



Nexus REIT

**NEXUS REAL ESTATE INVESTMENT TRUST
(FORMERLY EDGEFRONT REAL ESTATE INVESTMENT TRUST)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three months ended March 31, 2017**

May 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of Nexus Real Estate Investment Trust ("the REIT") for the three months ended March 31, 2017 should be read in conjunction with the REIT's audited financial statements for the year ended December 31, 2016 and the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017.

The information contained in this MD&A reflects events up to May 30, 2017, the date on which this MD&A was approved by the REIT's Board of Trustees. Financial data included in this MD&A is presented in Canadian dollars, which is the functional currency of the REIT, and has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information about the REIT can be accessed at www.sedar.com.

FORWARD LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements which reflect the REIT's current expectations and projections about future results. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the REIT to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions that may prove to be incorrect.

While the REIT anticipates that subsequent events and developments may cause its views to change, the REIT specifically disclaims any obligation to update these forward-looking statements except as required by applicable law. These forward-looking statements should not be relied upon as representing the REIT's views as of any date subsequent to the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the REIT.

NON-IFRS FINANCIAL MEASURES

Net operating income ("NOI") is a measure of operating performance based on income generated from the properties of the REIT. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance. Funds from operations ("FFO") is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for other capital needs. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance. Management considers adjusted funds from operations ("AFFO"), a non-IFRS measure, to be an important performance measure to determine the sustainability of future distributions paid to holders of Units after provision for maintenance capital expenditures.

Gross Book Value is defined in the Declaration of Trust and is a measure of the value of the REIT's assets. Management considers this non-IFRS measure to be an important measure of the REIT's asset base and financial position. Indebtedness to Gross Book Value is a compliance measure in the Declaration of Trust and establishes the limit for financial leverage of the REIT. Total Debt to Gross Book Value Ratio is considered to be an important measure of the REIT's financial position.

Normalized FFO and Normalized AFFO are considered important measures which adjust FFO and AFFO, respectively, to exclude the impact of non-recurring items.

NOI, FFO, Normalized FFO, AFFO and Normalized AFFO are not measures defined by IFRS, do not have standardized meanings prescribed by IFRS and should not be construed as alternatives to net income (loss), cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. NOI, FFO, Normalized FFO, AFFO and Normalized AFFO as computed by the REIT may differ from similar measures as reported by other trusts or companies in similar or different industries.

NOI is used by industry analysts, investors and management to measure operating performance of Canadian real estate investment trusts. NOI represents property revenue less property operating expenses as presented in the statements of income prepared in accordance with IFRS. Accordingly, NOI is equivalent to net rental income as presented in the statements of income. NOI excludes certain expenses included in the determination of net income (loss) such as general and administrative expense, transaction costs, unit-based compensation expense, fair value adjustments, interest income and expense and distributions on Class B LP Units.

The REIT calculates FFO in accordance with the whitepaper issued by the Real Property Association of Canada. FFO is defined as net income (loss) in accordance with IFRS, excluding gains or losses on sales of investment properties, tax on gains or losses on disposal of properties, transaction costs expensed as a result of acquisitions being accounted for as business combinations, fair value adjustments on investment properties, fair value adjustments on unit options, and fair value adjustments and other effects of redeemable units classified as liabilities and the Class B LP Units, if any. Normalized FFO is defined as FFO, net of adjustments for non-recurring items.

AFFO is defined as FFO subject to certain adjustments, including: amortization of deferred financing and leasing costs, compensation expense related to deferred unit incentive plans, trustee and asset management fees contractually settled in units, differences resulting from recognizing ground lease payments and rental income on a straight-line basis, and reserves for normalized maintenance capital expenditures, tenant incentives and leasing costs, as determined by the Trustees. Other adjustments may be made to AFFO as determined by the Trustees in their discretion. Normalized AFFO is defined as AFFO, net of adjustments for non-recurring items. The Real Property Association of Canada issued a whitepaper on AFFO for IFRS dated February 2017 (the “Whitepaper”). The REIT is currently considering adoption of the Whitepaper definition of AFFO.

The diluted weighted average number of units used to calculate diluted FFO per unit and diluted AFFO per unit reflects conversion of all dilutive potential units, represented by unit options, assuming that unit options are exercised with the assumed proceeds (comprised of exercise price and any related unrecognized compensation cost) used to purchase units at the average market price during the period.

AFFO payout ratio, and Normalized AFFO payout ratio are calculated as total distributions declared during the period (including distributions declared on Class B LP Units) divided by AFFO, and Normalized AFFO, respectively.

