 85% co-ownership interest in 710 Woolwich Street, Guelph, Ontario (Note 9). Joint operations are accounted for by recognizing the Trust's proportionate share of the assets, liabilities, revenue, expenses and cash flows of the joint operation. When Development LP transacts with either the Trust or other limited partnerships on behalf of the co-ownership, unrealized profits and losses and balances outstanding are eliminated to the extent of the Trust's interest in the joint operations.

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# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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### 3. Summary of significant accounting policies (continued)

#### Revenue recognition

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

As such, the Trust continues to use the straight-line method of base rental revenue recognition whereby the total of cash rents due over the term of a lease is recognized evenly over that term. Accordingly, an accrued rent receivable is recorded for the difference between the straight-line rent adjustments recorded as revenue and the rent that is contractually due from the tenants. This accrued rent receivable is included in investment properties.

Other rental revenues included in the leases such as parking revenues, storage revenues, signage revenues and lease termination fees are recognized as revenue during the period in which the services are performed and collectability is reasonably assured.

Service components within the Trust lease arrangements fall within the scope of IFRS 15, 'Revenue from contracts with customers', specifically the recoveries of operating costs and property taxes. The Trust recognizes recoveries revenues in the period in which the corresponding services are performed and collectability is reasonably assured.

#### Interest income

Mortgage interest income is recognized at the effective interest rate and recorded over the term of the mortgage when reasonable assurance exists regarding the measurement and collectability. Lender fees are earned over the term of the mortgage as performance obligations are met. Lender fees received in advance of being recognized as revenue are deferred and recognized over the term of the mortgage.

#### Tenant deposits

Tenant deposits are recognized initially at the fair value of the cash received and subsequently measured at amortized cost. The Trust obtains deposits from tenants as a guarantee for returning the leased premises at the end of the lease term in a specified good condition or for specified lease payments according to the terms of the lease.

#### Financial instruments

##### (i) Financial assets

In accordance with IFRS 9, 'Financial Instruments', financial assets are required to be measured at fair value on initial recognition. Subsequent to initial recognition, financial assets are categorized and measured based on how the Trust manages its financial instruments and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets:

- i) Measured at amortized cost,
- ii) Fair value through other comprehensive income,
- iii) Fair value through profit or loss

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# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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### 3. Summary of significant accounting policies (continued)

#### Financial instruments (continued)

##### (i) Financial assets (continued)

A financial asset is measured at amortized cost if it meets both of the following conditions

- i) It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Trust's financial assets are recognized initially at fair value and subsequently at amortized cost using the effective interest method. Financial assets subsequently measured at amortized cost consist of cash, restricted cash, accounts receivable, due from related parties and mortgage receivable. The investment in Sandstones Condo Trust does not meet the criteria for amortized cost measurement and is subsequently measured at fair value through profit and loss.

#### Impairment – Expected Credit Loss Model:

For the impairment of financial assets, IFRS 9 uses a forward-looking 'expected credit loss' ('ECL') model. The measurement options for the ECL are lifetime expected credit losses and 12-month expected credit losses.

The Trust uses the practical expedient to determine ECL on receivables using a provision matrix based on historical credit loss experiences adjusted for forward-looking factors specific to the debtors and to the economic environment to estimate lifetime ECL.

##### (ii) Financial liabilities

In accordance with IFRS 9, 'Financial Instruments', financial liabilities are required to be measured at fair value on initial recognition. Subsequent to initial recognition, financial liabilities are measured based on two categories:

- i) Amortized cost, and
- ii) Fair value through profit or loss

Under IFRS 9, all financial liabilities are classified and subsequently measured at amortized cost except in certain cases. The Trust has no financial liabilities that meet the definitions of these specific cases. Financial liabilities consist of payables, unit subscriptions held in trust, security deposits, due to related parties, due to RHH Rental Properties Ltd. and mortgages payable.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

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# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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### 3. Summary of significant accounting policies (continued)

#### Financial instruments (continued)

##### (iii) Fair value

Fair value measurements recognized in the statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values. Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The fair value hierarchy for measurement of assets and liabilities is as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

The fair value of cash, restricted cash, accounts receivable, mortgages receivable, due from/to related parties, payables, due to RHH Rental Properties Ltd., unit subscriptions held in trust, security deposit and mortgages payable approximate their fair values due to the short-term to maturity of the financial instruments.

