



Consolidated Financial Statements  
**December 31, 2022 and 2021**  
(expressed in Canadian dollars)

April 13, 2023

## **Management's Report**

The accompanying consolidated financial statements of NexLiving Communities Inc. are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparation of the consolidated financial statements. The Audit Committee of the Board of Directors reviewed and approved the Company's consolidated financial statements and recommended their approval by the Board of Directors.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, have examined these consolidated financial statements and their report follows.

(signed) "*Stavro Stathonikos*"  
Chief Executive Officer  
Toronto, Ontario

(signed) "*Glenn Holmes*"  
Chief Financial Officer  
Halifax, Nova Scotia



## Independent auditor's report

To the Shareholders of NexLiving Communities Inc.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of NexLiving Communities Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP  
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Fair value of investment properties</b></p> <p><i>Refer to note 3 – Significant accounting policies and note 6 – Investment properties to the consolidated financial statements.</i></p> <p>The Company's investment properties at December 31, 2022 were \$203,071,000. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value.</p> <p>The fair value of investment properties is determined using the capitalized net operating income method, with the 12-month forward net operating income divided by a market capitalization rate. The 12-month forward net operating income is based on the Company's operating budget and stabilized for any non-recurring expenses. Management uses the assistance of an independent appraiser to determine an appropriate market capitalization rate for individual properties at period ends. For properties acquired close to a period-end, the purchase price, which is supported by an independent appraisal, is determined to approximate fair value.</p> <p>The capitalized net operating income method requires certain key assumptions and estimates to be made by management, including forecasted rental income and vacancies, forecasted property operating expenses and capitalization rates.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"><li>• Tested how management determined the fair values of its investment properties, which included the following:<ul style="list-style-type: none"><li>– Evaluated the appropriateness of the valuation method used.</li><li>– Tested the underlying data used in the method.</li><li>– Evaluated the reasonableness of key assumptions such as forecasted rental income and vacancies and forecasted property operating expenses by comparing them to current and historical leasing activity and results.</li><li>– Professionals with specialized skill and knowledge in the field of real estate valuations assisted us in assessing the reasonableness of the capitalization rates.</li><li>– Tested the disclosures made in the consolidated statements.</li></ul></li></ul>



### Key audit matter

### How our audit addressed the key audit matter

We considered this a key audit matter due to (i) the significance of the investment properties balance; (ii) the significant judgments made by management in determining the fair values of the investment properties; and (iii) the high degree of complexity in assessing audit evidence related to the key assumptions and estimates made by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of real estate valuations.

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### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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



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## 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 Company'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 Company'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 Company 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 Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Maxime Lessard.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Halifax, Nova Scotia  
April 13, 2023

**NexLiving Communities Inc.**  
Consolidated Statements of Financial Position  
As at December 31, 2022 and 2021

(expressed in Canadian dollars)

	<b>2022</b>	<b>2021</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	813,765	17,695,837
Accounts receivable	587,065	89,566
Deposits and prepaids (note 5)	1,243,253	811,314
	<u>2,644,083</u>	<u>18,596,717</u>
<b>Investment properties</b> (note 6)	<u>203,071,000</u>	<u>125,162,000</u>
	<u>205,715,083</u>	<u>143,758,717</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 7)	1,279,884	708,492
Convertible debentures (note 8)	-	3,306,742
Current portion of mortgage payable (note 9)	34,030,964	17,240,009
	<u>35,310,848</u>	<u>21,255,243</u>
<b>Mortgages payable</b> (note 9)	99,907,410	61,701,589
<b>Deferred income taxes</b> (note 11)	<u>600,000</u>	<u>-</u>
	135,818,258	82,956,832
<b>Equity</b> (note 10)	<u>69,896,825</u>	<u>60,801,885</u>
	<u>205,715,083</u>	<u>143,758,717</u>
<b>Subsequent events</b> (note 16)		

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

# NexLiving Communities Inc.

## Consolidated Statements of Income and Comprehensive Income For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

	2022 \$	2021 \$
<b>Revenue</b>		
Rental income	11,864,526	7,525,715
<b>Property operating expenses</b>		
Operating expenses	(5,194,082)	(3,274,706)
<b>Net property operating income</b>	6,670,444	4,251,009
<b>Administrative expenses</b>		
Management wages and consulting fees	(1,032,526)	(918,648)
Filing and other fees	(81,923)	(50,524)
Insurance	(38,062)	(25,954)
Office and other	(109,888)	(114,482)
Professional fees	(225,614)	(137,457)
Stock-based compensation (note 10)	(334,500)	(288,100)
	(1,822,513)	(1,535,165)
<b>Finance costs</b>		
Interest expense	(2,593,905)	(1,768,777)
Deferred financing costs amortization expense (notes 8 and 9)	(478,602)	(337,753)
Accretion expense (note 8)	(310,315)	(1,055,225)
Loss on modification of convertible debentures	-	(88,000)
	(3,382,822)	(3,249,755)
<b>Other income</b>		
Fair value adjustment to investment properties (note 6)	6,563,657	9,937,148
Interest income	84,422	-
Gain on sale of investment properties	-	1,130
	6,648,079	9,938,278
<b>Net income before income taxes</b>	8,113,188	9,404,367
<b>Deferred income tax expense</b>	(600,000)	-
<b>Net income and comprehensive income for the years</b>	7,513,188	9,404,367
<b>Net income per share – basic (note 13)</b>	0.03	0.06
<b>Net income per share – diluted (note 13)</b>	0.03	0.06