BUSINESS OVERVIEW AND STRATEGY

Nexus Real Estate Investment Trust (the “REIT”) was established under the laws of Ontario pursuant to its declaration of trust, as amended and restated effective April 28, 2014. The REIT is an open-ended real estate investment trust which owns and operates commercial real estate properties in Western Canada, Ontario, and Prince Edward Island. On February 14, 2017, the REIT announced that it had entered into an arrangement agreement (the “Arrangement”) with Nobel REIT (“Nobel”). On the closing of the Arrangement on April 3, 2017, the REIT acquired the assets and liabilities of Nobel, which include a total of 16 industrial, retail, and office properties located in the province of Quebec. See the section titled “Subsequent Events” for further details with respect to the Arrangement.

The strategy of the REIT is to grow by acquiring commercial real estate assets in jurisdictions, potentially including the United States, where opportunities exist to purchase assets on terms such that the acquisitions are expected to be accretive, on a per unit basis, to the AFFO of the REIT. The REIT will seek to identify potential acquisitions using investment criteria that focus on the security of cash flow, potential for capital appreciation, and potential for increasing value through more efficient management of the assets being acquired.

The REIT has a strategic relationship with TriWest Capital Partners (“TriWest”), one of Canada’s leading private equity firms. Through its relationship with TriWest, the REIT has access to a pipeline of properties owned by TriWest’s current and former portfolio companies as well as the properties of many of the companies that TriWest meets with. The REIT may have the opportunity to acquire these properties through sale-and-leaseback transactions with strong tenants and long-term leases. The REIT views this non-marketed pipeline of potential acquisition properties as a key differentiator for the REIT, particularly as the REIT plans to gain considerable scale in its current phase of growth.

In connection with the Arrangement, the REIT has established a strategic relationship with RFA Capital Partners Inc. (“RFA”), through which the REIT expects to have unique access to properties identified through RFA’s expansive network of favourable industry relationships developed through over 20 years of successfully investing in the Canadian real estate industry.

HIGHLIGHTS

- AFFO per unit of \$0.054 for the quarter, increase of 2.3% over normalized AFFO per unit for Q1 2016 of \$0.053.
- AFFO payout ratio of 74.0% for the quarter, down from the normalized AFFO payout ratio of 75.7% in the same quarter of the prior year.
- Debt to total assets ratio of 48.1%.
- 100% occupancy for the 17th straight quarter.
- Contractual rent increases took effect January 1, 2017, amounting to \$43,000 for the quarter.
- Completed merger with Nobel REIT on April 3, 2017; combined entity renamed Nexus REIT (TSXV: NXR.UN),
- Strategic relationship established with RFA Capital, complementing existing relationship with TriWest Capital Partners.

ACQUISITIONS

On August 22, 2016, the REIT acquired an industrial property located in Cambridge, Ontario (the “Cambridge Property”) for a contractual purchase price of \$8,400,000. The purchase price was satisfied through the issuance of 1,000,000 Class B LP Units at a deemed value of \$1.90 per unit, with the balance, net of closing adjustments, satisfied in cash.

A list of the REIT properties is presented on the following page.