The fair values as at December 31, 2022 and December 31, 2021 of the investment in Sandstones Condo Trust, and mortgages receivable and mortgages payable before deferred financing costs are estimated at:

	<u>2022</u>	<u>2021</u>
Mortgages receivable	\$ 2,437,277	\$ 1,087,277
Investment in Sandstones Condo Trust	4,300,000	-
Mortgages payable	10,379,466	11,000,000

These are compared with the carrying value of:

	<u>2022</u>	<u>2021</u>
Mortgages receivable	\$ 2,437,277	\$ 1,087,277
Investment in Sandstones Condo Trust	4,300,000	-
Mortgages payable	10,751,710	11,000,000

The fair value of the mortgages payable in fiscal 2022 varied from the carrying value due to fluctuations in interest rates since its issue.

#### **Critical accounting estimates, assumptions and judgements**

Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors. Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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### 3. Summary of significant accounting policies (continued)

#### Critical accounting estimates, assumptions and judgements (continued)

##### a) Estimates

The Trust has made the following critical accounting estimates:

##### *Investment property*

In addition, the computation of cost reimbursements from tenants for realty taxes, insurance and common area maintenance charges is complex and involves a number of estimates, including the interpretation of terms and other tenant lease provisions. Tenant leases are not consistent in dealing with such cost reimbursements, and variations in computations can exist. Adjustments are made throughout the year to these costs recovery revenues based upon the Trust's best estimate of the final amounts to be billed and collected.

In determining estimates of fair values for its investment properties, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts.

- i. Property tenancies
- ii. Market rents
- iii. Market terminal capitalization rates
- iv. Discount rates
- v. Direct capitalization rates
- vi. Economic environment and market conditions
- vii. Market activity

##### *Investment property and investment property under development*

In determining the net recoverable estimate for the purpose of impairment testing, the assumptions of underlying estimated values are limited by the availability of comparable data and the uncertainty of prediction concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts.

##### b) Judgements

##### *Leases*

The Trust makes judgements in determining whether improvements provided to tenants as part of the tenant's lease agreement represent a capital expenditure or an incentive.

##### *Assessment of control*

In determining whether the Trust controls the entities in which it invests, management is required to consider and assess the definition of control in accordance with IFRS 10. The Trust has assessed that the Sandstones Condo Trust has the ability to direct all relevant activities of the Sandstones Condo Limited Partnership and that the General Partner does not control the Sandstones Condo Limited Partnership. There is judgment required to determine whether the rights of the Trust result in control of the Sandstones Condo Trust.

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# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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### 3. Summary of significant accounting policies (continued)

#### Critical accounting estimates, assumptions and judgements (continued)

##### b) Judgements (continued)

##### *Net assets attributable to unitholders*

Trust units are redeemable at the holder's option and therefore are considered a puttable instrument in accordance with International Accounting Standard 32 - Financial Instruments: Presentation ("IAS 32"), subject to certain limitations and restrictions. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met, in which case, the puttable instruments may be presented as net assets attributable to unitholders. The Trust units meet the necessary conditions and have therefore been presented as net assets attributable to unitholders under IAS 32.

##### *Joint arrangements*

When determining the appropriate basis of accounting for the Trust's investment in co-ownership, the Trust makes judgments about the degree of control that the Trust exerts directly or through an arrangement over the co-ownership's relevant activities. The Trust has determined that its interest in the co-ownership is a joint operation.