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

## NexLiving Communities Inc.

### Consolidated Statements of Changes in Equity

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

	Number of shares	Share capital \$	Warrants \$	Convertible debentures \$	Contributed surplus \$	Retained earnings \$	Total \$
<b>Balance – December 31, 2021</b>	281,549,482	53,900,266	1,951,592	1,042,729	1,985,900	1,921,398	60,801,885
Net income and comprehensive income for the year	-	-	-	-	-	7,513,188	7,513,188
Shares issued for cash, net of issue costs (note 10)	6,000,000	1,160,583	-	-	-	-	1,160,583
Shares issued pursuant to exercise of warrants (note 10)	4,012,500	999,729	(297,542)	-	-	-	702,187
Shares issued pursuant to settlement of DSUs (note 10)	1,720,666	330,500	-	-	(364,900)	-	(34,400)
Expiration of warrants (note 10)	-	-	(740,513)	-	740,513	-	-
Dividends paid	-	-	-	-	-	(581,118)	(581,118)
Repayment of convertible debentures (notes 8 and 10)	-	-	-	(1,042,729)	1,042,729	-	-
Stock-based compensation (note 10)	-	-	-	-	334,500	-	334,500
<b>Balance – December 31, 2022</b>	<b>293,282,648</b>	<b>56,391,078</b>	<b>913,537</b>	<b>-</b>	<b>3,738,742</b>	<b>8,853,468</b>	<b>69,896,825</b>

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

## NexLiving Communities Inc.

Consolidated Statements of Changes in Equity (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

	Number of shares	Share capital \$	Warrants \$	Convertible debentures \$	Contributed surplus \$	Retained earnings (deficit) \$	Total \$
<b>Balance – December 31, 2020</b>	131,313,346	25,639,603	2,310,192	1,416,832	1,179,000	(7,129,655)	23,415,972
Net income and comprehensive income for the year	-	-	-	-	-	9,404,367	9,404,367
Shares issued for cash, net of issue costs (note 10)	142,937,000	26,619,929	-	-	-	-	26,619,929
Shares issued pursuant to acquisitions (note 6)	3,750,000	750,000	-	-	-	-	750,000
Shares issued upon conversion and settlement of debentures	2,312,500	632,500	-	(374,103)	189,000	-	447,397
Shares issued pursuant to settlement of DSUs (note 10)	84,000	21,780	-	-	(28,800)	-	(7,020)
Shares issued in settlement of debt obligations, net of issue costs	1,152,636	236,454	-	-	-	-	236,454
Expiration of warrants (note 10)	-	-	(358,600)	-	358,600	-	-
Dividends paid	-	-	-	-	-	(353,314)	(353,314)
Stock-based compensation (note 10)	-	-	-	-	288,100	-	288,100
<b>Balance – December 31, 2021</b>	<b>281,549,482</b>	<b>53,900,266</b>	<b>1,951,592</b>	<b>1,042,729</b>	<b>1,985,900</b>	<b>1,921,398</b>	<b>60,801,885</b>

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

**NexLiving Communities Inc.**  
Consolidated Statements of Cash Flows  
For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

	2022 \$	2021 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income and comprehensive income for the years	7,513,188	9,404,367
Charges to income not affecting cash		
Interest on convertible debentures and mortgage payable	288,802	205,565
Stock-based compensation expense	300,100	288,100
Change in fair value of investment properties (note 6)	(6,563,657)	(9,937,148)
Amortization expense	478,602	337,753
Accretion expense	310,315	1,055,225
Deferred income tax expense	600,000	-
Loss on modification of convertible debentures	-	88,000
Gain on sale of non-core investment properties	-	(1,130)
	2,927,350	1,440,732
Net changes in non-cash working capital balances related to operations		
Accounts receivable	(497,498)	(64,564)
Deposits and prepaid expenses	(431,939)	(559,293)
Accounts payable and accrued liabilities, net of amount settled through share issuances	282,590	(139,063)
	2,280,503	677,812
<b>Financing activities</b>		
Proceeds from issuance of common shares and warrants, net of issue costs	1,862,770	26,617,983
Repayments of convertible debentures	(3,674,000)	(2,025,000)
Proceeds from mortgage financing	23,306,816	15,959,771
Repayments of mortgage principal	(2,186,071)	(1,679,776)
Payment of dividends	(581,118)	(353,314)
	18,728,397	38,519,664
<b>Investing activities</b>		
Acquisition of investment properties (note 6)	(37,161,158)	(24,457,277)
Proceeds from sale of investment properties	-	510,119
Additions to investment properties (note 6)	(729,814)	-
	(37,890,972)	(23,947,158)
<b>Change in cash during the year</b>	(16,882,072)	15,250,318
<b>Cash – Beginning of year</b>	17,695,837	2,445,519
<b>Cash – End of year</b>	813,765	17,695,837

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

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

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(expressed in Canadian dollars)

### 1 Nature of operations

NexLiving Communities Inc. (the Company) was incorporated under the Canada Business Corporations Act on August 9, 2011. Its registered office is located at 45 Alderney Drive, Dartmouth, Nova Scotia, B2Y 2N6, Canada. The Company's business is the ownership and management of multi-unit residential real estate with a focus on low and mid-rise properties in bedroom communities in Eastern Canada. The common shares of the Company are listed on the TSX Venture Exchange (TSXV or the Exchange) under the symbol NXLV.