REIT PROPERTIES AS AT MARCH 31, 2017

Property Address	Property Use	Year Built and/or Renovated	Rentable Area (Square Feet)	Occupancy	Lease Expiry
<i>Northwest Territories</i>					
49 Kam Lake Rd., Yellowknife, NWT	Cement Facility	1978	7,674	100%	Nov. 14, 2025
348-352 Old Airport Rd., Yellowknife, NWT	Truck Maintenance Facility	Office: 1997 Other: 1977-1990	53,212	100%	Nov. 14, 2025
<i>British Columbia</i>					
965 McMaster Way, Kamloops, BC	Truck Maintenance Facility	2007	13,706	100%	Nov. 14, 2025
555 Adams Rd., Kelowna, BC	Multi-Tenant Manufacturing	1996 & 1990	94,594	100%	Dec. 31, 2018 to Jan. 31, 2020
988 Great St., Prince George, BC	Multi-Tenant Service, Warehousing, Retail	1978	53,126	100%	Dec. 31, 2020 to Aug. 31, 2024
<i>Alberta</i>					
4700 & 4750 - 102 Ave., SE, Calgary, AB	Cross Dock	2009	29,471	100%	Dec. 31, 2024
3780 & 4020 - 76 th Ave., SE, Calgary, AB	Truck Maintenance Facility	1973, 1975 & 1990	58,937	100%	Nov. 14, 2025
8001 - 99 St., Clairmont, AB	Office and Warehouse	2014	26,638	100%	July 14, 2024
12104 & 12110 - 17 th St., NE, Edmonton, AB	Truck Maintenance Facility and Headquarters	1973, 1980, 1991 & 2011	116,582	100%	Nov. 14, 2025
14801 - 97 th St., Grande Prairie, AB	Truck Loading and Warehouse Facility	1988	42,120	100%	Nov. 14, 2025
3501 Giffen Rd. North & 3711 - 36 St. North, Lethbridge, AB	Manufacturing Facility, Office and Storage Area	2008-2012	229,000	100%	July 14, 2029
5406 - 59 th Ave., Lloydminster, AB	Truck Maintenance Facility	1972, 1980 & 1995	12,425	100%	Nov. 14, 2025
4301 - 45 Ave., Rycroft, AB	Manufacturing Facility	1993 & 2014	22,110	100%	July 14, 2029
<i>Saskatchewan</i>					
110 - 71 st St., Saskatoon, SK	Truck Maintenance Facility and Warehouse	1984	74,796	100%	Nov. 14, 2025
15 Peters Ave., Saskatoon, SK	Warehouse Facility	1985	38,160	100%	Nov. 14, 2025
850 Manitoba St. East & 15 - 9 th Ave., NE, Moose Jaw, SK	Truck Maintenance and Storage Facility	1983	18,800	100%	Nov. 14, 2025
4271 - 5 Ave. East, Prince Albert, SK	Shop, Yard Storage and Office	2007	24,600	100%	Dec. 31, 2025
<i>Ontario</i>					
455 Welham Rd., Barrie, ON	Manufacturing Facility	1998 & 2015	109,366	100%	June 16, 2025
200 Sheldon Drive, Cambridge, ON	Manufacturing Facility	1969	150,000	100%	Aug. 31, 2020
<i>Prince Edward Island</i>					
695 University Ave., Charlottetown, PEI	Retail	2006	4,500	100%	June 30, 2021
Total			<u>1,179,817</u>		

SUMMARY OF RESULTS

	Three months ended	
	March 31,	
	2017	2016
	\$	\$
Financial Highlights		
Funds from operations (FFO) (1)	2,020,773	2,132,320
Normalized FFO (1) (4)	2,020,773	1,875,792
Adjusted funds from operations (AFFO) (1)	2,265,836	2,368,903
Normalized AFFO (1) (4)	2,265,836	2,112,375
Distributions declared (2)	1,677,645	1,599,578
Weighted average units outstanding – basic (3)	41,886,354	39,954,855
Weighted average units outstanding – diluted (3)	41,901,070	39,954,855
Distributions per unit, basic and diluted (2) (3)	0.040	0.040
FFO per unit, basic and diluted (1) (3)	0.048	0.053
Normalized FFO per unit, basic and diluted (1) (3) (4)	0.048	0.047
AFFO per unit, basic and diluted (1) (3)	0.054	0.059
Normalized AFFO per unit, basic and diluted (1) (3) (4)	0.054	0.053
AFFO payout ratio, basic (1) (2) (3)	74.0%	67.5%
Normalized AFFO payout ratio, basic (1) (2) (3) (4)	74.0%	75.7%
Debt to total assets ratio	48.1%	49.6%

(1) See Non-IFRS Measures

(2) Includes distributions payable to holders of Class B LP Units which are accounted for as interest expense in the consolidated financial statements.

(3) Weighted average number of units includes the Class B LP Units.

(4) Normalized FFO and Normalized AFFO exclude other income relating to the release in the first quarter of 2016 of funds previously held in an environmental escrow in connection with the acquisition of ten industrial properties on January 14, 2014.

	Three months ended	
	March 31,	
	2017	2016
	\$	\$
Financial Results		
Property revenue	4,010,136	3,724,541
Property expenses	<u>(691,150)</u>	<u>(574,186)</u>
Net operating income	3,318,986	3,150,355
General and administrative expenses	(497,926)	(487,826)
Transaction costs	(778,155)	
Fair value adjustment of investment properties	-	(149,824)
Fair value adjustment of Class B LP Units	(894,386)	552,835
Fair value adjustment of unit options	(93,000)	20,000
Other Income	<u>-</u>	<u>256,528</u>
	1,055,519	3,342,068
Net interest expense	(797,287)	(784,125)
Distributions on Class B LP Units	(238,443)	(221,079)
Income taxes	<u>(6,500)</u>	<u>(10,112)</u>
Net income	<u>13,289</u>	<u>2,326,752</u>