#### **Estimates**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

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### 4. Restricted cash

At December 31, 2022, the Trust has restricted cash of \$39,866 (2021 – \$172,450). Restricted cash of \$39,866 (2021 - \$66,875) represents unitholder subscriptions held in trust until the trade settlement date. These amounts will be returned to investors if the proposed unitholder subscriptions do not successfully proceed. In addition, \$NIL (2021 - \$105,575) represents a holdback amount in respect to the purchase of the investment property acquired in 2021. This amount was held in trust by the law firm in the event that two specific tenants do not pay their full monthly rent associated with this property then the Trust can deduct this amount until the full rental payment is made by both tenants. The tenants paid during fiscal 2022 and the money was applied against the holdback payable to the vendor.

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## Equiton Real Estate Income and Development Fund Trust

### Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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#### 5. Investment property

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 11,710,156	\$ -
Purchase of investment property	-	11,710,156
Capital expenditures	<u>5,338</u>	<u>-</u>
Balance, end of year	<u>\$ 11,715,494</u>	<u>\$ 11,710,156</u>

On December 10, 2021, the Trust acquired an investment property located at 1960-1980 Hyde Park Road, London, Ontario for a purchase price of \$11,710,156, including transaction costs. The fair value of the investment property is estimated to approximate its carrying value.

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#### 6. Investment property under development

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 7,905,801	\$ 7,182,656
Purchase of investment property	-	-
Capital expenditures	<u>2,653,712</u>	<u>723,145</u>
Balance, end of year	<u>\$ 10,559,513</u>	<u>\$ 7,905,801</u>

On October 23, 2020, Development LP acquired an 85% interest in land, through its investment in a co-ownership (Note 9).

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#### 7. Related party transactions

##### Agreement with Equiton Capital Inc.

The Trust has entered into an Agency Agreement with Equiton Capital Inc. (the "Agent"), a related party through (a) sharing key management personnel with the Trust and (b) one of the Trustees of the Trust indirectly controls Equiton Capital Inc. The Trust has retained the Agent to act as a selling agent of the Trust Units.

Pursuant to the Agency Agreement, the Trust incurred agency fees with the Agent related to the issuance of Trust Units in the amount of \$893,179 (2021 - \$714,563), which are included in issuance costs in the consolidated statements of changes of net assets attributable to unitholders.

## Equiton Real Estate Income and Development Fund Trust

### Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

#### 7. Related party transactions (continued)

##### Due from related parties

	<u>2022</u>	<u>2021</u>
Due from Equiton Balanced Real Estate Fund GP Inc. (a related party as the general partner of Equiton Balanced Real Estate Fund LP)	\$ 1,100	\$ 1,610
Due from Sandstones Condo LP (a related party through shared management)	18,510	-
Due from Equiton Real Estate Commercial GP Inc. (a related party as the general partner of Equiton Real Estate Commercial LP)	500	-
Due from Equiton Real Estate Development GP Inc. (a related party as the general partner of Equiton Real Estate Development LP)	500	-
Due from Equiton Real Estate Financial GP Inc. (a related party as the general partner of Equiton Real Estate Financial LP)	<u>1,200</u>	<u>1,200</u>
	<u>\$ 21,810</u>	<u>\$ 2,810</u>

##### Due to related parties

	<u>2022</u>	<u>2021</u>
Due to Equiton Partners Inc. (a related party being the asset manager of the limited partnerships)	\$ 339,227	\$ 83,316
Due to Equiton Capital Inc. (a related party through shared management)	38,325	-
Due to Equiton Residential Income Fund LP (a related party through shared management)	480	-
Due to Equiton Residential Income Fund Trust (a related party through shared management)	<u>18,733</u>	<u>10,903</u>
	<u>\$ 396,765</u>	<u>\$ 94,219</u>

Balances due to/from related parties are unsecured, non-interest bearing and due on demand.