### 2 Basis of presentation

#### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Board of Directors approved the consolidated financial statements for issue on April 13, 2023.

### 3 Significant accounting policies

#### Basis of consolidation

The consolidated financial statements of the Company consolidate the accounts of the Company and all subsidiaries.

All subsidiaries are 100% owned. Inter-group transactions and balances are eliminated in preparing the consolidated financial statements.

#### Property acquisitions

Where property is acquired, management considers the substance of the agreement in determining whether the acquisition represents the acquisition of property or a business combination.

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

#### Investment properties

Investment properties are comprised of properties held to earn rental revenue or for capital appreciation or both but not for the sale in the normal course of business. Investment properties are measured initially at cost, including transaction costs. Transaction costs include transfer taxes and professional fees for legal services.

# **NexLiving Communities Inc.**

## **Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

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(expressed in Canadian dollars)

Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in fair value of investment properties are included in profit or loss in the period in which they arise.

Subsequent expenditures are capitalized to the investment property's carrying value only when it is probable that future economic benefits associated with the expenditures will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

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

### **Revenue recognition**

The Company enters as a lessor into lease agreements that fall within the scope of IFRS 16, Leases, which are classified as operating leases. The Company's revenues are earned from lease contracts with tenants and the Company recognizes contractual revenue from lease contracts on a straight-line basis over the lease term.

### **Cash**

Cash includes cash held with banks. Interest income earned on the Company's cash is included in other income.

### **Convertible debentures**

Upon issuance, convertible debentures are separated into the debt and conversion feature components. The debt component of the convertible debenture is recognized initially at fair value of a similar debt instrument without a conversion feature. Subsequent to initial recognition, the debt component of a compound financial instrument is measured at amortized cost using the effective interest method.

The conversion feature of the convertible debentures is initially recognized at fair value. The convertible debentures are convertible into common shares of the Company at the holder's option. As a result of this obligation, the convertible debentures are convertible into equity and, accordingly, the conversion feature component of the convertible debentures is also equity.

### **Share options, deferred share units (DSUs) and warrants**

The Company has a share option plan and a deferred share unit plan available for officers, employees and consultants (note 10).

The fair value of share options and warrants granted is estimated on the date of grant using the Black-Scholes option pricing model and is recorded as an expense over the applicable vesting period based on the number of awards expected to vest. Each tranche of an award is considered a separate award within its own vesting period and grant date fair value. On the exercise of share options, the consideration received and the grant date fair value of the option is credited to share capital. Issuances of share options and warrants related to private placements or public offerings of shares are treated as share issue costs.

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

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(expressed in Canadian dollars)

The fair value of DSUs granted is estimated on the date of grant using the prior day closing price on the TSX Venture Exchange. Compensation expense for DSUs is recognized over the vesting period.

Pursuant to the terms of the share option and DSU plans, the share options and DSUs awarded can only be equity settled.

Transaction costs related to the issuance of the shares are recognized directly in shareholders' equity as a reduction of the proceeds received.

### **Income or loss per share**

The calculation of income or loss per share and diluted income or loss per share are based on the weighted average number of common shares outstanding during the year. Diluted income or loss per share is determined by adjusting the weighted average number of common shares for the dilutive effect, if any, of share options, warrants and DSUs using the treasury stock method. Under this method, share options whose exercise price is less than the average market price of the Company's common shares are assumed to be exercised and the proceeds used to repurchase common shares at the average market price for the year. The incremental number of common shares issued on the assumed exercise and repurchased from proceeds is included in the calculation of diluted income or loss.

### **Income taxes**

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

- **Current income taxes**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Canada, where the Company and its subsidiaries operate. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

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(expressed in Canadian dollars)

- Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

### Financial instruments

- Financial assets and liabilities

#### Initial measurement and classification

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through profit and loss (FVTPL) or fair value through other comprehensive income (FVOCI).

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or if it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

#### Subsequent measurement

- Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

- Financial liabilities at amortized cost

These financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

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(expressed in Canadian dollars)

The Company's financial instruments include cash, deposits, accounts receivable, accounts payable and accrued liabilities, convertible debentures and mortgages payable, all of which are subsequently measured at amortized cost.

- Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value.

- Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts, volatility measurements used to value option contracts and observable credit default swap spreads to adjust for credit risk where appropriate), or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 – inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

- Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECLs) on financial assets measured at amortized cost. The Company measures loss allowances at an amount equal to the lifetime ECLs in accordance with the simplified approach.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

The Company assumes that the credit risk on financial assets has increased if it is more than 30 days past due. The Company considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade.