For the three months ended March 31, 2017, net operating income of \$3,318,986 was \$168,631 higher than NOI in the same period of 2016 of \$3,150,355 primarily due to the impact of the REIT acquiring the Cambridge Property in the third quarter of 2016. This acquisition generated approximately \$157,500 of net operating income in the quarter, as compared to \$nil in the same quarter of 2016. Contractual rent increased based on CPI generated approximately \$32,000 of additional NOI in the quarter as compared to the same period of 2016. Partially offsetting these increases was environmental monitoring program costs of approximately \$18,000 expensed in the quarter.

For the three months ended March 31, 2017, general and administrative expense of \$497,926 was primarily related to asset management fees payable to the REIT's external manager (see the section below titled "related party transactions") in the amount of \$330,800, other professional fees of \$79,435, trustees fees and associated employer payroll taxes of \$42,433, costs in relation to the filing of the REIT's annual financial statements of approximately \$12,000, TSX Fees of approximately \$12,000, directors and officers' insurance expense of approximately \$6,000, and other costs.

For the three months ended March 31, 2016, general and administrative expense of \$487,826 was primarily related to asset management fees payable to the REIT's external manager (see the section below titled "related party transactions") in the amount of \$302,178, other professional fees of \$91,103, trustees fees and associated employer payroll taxes of \$38,625, costs in relation to the filing of the REIT's annual financial statements of approximately \$12,000, TSX fees of approximately \$12,000, directors and officers insurance expense of approximately \$6,000 and other costs.

Transaction costs of \$778,155 for the three months ended March 31, 2017 relate to legal and other professional fees incurred with respect to the Arrangement. These have been expensed in the period incurred as the Arrangement will be accounted for as a business combination.

The fair value adjustment of investment properties in the three months ended March 31, 2016 of \$149,824 relates to capital expenditures made to repair the foundation of a REIT property located in Saskatoon. The repair costs were initially capitalized to investment properties, and the investment property in question was subsequently revalued to its fair value as determined through the application of the capitalized income valuation method.

Fair value adjustments of Class B LP Units are driven by changes in the trading price of the REIT units, multiplied by the number of Class B LP Units outstanding at a quarter end. At March 31, 2017 and December 31, 2016, 5,962,565 Class B LP Units were outstanding and valued at \$1.94 per unit and \$1.79 per unit, respectively.

In connection with an acquisition completed on January 14, 2014, \$300,000 was placed into escrow by the vendors to fund anticipated environmental monitoring costs. Over a two-year escrow period, the REIT incurred monitoring costs, net of tenant reimbursements, amounting to \$43,472, and on release of the \$300,000 escrow on January 29, 2016, \$256,528 of other income was recognized as other income in the period ended March 31, 2016.

For the three months ended March 31, 2017, net interest expense of \$797,287 was \$13,162 higher than net interest expense of \$784,125 during the three months ended March 31, 2016 primarily due interest expense on the mortgage placed on the Cambridge Property in August 2016, partially offset by lower average debt drawn on the Credit Facility for the period.

For the three months ended March 31, 2017, Distributions on Class B LP Units were \$17,364 higher than the same period of 2016 due to the issuance of 1,000,000 Class B LP Units in August 2016, net of the impact of 565,789 Class B LP Units exchanged for REIT units on May 19, 2016. The Class B LP Units earn the same distribution as REIT units, \$0.01333 per unit per month.

Select Balance Sheet Data	As at March 31, 2017	As at December 31, 2016
	\$	\$
Investment properties	173,774,872	173,774,872
Cash	793,419	904,023
Total assets	175,964,107	175,512,750
Current liabilities	5,234,554	3,877,213
Non-current portion of mortgages payable	29,509,023	29,777,179
Credit facility	53,587,562	54,194,137
Class B LP Units	11,567,378	10,672,992
Unit options	<u>256,000</u>	<u>163,000</u>
Total non-current liabilities	94,919,963	94,807,308
Total unitholders' equity	75,809,590	76,828,229
Debt to total assets ratio	48.1%	48.7%

Debt to Total Assets

The REIT's debt to total assets at March 31, 2017 was 48.1%, as compared to 48.7% at December 31, 2016. The REIT's calculation of debt for the quarter includes mortgages payable and Credit Facility balances at the amounts carried on the REIT's consolidated statement of financial position.