#### 8. Investment in Sandstone Condo Trust

On August 31, 2022, the Trust purchased 43,000 Class B units of Sandstones Condo Trust for \$4,300,000. Sandstones Condo Trust is a related party through common management. Sandstones Condo Trust controls a limited partnership that is developing a multi-residential property located at 2257 Kingston Road, Toronto, Ontario. The investment in Sandstones Condo Trust is recorded at its fair market value which approximates the carrying value as at December 31, 2022.

# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

### 9. Joint arrangements

#### Interests in joint operations

The Trust's indirect interests in the investment property under development located at 710 Woolwich Street, Guelph, Ontario are subject to joint control and accounted for as a joint operation. Equiton Real Estate Development Fund LP entered into a co-ownership agreement with RHH Rental Properties Ltd. and is developing a multi-residential property with townhouses in Guelph, Ontario. There is a building currently on the property that generated rental income from commercial tenants in 2021 and 2022, however the intention is to demolish the building for redevelopment. Therefore, the purchase price was allocated entirely to the land. The co-ownership was formed on August 28, 2021 and is governed by co-owner's agreement effective as of that date. The co-ownership agreement stipulates that a co-owners Committee be formed consisting of two members, of whom one member shall be appointed by each of the co-owners. All major decisions, as defined in the agreements, require the unanimous vote of the members of the co-owners Committee. The Equiton Real Estate Development Fund LP's ownership interest is 85%.

The financial information in respect of the Trust's indirect 85% proportionate share of the joint operation is as follows:

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash	\$ 384,177	\$ 106,816
Accounts receivable	185,536	5,366
Prepaid expenses and security deposits	204,502	191,675
Investment property under development	<u>10,559,513</u>	<u>7,905,801</u>
<b>Total assets</b>	<u>\$ 11,333,728</u>	<u>\$ 8,209,658</u>
<b>Liabilities</b>		
Payables and accruals	\$ 945,820	\$ 353,625
Mortgage payable	<u>4,250,000</u>	<u>4,250,000</u>
<b>Total liabilities</b>	<u>5,195,820</u>	<u>4,603,625</u>
<b>Co-owner equity</b>	<u>6,137,908</u>	<u>3,606,033</u>
<b>Total liabilities and co-owner equity</b>	<u>\$ 11,333,728</u>	<u>\$ 8,209,658</u>

## Equiton Real Estate Income and Development Fund Trust

### Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

#### 10. Mortgages receivable

	Payment Type	Interest Rate	Maturity date	December 31, 2022	December 31, 2021
a)	Interest only	10.50%	Feb 28, 2023	\$ 87,277	\$ 87,277
b)	Interest only	7.00%	March 1, 2022	-	1,000,000
c)	Interest only	see below	April 1, 2023	<u>2,350,000</u>	<u>-</u>
				<u>2,437,277</u>	<u>1,087,277</u>
Less: Deferred financing charges				<u>(12,533)</u>	<u>(1,291)</u>
				<u>\$ 2,424,744</u>	<u>\$ 1,085,986</u>

Total deferred financing charges received in 2022 amounted to \$37,600 (2021 - \$10,000).

- The mortgage receivable is a second mortgage on a property under development in Guelph, Ontario and the property to which this mortgage receivable relates is 15% owned by the other co-owner (see Note 9) in a joint arrangement by the same limited partnership as this Trust. The mortgage receivable was extended to May 2023.
- The mortgage receivable issued during 2021, is the first mortgage on a multi-residential property under development in Coburg, Ontario. This mortgage was repaid during 2022.
- The mortgage receivable issued during 2022 is the first mortgage issued to Sandstones Condo LP for the development of a multi-residential property in Toronto, Ontario. The interest rate is prime+280 basis points and the rate of interest must not fall below floor rate of 750 basis. The prime rate at December 31, 2022 is 6.45%.