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

December 31, 2022 and 2021

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(expressed in Canadian dollars)

### Significant accounting judgments and estimates

Judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets, liabilities and equity components are reviewed on an ongoing basis. Actual results may differ from these estimates. Management has made the following critical judgments, estimates and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements:

- Asset acquisitions

At the time of acquisition of real estate properties, the Company considers whether or not the acquisition represents the acquisition of a business. The Company accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. When the acquisition of a property does not represent a business, it is accounted for as an asset acquisition. The cost of the acquisition, including transaction costs, is allocated to the assets and liabilities acquired based on their relative fair values, and no goodwill or deferred tax is recognized.

The acquisition of each of the Company's investment properties to date was determined to be an asset acquisition.

- Investment properties

The fair value of investment properties is determined using the capitalized net operating income method, with the 12-month forward net operating income divided by a market capitalization rate. The 12-month forward net operating income is based on the Company's operating budget and stabilized for any non-recurring expenses. Management uses the assistance of an independent appraiser to determine an appropriate market capitalization rate for individual properties at period ends. For properties acquired close to a period end, the purchase price, which is supported by an independent appraisal, is determined to approximate fair value.

Key assumptions and estimates made by management in the determination of the fair value of the investment properties include forecasted rental income and vacancies, forecasted property operating expenses and capitalization rates.

- Convertible debentures

The Company has issued convertible debentures as part of its acquisition financings. Convertible debentures are separated into their liability and equity components at time of issuance using a relative fair value approach. The fair value of the equity portion of the convertible debentures is calculated using the Black-Scholes option pricing model, which incorporates a number of assumptions including the implied share price volatility. The Company estimates the implied volatility using historic volatility.

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

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- Deferred income taxes

Deferred income tax assets and liabilities require judgment in determining the amounts to be recognized. In particular, judgment is used when assessing the extent to which deferred income tax assets should be recognized with respect to estimated future taxable income, which impacts the amount of deferred income tax assets recorded related to differences on the tax basis of assets and available non-capital losses. The estimates of future taxable income, the years when the temporary differences are expected to reverse and the tax rates in those years have an impact on the deferred income tax assets and liabilities recorded in the consolidated statements of financial position. Actual results may differ.

#### 4 New accounting standards not yet adopted

The International Accounting Standards Board (IASB) issued a number of standards and interpretations that have not been applied in preparing these consolidated financial statements as their effective date falls within periods beginning subsequent to the current reporting period. Set out below are only those standards that may have a material impact on the consolidated financial statements in future periods. The Company is currently assessing the financial impact of these future policies on its consolidated financial statements.

##### IAS 1, Presentation of Financial Statements (IAS 1)

On January 23, 2020, the IASB issued an amendment to IAS 1, Presentation of Financial Statements, providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or non-current depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity instruments, other assets or services to the counterparty. On October 31, 2022, the IASB issued new amendments to the requirements for classification of debt with covenants. The 2022 amendments introduce additional disclosure requirements that apply to liabilities with covenants that an entity is required to comply with on or before the reporting date, which would affect its classification as either current or non-current. In addition, the amendments require the disclosure of information in the notes that enables users of financial statements to understand the risk that the liability could become repayable within 12 months of the reporting date. Both amendments will be effective for annual periods beginning on or after January 1, 2024 and will be applied retrospectively.

#### 5 Deposits and prepaids

Deposits and prepaid expenses as at December 31, 2022 included an amount of \$785,919 (2021 – \$626,930) relating to investment properties under agreement, of which \$450,000 (2021 – \$250,000) is refundable deposits.

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

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### 6 Investment properties

Each of the investment properties acquired by the Company was not considered a business for accounting purposes and, therefore, the acquisitions were asset purchases. No personnel or processes were acquired, and processes in support of the acquired properties are being created rather than integrated. Furthermore, the acquired investment properties do not have any processes to support the revenue being generated as there is a contract in place with external parties to provide property management services.

The following table summarizes the changes in investment properties for the years ended December 31, 2022 and 2021:

	2022 \$	2021 \$
<b>Balance – Beginning of year</b>	125,162,000	83,697,000
Acquisitions during the period	70,615,529	34,483,783
Additions during the period	729,814	79,925
Disposals during the period	-	(3,035,856)
Fair value adjustments	6,563,657	9,937,148
<b>Balance – End of year</b>	<u>203,071,000</u>	<u>125,162,000</u>

On December 16, 2022, the Company completed the acquisition of a 67-unit building (5 Woodhollow) located at 5 Woodhollow Park and an 82-unit building (50 Calabria) located at 50 Via Calabria Street with an adjacent parcel of vacant land in Saint John, New Brunswick, for \$35,350,481 including closing costs.

On August 9, 2022, the Company completed the acquisition of a 40-unit building in Strathroy, Ontario (294 Saulsbury) located at 294 Saulsbury Street for \$9,683,090 including closing costs.

On April 14, 2022, the Company completed the acquisition of a 58-suite building in Lindsay, Ontario (35 Angeline) located at 35 Angeline Street for \$13,746,804 including closing costs.

On April 5, 2022, the Company completed the acquisition of a 64-unit building in Riverview, New Brunswick (Findlay Tower) located at 1009 Cleveland Avenue for \$11,835,154 including closing costs.

On December 22, 2021, the Company completed the acquisition of a seven-property multi-unit residential portfolio comprising 156 units in Moncton, New Brunswick (Findlay Estates) for \$21,699,988 including closing costs. The Findlay Estates properties are located at 529/539/545/625 Whitepine Avenue and 1008/1020/1037 Cleveland Avenue.