SUMMARY OF QUARTERLY RESULTS⁽¹⁾

	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Property revenue	\$ 4,010,136	\$ 3,989,359	\$ 3,882,500	\$ 3,810,928
Property expenses	\$ <u>(691,150)</u>	\$ <u>(647,439)</u>	\$ <u>(690,531)</u>	\$ <u>(672,481)</u>
Net operating income (NOI)	\$ 3,318,986	\$ 3,341,290	\$ 3,191,969	\$ 3,138,447
Net income	\$ 13,289	\$ 5,694,279	\$ 1,864,454	\$ 592,806
Weighted average number of units, basic	41,886,354	41,668,244	40,333,633	40,193,668
Weighted average number of units, diluted	41,901,070	41,668,244	40,333,633	40,193,668
	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Property income	\$ 3,724,541	\$ 3,585,247	\$ 2,987,548	\$ 2,697,831
Property expenses	\$ <u>(574,186)</u>	\$ <u>(649,792)</u>	\$ <u>(417,029)</u>	\$ <u>(496,580)</u>
Net operating income (NOI)	\$ 3,150,355	\$ 2,935,455	\$ 2,570,519	\$ 2,201,251
Net income	\$ 2,326,752	\$ 1,797,324	\$ 1,930,614	\$ 856,688
Weighted average number of units, basic	39,954,855	36,788,732	34,690,473	29,049,258
Weighted average number of units, diluted	39,954,855	36,788,732	34,690,473	29,049,258

(1) The quarterly results fluctuate based on timing related to pursuing and completing acquisitions and corporate activities, and fair value adjustments of investment properties, Class B LP Units, and unit options.

FUNDS FROM OPERATIONS, NORMALIZED FUNDS FROM OPERATIONS, ADJUSTED FUNDS FROM OPERATIONS AND NORMALIZED ADJUSTED FUNDS FROM OPERATIONS

	Three Months Ended March 31,	
	2017	2016
	\$	\$
<u>FFO and Normalized FFO</u>		
Net income	13,289	2,326,752
Adjustments:		
Transaction costs expensed for acquisitions accounted for as business combinations	778,155	-
Fair value adjustment of investment properties	-	149,824
Fair value adjustment of Class B LP Units	894,386	(552,835)
Fair value adjustment of unit options	93,000	(20,000)
Distributions on Class B LP Units expensed	238,443	221,079
Deferred income taxes	<u>3,500</u>	<u>7,500</u>
Funds from operations (FFO)	2,020,773	2,132,320
Deduct: Other income – settlement of environmental escrow (2)	<u>-</u>	<u>(256,528)</u>
Normalized FFO	2,020,773	1,875,792
<u>AFFO and Normalized AFFO</u>		
FFO	2,020,773	2,132,320
Adjustments:		
Non-cash asset management fees to be settled in units	307,521	291,329
Non-cash trustee fees to be settled in units	22,873	27,105
Amortization of deferred financing fees	43,187	41,204
Straight-line adjustments ground lease and rent	(24,518)	(33,055)
Capital reserve (1)	<u>(104,000)</u>	<u>(90,000)</u>
Adjusted funds from operations (AFFO)	2,265,836	2,368,903
Deduct: Other income – settlement of environmental escrow (2)	<u>-</u>	<u>(256,528)</u>
Normalized AFFO	2,265,836	2,112,375

- (1) For the three months ended March 31, 2017, based on an estimate of \$0.35 per square foot of gross leasable area per year. Capital reserve includes capital expenditures, tenant inducements and leasing costs.
- (2) In connection with an acquisition completed on January 14, 2014, \$300,000 was placed into escrow by the vendors to fund anticipated environmental monitoring costs. Over a two-year escrow period, the REIT incurred monitoring costs, net of tenant reimbursements, amounting to \$43,472, and on release of the \$300,000 escrow on January 29, 2016, \$256,528 of other income was recognized in the consolidated statement of income and comprehensive income.

The following is a reconciliation of the REIT's AFFO to cash flows from operating activities.