Mortgages receivable are assessed at each reporting date to determine whether there is objective evidence of impairment. A mortgage or loan investment is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of an asset, and that the loss event had a negative effect on these estimated future cash flows of that asset that can be estimated reliably. For the years ended December 31, 2022, and 2021 there were no provisions for mortgage investment losses. The fair value of the mortgages receivable are estimated to approximate its carrying value due to their short nature (Note 3).

#### 11. Due to RHH Rental Properties Ltd.

RHH Rental Properties Ltd. is a 15% joint owner and developer in the co-ownership (Note 9), and the amount payable is non-interest bearing and due on demand.

# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

### 12. Mortgages payable

	Payment Type	Interest Rate	Maturity date	December 31, 2022	December 31, 2021
a)	Interest only	See below	Feb 1, 2023	\$ 4,250,000	\$ 4,250,000
b)	Blended monthly	4.43%	April 1, 2027	<u>6,501,710</u>	<u>6,750,000</u>
				<b>10,751,710</b>	11,000,000
Less: Deferred financing charges				<u>(123,554)</u>	<u>(98,056)</u>
				<b>\$ 10,628,156</b>	<b>\$ 10,901,944</b>

The second mortgage payable is repayable as follows:

2023	\$ 152,925
2024	159,774
2025	166,933
2026	174,408
2027	<u>5,847,670</u>
	<b>\$ 6,501,710</b>

- a) The first mortgage payable is an 85% share of the co-ownership's interest payment only with First National Financial LP. The mortgage payable has a monthly interest payment only debt that original bears interest at 6.0% until December 31, 2022 and 10% thereafter. Maturity date has been extended to May, 2023.

The mortgage payable is collateralized by a first collateral mortgage over the property, registered general security agreement and general assignment of rents and leases for the property. The fair value of the mortgage payable is estimated to approximate its carrying value (Note 3).

- b) The second mortgage payable is also with First National Financial LP. The loan bears interest at 4.43% and matures on April 1, 2027. The Trust must comply with its mortgage agreement. The Trust met the requirements of the mortgagor as at December 31, 2022 and 2021.

The Trust must comply with its mortgage agreement. The Partnership met the requirements of the mortgagor as at December 31, 2022 and 2021.

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## Equiton Real Estate Income and Development Fund Trust

### Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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#### 13. Unitholders' equity

In 2022, the Trust issued 612,135 Class A units (2021 - 619,203 Class Units) at a price of \$10 per unit (2021 - a price ranging from \$9.30 - \$10.00 per unit), 316,029 Class F units (2021 - 97,319 Class F units) at a price of \$10 per unit (2021 - at a price ranging from \$9.30 - \$10.00 per unit), 40,655 Class B units (2021 - nil) at a price of \$10 per unit (2021 - \$nil per unit) and 16,330 Class C units (2021 - nil) at a price of \$10 per unit (2021 \$nil per unit), resulting in net proceeds of \$7,074,258 (2021 - \$7,006,626). Furthermore, a cumulative total of 105,186 units (2021 - 56,396 units) were issued through the Trust's Dividend Reinvestment Plan ("DRIP") and 19,767 units (2021 - 15,991 units) were redeemed.

##### (i) Class A Trust Units

The Trust is authorized to issue an unlimited number of Class A Trust units.

##### (ii) Class F Trust Units

The Trust is authorized to issue an unlimited number of Class F Trust units.

##### (iii) Class B Trust Units

The Trust is authorized to issue an unlimited number of Class B Trust units.

##### (iv) Class C Trust Units

The Trust is authorized to issue an unlimited number of Class C Trust units.

##### (v) Class I Trust Units

The Trust is authorized to issue an unlimited number of Class I Trust units. As of December 31, 2022 and 2021, no Class I Trust units have been issued.

# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

### 13. Unitholders' equity (continued)

#### (a) Units outstanding

Class A Trust Units	Number	Amount
<b>Balance, January 1, 2021</b>	<b>687,147</b>	<b>\$ 5,397,247</b>
Issuance of units	619,203	\$ 6,056,626
Issuance of units through distribution reinvestment plan	54,544	520,360
Redemption of units	(15,991)	(153,761)
Issuance costs	-	(617,679)
<b>Balance, December 31, 2021</b>	<b>1,344,903</b>	<b>\$ 11,202,793</b>
Issuance of units	612,135	\$ 6,124,258
Issuance of units through distribution reinvestment plan	93,726	918,519
Redemption of units	(19,767)	(197,669)
Issuance costs	-	(554,541)
<b>Balance, December 31, 2022</b>	<b>2,030,997</b>	<b>\$ 17,493,363</b>
<b>Class B Trust Units</b>	<b>Number</b>	<b>Amount</b>
Issuance of units	40,655	\$ 406,549
Issuance of units through distribution reinvestment plan	252	2,475
Issuance costs	-	(36,909)
<b>Balance, December 31, 2022</b>	<b>40,907</b>	<b>\$ 372,115</b>
<b>Class C Trust Units</b>	<b>Number</b>	<b>Amount</b>
Issuance of units	16,330	\$ 163,300
Issuance of units through distribution reinvestment plan	24	238
Issuance costs	-	(14,825)
<b>Balance, December 31, 2022</b>	<b>16,354</b>	<b>\$ 148,713</b>
<b>Class F Trust Units</b>	<b>Number</b>	<b>Amount</b>
<b>Balance, January 1, 2021</b>	<b>68,884</b>	<b>\$ 561,865</b>
Issuance of units	97,319	\$ 950,000
Issuance of units through distribution reinvestment plan	1,852	17,722
Issuance costs	-	(96,884)
<b>Balance, December 31, 2021</b>	<b>168,055</b>	<b>\$ 1,432,703</b>
Issuance of units	316,029	\$ 3,160,294
Issuance of units through distribution reinvestment plan	11,184	109,602
Issuance costs	-	(286,907)
<b>Balance, December 31, 2022</b>	<b>495,268</b>	<b>\$ 4,415,692</b>
<b>Total units outstanding, December 31, 2022</b>	<b>2,583,526</b>	<b>\$ 22,429,883</b>
<b>Total units outstanding, December 31, 2021</b>	<b>1,512,958</b>	<b>\$ 12,635,496</b>

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# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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### 14. Asset management agreement

Equiton Partners Inc. (the “Manager”) is entitled to the following fees pursuant to the Asset Management Agreement:

#### (i) Asset management fee

The asset management fee is charged at 1.0% annually with respect to the net asset value of Equiton Real Estate Income and Development Fund Trust and Equiton Balanced Real Estate Fund LP, as determined by its Board of Trustees, 1.0% annually with respect to the gross asset value of the assets in the Equiton Real Estate Financial LP, and 3.0% annually with respect to the gross asset value of Equiton Real Estate Development Fund LP.

The asset management fee is calculated and charged monthly.

#### (ii) Participation fees

During the term of the Asset Management Agreement, the Manager shall be entitled to a 20% fee based on the net income earned by the Equiton Real Estate Financial LP in connection with its mortgages receivable.

#### (iii) Origination fees

In addition, during the term, the Manager shall be entitled to a fee equal to 3.0% of the total expenditures made in respect of each development project by Equiton Real Estate Development Fund LP, which shall be calculated and payable monthly.

#### (iv) Transaction fees

During the term, the Manager shall be entitled to a transaction fee equal to 1.0% of the purchase price with respect to each property acquired or sold by Equiton Commercial Real Estate Fund Limited Partnership.

#### (v) Financing fee

Lastly, during the term, the Manager shall be entitled to a financing fee is charged at 1.00% of the loan amount with respect to each senior or first ranking financing transaction, at 0.50% of the loan amount with respect to each refinancing transaction and at 1.5% of the loan amount with respect to each mezzanine or non-first ranking financing transaction in connection with any mortgage payable secured by Equiton Commercial Real Estate Fund Limited Partnership.