On June 30, 2021, the Company completed the acquisition of a 100% interest of Village View No.4 Limited Partnership, a limited partnership formed under the laws of the Province of New Brunswick (VV4LP), the sole asset of which is a 47-unit multi-family rental property located at 49 Noel Avenue, Saint John, New Brunswick (49 Noel).

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

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(expressed in Canadian dollars)

The Company acquired VV4LP for a purchase price of \$12,783,793. The Company satisfied the purchase price with the issuance to the vendors of 3,750,000 common shares of the Company at a price of \$0.20 per share, representing consideration of \$750,000, the assumption of a collateral mortgage on 49 Noel in the amount of \$9,366,429, with the balance being paid in cash.

On April 30 and May 7, 2021, the Company completed the sale of its non-core investment properties located at 27 Edmond Street and 50 Maplewood Drive in Moncton, New Brunswick. Total proceeds of the sales amounted to \$3,053,000, which resulted in a pre-tax gain on sale of approximately \$1,130. The purchaser assumed mortgages of approximately \$2,542,881, and \$510,119 was received in cash.

The fair value of investment properties is a Level 3 fair value measurement. The fair value represents the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All investment properties acquired to date were arm's length transactions and the purchase prices were supported by independent appraisals. Fair value is estimated using the capitalized net operating income method with the 12-month forward net operating income stabilized for any non-recurring expenses divided by a market capitalization rate. Key assumptions include the capitalization rate, forecasted rental income and vacancies and forecasted operating expenses for each specific property. For properties acquired close to a period-end, the purchase price, which is supported by an independent appraisal, is determined to approximate fair value.

The December 31, 2022 capitalization rates used to value the Company's investment properties ranged from 4.00% to 5.00%, and the weighted average capitalization rate was 4.69% (December 31, 2021 – ranged from 3.70% to 5.42% with a weighted average capitalization rate of 4.75%).

The December 31, 2022 net operating income (NOI) used to value the Company's investment properties ranged from \$234,000 to \$1,187,000, and the weighted average NOI was \$550,000 (2021 – ranged from \$310,000 to \$837,000 with a weighted average NOI of \$433,000).

The following table summarizes the impact of changes in capitalization rates and stabilized net operating income on the fair value of the Company's investment properties.

		<b>Change in stabilized NOI</b>				
		<b>(2.00)%</b>	<b>(1.00)%</b>	<b>-%</b>	<b>1.00%</b>	<b>2.00%</b>
		\$	\$	\$	\$	\$
<b>Change in capitalization rate</b>	(0.50)%	19,710,162	21,983,439	24,256,717	26,529,994	28,803,271
	(0.25)%	7,154,503	9,299,661	11,444,820	13,589,978	15,735,136
	-%	(4,061,420)	(2,030,710)	-	2,030,710	4,061,420
	0.25%	(14,141,179)	(12,213,324)	(10,285,468)	(8,357,613)	(6,429,758)
	0.50%	(23,249,090)	(21,414,172)	(19,579,255)	(17,744,337)	(15,909,420)

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

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(expressed in Canadian dollars)

### 7 Accounts payable and accrued liabilities

	2022 \$	2021 \$
Accounts payable	917,293	263,233
Accrued liabilities	362,591	445,259
	<u>1,279,884</u>	<u>708,492</u>

### 8 Convertible debentures

	2022 \$	2021 \$
2020 convertible debentures (Emma acquisition)	-	1,088,042
2020 convertible debentures (McLaughlin acquisition)	-	2,218,700
	<u>-</u>	<u>3,306,742</u>

- 2020 convertible debentures (Emma acquisition)

The Emma debentures matured during the year ended December 31, 2022 and were repaid in full.

For the year ended December 31, 2022, interest expense of \$19,127 (2021 – \$77,742), accretion recovery of \$13,042 (2021 – \$244,352) and amortization expense of \$nil (2021 – \$9,860) have been recorded.

- 2020 convertible debentures (McLaughlin acquisition)

The McLaughlin debentures matured during the year ended December 31, 2022 and were repaid in full.

For the year ended December 31, 2022, interest expense of \$129,569 (2021 – \$181,432), accretion expense of \$323,357 (2021 – \$349,490) and amortization expense of \$56,943 (2021 – \$71,742) have been recorded.

### 9 Mortgages payable

	2022 \$	2021 \$
Mortgages payable	135,267,371	79,636,001
Less: Unamortized deferred financing costs	1,328,997	694,403
	<u>133,938,374</u>	<u>78,941,598</u>
Less: Current portion	34,030,964	17,240,009
	<u>99,907,410</u>	<u>61,701,589</u>

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

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(expressed in Canadian dollars)

As at December 31, 2022, all of the Company's investment properties had been pledged as security against the mortgages payable. The Company's mortgages all have fixed interest rates and bear interest at a weighted average effective rate of 2.99% (2021 – 2.12%) with a remaining weighted average term to maturity of 2.8 years (2021 – 2.1 years).

The Company has access to two variable rate non-revolving demand construction loans for the purpose of funding capital improvements totalling \$2,175,000. As at December 31, 2022, \$nil was drawn on the construction loans (2021 – \$nil). Payments are to be made monthly on an interest-only basis. On completion of the Company's repositioning program, the construction loans are expected to be replaced with permanent mortgage financing.

The following table summarizes the changes in the aggregate mortgage values for the years ended December 31, 2022 and 2021:

	2022	2021
	\$	\$
Balance – Beginning of year	78,941,598	57,596,540
Mortgages assumed (note 6)	33,454,371	9,366,429
Mortgage proceeds	23,093,878	19,446,055
Repayments	(2,186,071)	(7,459,723)
Finance costs, net of amortization	634,598	(7,703)
	<hr/>	<hr/>
Balance – End of year	133,938,374	78,941,598

The annual principal payments in relation to the mortgages payable over the 12-month periods ending December 31 are as follows:

	\$
2023	34,030,964
2024	32,513,388
2025	8,907,498
2026	16,233,259
2027	35,540,553
Thereafter	8,259,305

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

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(expressed in Canadian dollars)

### 10 Share capital

- a) Authorized capital stock
- Unlimited number of common shares, without nominal or par value
  - Unlimited number of preferred shares, without nominal or par value, issuable in one or more series

Common shares issued and fully paid

	Number of shares	Amount \$
Balance – December 31, 2020	131,313,346	25,639,603
Shares issued for cash, net of issue costs	142,937,000	26,619,929
Shares issued in settlement of debt obligations	1,152,636	236,454
Shares issued pursuant to acquisitions	3,750,000	750,000
Shares issued pursuant to settlement of DSUs	84,000	21,780
Share issued pursuant to conversion of 2019 debentures	2,312,500	632,500
	<hr/>	
Balance – December 31, 2021	281,549,482	53,900,266
Shares issued for cash, net of issue costs	6,000,000	1,160,583
Shares issued pursuant to the exercise of warrants	4,012,500	999,729
Shares issued pursuant to settlement of DSUs	1,720,666	330,500
	<hr/>	
Balance – December 31, 2022	293,282,648	56,391,078

- b) Equity financings

On January 7, 2022, the Company upsized the second tranche of a private placement from \$1,000,000 to \$1,200,000 and closed the offering with the issuance of 6,000,000 common shares at a price of \$0.20 per share.

On December 1, 2021, the Company completed a private placement of common shares whereby 17,250,000 common shares were sold at a price of \$0.20 per common share for gross proceeds of \$3,450,000. Certain insiders of the Company subscribed for an aggregate of 15,000,000 common shares. The capital stock value of the 17,250,000 common shares issued is net of share issue costs of \$37,500.

On November 26, 2021, the Company completed a public offering of common shares whereby 100,000,000 common shares were sold at a price of \$0.20 per common share for gross proceeds of \$20,000,000. On December 9, 2021, the Company closed the over-allotment of the public offering of common shares whereby 13,187,000 common shares were sold at a price of \$0.20 per common share for gross proceeds of \$2,637,400. The net proceeds from the offering were used to finance the acquisition of Findlay Estates and for general corporate purposes. Certain insiders of the Company subscribed for an aggregate of 6,950,000 common shares. The capital stock value of the 113,187,000 common shares issued is net of share issue costs of \$1,668,826.

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

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On May 18, 2021, the Company completed a private placement of common shares whereby 12,500,000 common shares were sold at a price of \$0.20 per common share for gross proceeds of \$2,500,000. The financing comprised a non-brokered tranche of \$2,055,000 and a brokered tranche of \$445,000. The net proceeds from the offering were used to finance the acquisition of VV4LP and for general corporate purposes. Certain insiders of the Company subscribed for an aggregate of 3,375,000 common shares. The capital stock value of the 12,500,000 common shares issued is net of share issue costs of \$261,145.

c) Options

The Company has a common share purchase option plan (the Plan) for directors, officers, employees and consultants. The total number of options issued and outstanding at any time cannot exceed 10% of the issued and outstanding common shares of the Company unless shareholder and regulatory approvals are obtained. The exercise price of the stock options is determined by the Board of Directors when the options are granted, but it cannot be less than the closing price of the Company's shares on the TSXV on the business day immediately preceding the day on which the option is granted. The maximum exercise period of the stock options is ten years.

In determining the stock-based compensation expense, the fair value of options issued is estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility.

No stock options were issued during the year ended December 31, 2022. The weighted average assumptions used in the pricing model for options issued during the year ended December 31, 2021 were as follows: risk-free rate 1.5%, expected volatility 94%, expected dividend yield 1.05% and expected life ten years.

For the year ended December 31, 2021, the Board of Directors approved the issuance of 750,000 options to a consultant of the Company. The options are exercisable at \$0.19 per common share, vest in two equal tranches of 375,000 options, on April 20, 2021 and October 15, 2021, and are exercisable for a ten-year term. The Company charged \$111,000 in non-cash share-based compensation to operations for the year ended December 31, 2021.

The following table summarizes the Company's stock options for the periods ended December 31, 2022 and 2021:

	Weighted average exercise price \$	Number of options	Expiry date
<b>Balance – December 31, 2020</b>	0.24	300,000	May 15, 2030
Granted April 20, 2021	0.19	750,000	April 20, 2031
<b>Balance – December 31, 2021 and December 31, 2022</b>	0.20	1,050,000	

As at December 31, 2022, 28,278,265 options were available for future grants under the Plan. Options vested and exercisable as at December 31, 2022 totalled 1,050,000 with an average exercise price of \$0.20 per share.