The Manager charged the following fees during the year:

	<u>2022</u>	<u>2021</u>
Asset management fee	\$ 370,363	\$ 163,527
Participation fee	47,607	12,280
Origination fee	77,532	26,622
Transaction fee	-	111,700
Financing fee	-	76,275
	<u>\$ 495,502</u>	<u>\$ 390,404</u>

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# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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### 14. Asset management agreement (continued)

The asset management, participation and origination fees are recorded in the statement of loss and comprehensive loss. The transaction fee is recorded in the investment property on the statement of financial position.

Transactions with related parties are in normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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### 15. Management of capital

The Trust defines capital that it manages as the aggregate of net assets attributable to unitholders and interest-bearing debt less cash. The Trust's objective when managing capital is to ensure that the Trust will continue as a going concern so that it can sustain daily operations. The Trust's primary objective is to ensure that it has sufficient cash resources to indirectly invest in real estate assets in order to provide adequate returns in the form of dividends to its unitholders. To secure the additional capital necessary to pursue these plans, the Trust may attempt to raise additional funds through the issuance of additional trust units.

The Trust is subject to risks associated with debt financing, including the possibility that existing mortgages may not be refinanced or may not be refinanced on favourable terms or with interest rates as favourable as those of the existing debt. The Trust manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The total managed capital for the Trust is summarized below:

	<u>December 31</u> <u>2022</u>	<u>December 31</u> <u>2021</u>
Mortgage payable	\$ 10,628,156	\$ 10,901,944
Cash	<u>(1,452,635)</u>	<u>(1,606,024)</u>
Net debt	9,175,521	9,295,919
Net assets attributable to unitholders	<u>18,643,892</u>	<u>10,604,155</u>
	<u>\$ 27,819,413</u>	<u>\$ 19,900,074</u>

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### 16. Financial instruments and risk management

#### Risks associated with financial assets and liabilities

Financial risks arise from financial instruments to which the Trust is exposed during or at the end of the reporting period. Financial risks comprise market risk, credit risk and liquidity risk. Management identifies, evaluates and monitors these risks throughout the year.

#### (i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices due to currency risk, price risk and interest rate risk. Due to the nature of the Trust's financial instruments it has no exposure to currency or price risk.

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# Equiton Real Estate Income and Development Fund Trust

## Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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### 16. Financial instruments and risk management (continued)

#### Risks associated with financial assets and liabilities (continued)

##### (ii) Market risk (continued)

###### *Interest rate risk*

The Trust is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In respect of the Trust's interest-bearing financial instruments, the agreements for all mortgages held by the Trust stipulate a fixed rate of interest. Accordingly, the Trust would be subject to limited exposure to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates. The fair values of the mortgages are disclosed in Note 3.

##### (iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered with the Trust, resulting in a financial loss to the Trust. This risk arises principally from the mortgage receivable held, and from cash and accounts receivable. For risk management reporting purposes, the Trust considers and consolidates all elements of credit risk exposure (such as loan-to-value, sector risk, location risk, and individual obligor default risk).

The Trust's policy over credit risk is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards set out by the Trust's investment committee.

Credit risk is monitored on an on-going basis by the Trust in accordance with policies and procedures in place. The Trust's credit risk is monitored on a quarterly basis by the board of Trustee's.

The Trust's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2022 and 2021, is represented by the respective carrying amounts of the relevant financial assets in the statement of financial position.

##### (iv) Liquidity risk

Liquidity risk is the risk the Trust will encounter difficulties in meeting its financial liability obligations. The Trust's objective in minimizing liquidity risk is to maintain appropriate levels of leverage on its real estate assets. At December 31, 2022, the Trust was holding cash of \$1,452,635 (2021 - \$1,711,599). The Trust's payables are payable on demand and one of the mortgages payable's maturity is due within the year as described in Note 12.