**NexLiving Communities Inc.**  
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(expressed in Canadian dollars)

d) Warrants

The following table summarizes the changes in the Company's warrants for the years ended December 31, 2022 and 2021:

	Expiry date	Exercise price \$	Number #	Ascribed value \$
<b>Balance – December 31, 2020</b>			25,274,357	2,310,192
Warrants expired	January 20, 2021	0.21	(714,000)	(80,000)
Warrants expired	April 9, 2021	0.20	(485,980)	(90,000)
Warrants expired	September 30, 2021	0.25	(2,000,000)	(188,600)
<b>Balance – December 31, 2021</b>			22,074,377	1,951,592
Warrants expired	March 16, 2022	0.175	(2,487,500)	(184,458)
Warrants exercised	March 16, 2022	0.175	(4,012,500)	(297,542)
Warrants expired	April 27, 2022	0.27	(3,500,000)	(353,055)
Warrants expired	May 5, 2022	0.25	(50,000)	-
Warrants expired	August 26, 2022	0.25	(290,876)	-
Warrants expired	December 11, 2022	0.24	(2,233,501)	(203,000)
<b>Balance – December 31, 2022</b>			<u>9,500,000</u>	<u>913,537</u>

e) Deferred share units

The Company has a deferred share unit plan (the DSU Plan) whereby participants may elect to receive all or a portion of their annual compensation or bonus compensation, if any, in DSUs. The election, if it is made, must be for a minimum of 10%, or a multiple thereof, of such compensation in DSUs. The number of DSUs received is equal to the amount of compensation elected to be received in DSUs, divided by the volume-weighted average trading price of the common shares on the TSXV for the five trading days immediately prior to the payment date. DSUs awarded under the DSU Plan in lieu of annual or bonus compensation will vest immediately.

In addition, the Board of Directors has the authority to make discretionary awards of DSUs to participants under the DSU Plan. DSUs granted pursuant to discretionary awards will vest in accordance with the vesting schedule determined by the Board of Directors. Generally, DSUs will vest equally over three years, with one-third of the awarded DSUs vesting on each of the first, second and third anniversaries of the date of the award. As at December 31, 2022, a total of 5,150,000 DSUs were outstanding.

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

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(expressed in Canadian dollars)

All unvested DSUs will vest immediately in the case of a change of control of the Company. In addition, in the event of the death or termination without cause of a participant who received DSUs, the participant's DSUs will vest immediately. The Board of Directors may at any time shorten the vesting period of any or all DSUs.

The maximum number of common shares issuable under the DSU Plan is 10,000,000. Each DSU held by a participant must be redeemed by the Company within ten years of grant for DSU Plan shares issued from treasury. Each vested DSU held by a participant who ceases to be an eligible employee, director or officer shall be redeemed by the Company effective as at the separation date for DSU Plan shares issued from treasury.

On May 16, 2022, the Board of Directors approved the issuance of 2,260,000 DSUs to directors, management and consultants of the Company. The DSUs vest over three years in accordance with the provisions of the Company's DSU Plan. The fair value per DSU granted was \$0.145.

On April 20, 2021, the Board of Directors approved the issuance of 2,185,000 DSUs to directors, management and consultants of the Company. The DSUs vest over three years in accordance with the provisions of the Company's DSU Plan. The fair value per DSU granted was \$0.20.

The Company charged \$334,500 in non-cash share-based compensation to operations for the year ended December 31, 2022 (2021 – \$177,100), of which \$273,400 (2021 – \$173,000) related to DSUs issued to officers and directors of the Company.

The following table summarizes the changes in the Company's DSUs for the years ended December 31, 2022 and 2021.

	<b>Number of DSUs</b>
<b>Balance – December 31, 2020</b>	2,775,000
Issued during the year	2,185,000
Settled during the year	<u>(120,000)</u>
<b>Balance – December 31, 2021</b>	4,840,000
Issued during the year	2,260,000
Settled during the year	<u>(1,950,000)</u>
<b>Balance – December 31, 2022</b>	<u>5,150,000</u>

# NexLiving Communities Inc.

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(expressed in Canadian dollars)

f) Contributed surplus

	\$
<b>Balance – December 31, 2020</b>	1,179,000
Expiration of warrants	358,600
Stock-based compensation	288,100
Shares issued pursuant to settlement of DSUs	(28,800)
Settlement of 2019 debentures	189,000
	<hr/>
<b>Balance – December 31, 2021</b>	1,985,900
Expiration of warrants	740,513
Stock-based compensation	334,500
Shares issued pursuant to settlement of DSUs	(364,900)
Repayment of convertible debentures	1,042,729
	<hr/>
<b>Balance – December 31, 2022</b>	<u>3,738,742</u>

### 11 Income taxes

As at December 31, 2022, the Company's effective income tax rate differed from the amount that would be computed from applying the federal and provincial statutory rate of 29% (2021 – 29%) to the pre-tax income for the year as follows:

	2022 \$	2021 \$
Computed tax expense at the statutory rates	2,353,000	2,727,000
Changes in tax assets related to deductible temporary differences and unused tax losses not recognized	(1,850,000)	(2,811,000)
Tax effect of permanent differences	97,000	84,000
	<hr/>	<hr/>
	600,000	-
	<hr/>	<hr/>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and (liabilities) are presented below. As at December 31, 2021, the Company did not recognize the deferred tax asset.

	2022 \$	2021 \$
Financing fees	907,000	977,000
Convertible debentures	-	107,000
Investment properties	(5,072,000)	(3,156,000)
Non-capital losses	3,565,000	2,755,000
	<hr/>	<hr/>
Deferred tax (liability) asset	(600,000)	683,000
	<hr/>	<hr/>

The non-capital losses expire between 2032 and 2042.

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

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### 12 Related party transactions

#### Management compensation

Key management includes the Company's Chief Executive Officer, President, Chief Financial Officer, Executive Vice Chair, Vice President, Corporate Secretary and directors.

	2022 \$	2021 \$
Cash and accrued compensation	596,900	549,576
Stock-based compensation (note 10(e))	273,400	173,000
	<u>870,300</u>	<u>722,576</u>

Annual compensation for each director for the year ended December 31, 2022 was 125,000 DSUs (2021 – 100,000). The chairman received an additional 35,000 DSUs.

#### Advisory and legal services

Advisory services, primarily related to transactions, were previously provided by a corporation owned by two non-executive directors of the Company, who have ceased to be directors of the company. The cost of these transaction advisory services during the year was \$123,796 (2021 – \$826,657).

Legal services in the amount of \$nil (2021 – \$17,250) were provided during the year ended December 31, 2022 by a firm for which an officer of the Company is the sole lawyer practitioner.

### 13 Earnings per share

	2022			2021		
	Income \$	Weighted average shares #	Per share amount \$	Income \$	Weighted average shares #	Per share amount \$
Income per share – basic	7,513,188	293,742,962	0.03	9,404,367	156,163,147	0.060
Dilutive impact of stock options, warrants and DSUs	-	1,518,078	-	288,100	6,661,809	-
Dilutive impact of convertible debentures	-	-	-	605,641	14,810,648	-
Income per share – diluted	<u>7,513,188</u>	<u>295,261,040</u>	<u>0.03</u>	<u>10,298,108</u>	<u>177,635,604</u>	<u>0.060</u>

# NexLiving Communities Inc.

## Notes to Consolidated Financial Statements

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The Company's potentially dilutive instruments include the convertible debentures, stock options, warrants and DSUs. For the year ended December 31, 2022, the stock options and warrants were anti-dilutive and the DSUs were dilutive. For the year ended December 31, 2021, certain tranches of stock options and warrants were anti-dilutive and the DSUs and convertible debentures were dilutive.

### 14 Capital management

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company. The Company considers capital to be shareholders' equity, which at December 31, 2022 totalled \$69,896,825 (2021 – \$60,801,885). The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to externally imposed capital requirements.

### 15 Financial instruments and other

#### Interest rate risk

The Company is exposed to interest rate risks on its borrowings and could be adversely affected if it were unable to obtain cost-effective financing. This risk is mitigated as all interest bearing financial liabilities have fixed rates of interest. Assuming a 100 basis point increase in interest rates, financing costs would increase by \$1,354,800.

#### Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and will be unable to fulfill their lease commitments. The Company attempts to mitigate its credit risk by ensuring its tenant mix is heavily weighted to creditworthy tenants. The Company further manages credit risk by holding its cash with high quality financial institutions in Canada, where management believes the risk of loss to be below.

#### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations. The Company has financed acquisitions of investment properties with mortgages, which are periodically required to be refinanced based on the prevailing market conditions at the end of the mortgage term. Within the next 12 months mortgages totalling \$32,338,248 will mature. Management is in discussion with its lenders and expects to close the refinancing of these mortgages during the second quarter. Although there can be no assurance, management anticipates a cash inflow of approximately \$4.8 million on close of the refinancing of these mortgages, after settlement of the \$1 million bridge loan (note 16).

Management believes it has access, through its working capital, operating cash flows and expected mortgages renewals, to sufficient capital to meet the Company's obligations for the next 12 months.

# **NexLiving Communities Inc.**

## Notes to Consolidated Financial Statements

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### **16 Subsequent events**

On February 27, 2023, the Company declared a dividend of \$0.0005 per common share for the quarter ending March 31, 2023, representing \$0.002 per share on an annualized basis. The dividend is payable on March 31, 2023, to shareholders of record on March 7, 2023.

On February 28, 2023, the Company completed the acquisition of a 100% interest in Northpoint Management Inc. (Northpoint) from Sheaco Holdings Inc. Northpoint's assets consist of two multi-family buildings comprising 75 units each located at 2251 Mountain Road and 2261 Mountain Road, Moncton, New Brunswick. The \$39,600,000 purchase price for the acquisition was paid by the issuance of 37,500,000 common shares at a price of \$0.20 per share for deemed proceeds of \$7,500,000, a \$30,700,000 mortgage bearing interest at 4.19% with a ten-year term and a \$1,000,000 bridge loan with the remainder using cash on hand.