	Three Months Ended March 31,	
	2017	2016
	\$	\$
Cash flows from operating activities	2,156,365	2,805,617
Adjustments:		
Changes in non-cash working capital	(803,127)	(583,679)
Changes in other non-current assets	-	15,886
Distributions on Class B LP Units expensed	238,443	221,079
Transaction costs expensed for acquisitions accounted as business combinations	778,155	
Capital reserve	<u>(104,000)</u>	<u>(90,000)</u>
AFFO	2,265,836	2,368,903

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The REIT's principal source of liquidity is cash on hand and the undrawn borrowing capacity on its Credit Facility. As at March 31, 2017, the REIT had cash of \$793,419 (December 31, 2016 - \$904,023) and a working capital deficit of \$3,146,745 (December 31, 2016 - \$2,244,261). Included in current liabilities at March 31, 2017 is a mortgage with a principal amount of approximately \$424,000 which matures in September 2017. The REIT anticipates that, if desired, it will be able to refinance the property on which the mortgage is maturing. It is not unusual for the REIT to have a working capital deficit, as cash generated by the REIT is generally used to pay down the credit facility, and the REIT does not maintain a significant balance of cash on hand, but has access to the undrawn borrowing capacity on the credit facility to fund cash requirements. Management of the REIT believes that sufficient cash from operations will be generated to settle the REIT's liabilities as they come due, and the REIT has the ability to draw funds on the Credit Facility if required. The REIT has sufficient liquidity to maintain and expand its business.

The following table details the changes in cash for the three months ended March 31, 2017 and 2016.

	Three months ended March 31,	
	2017	2016
	\$	\$
Cash provided by (used in):		
Operating activities	2,156,365	2,805,617
Investing activities	-	(149,824)
Financing activities	<u>(2,266,969)</u>	<u>(2,829,034)</u>
Change in cash	(110,604)	(173,241)
Cash – beginning of period	<u>904,023</u>	<u>1,152,168</u>
Cash – end of period	<u>793,419</u>	<u>978,927</u>

Cash generated from operating activities for the three months ended March 31, 2017 of \$2,156,365 is primarily comprised of net income of \$13,289 plus non-cash items of \$1,339,948. Cash generated by changes in working capital was \$803,128, with an increase in accounts payable partially offset by an increase in other current assets.

There was no cash used in investing activities for the three months ended March 31, 2017.

Cash used in financing activities for the three months ended March 31, 2017 includes net repayments of the Credit Facility of \$635,734, principal repayments on mortgages of \$278,380 and distributions to unitholders of \$1,352,855. Any excess cash the REIT has on hand will generally be used to pay down a portion of the Credit Facility.

The REIT believes that it has sufficient financial resources and generates sufficient cash from operations to operate its investment properties and to identify, investigate and complete potential acquisitions, and to fund further expenditures as required.

Mortgages Payable

As at March 31, 2017, the mortgages payable are secured by charges against six of the REIT's investment properties. The weighted average interest rate, including deferred financing costs, on the mortgages payable is 3.32% and the weighted average term to maturity is 4.27 years.

The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled Repayments	Principal Maturities	Total
	\$	\$	\$
Remainder of 2017	843,374	414,040	1,257,414
2018	1,142,178	-	1,142,178
2019	1,178,677	-	1,178,677
2020	1,116,729	12,562,444	13,679,173
2021	616,512	4,692,037	5,308,549
Thereafter	334,716	8,343,498	8,678,214
Total	<u>5,232,186</u>	<u>26,012,019</u>	<u>31,244,205</u>

Credit Facility

The REIT has a revolving credit facility of \$52,500,000 and a \$7,500,000 term facility (together "the Credit Facility"). The Credit Facility matures on July 15, 2019, is secured against thirteen of the REIT's investment properties, and allows the REIT to draw against the facility in the form of prime advances, bankers' acceptance advances, or fixed rate and term advances. Prime rate advances bear interest at 125 basis points per annum over the Canadian prime borrowing rate. Bankers' acceptance advances bear interest at 225 basis points per annum over the floating bankers' acceptance rate. Total financing costs in the amount of \$497,666 were incurred in connection with the establishment of the Credit Facility, and financing costs in the amount of \$135,288 were incurred in connection with the addition of the \$7,500,000 term facility to the Credit Facility.

	March 31, 2017	December 31, 2016
	\$	\$
Fixed rate and term borrowings	50,350,000	50,350,000
Bankers' acceptance borrowings	3,500,000	-
Prime Rate advances	-	4,135,734
	<u>53,850,000</u>	<u>54,485,734</u>
Less: Deferred financing costs	(262,438)	(291,597)
	<u>53,587,562</u>	<u>54,194,137</u>

Details of amounts drawn on the Credit Facility at March 31, 2017 are as follows:

	Principal Amount	Interest Rate	Repricing Date
	\$		
Fixed rate and term borrowing	30,000,000	3.90%	January 10, 2019
Fixed rate and term borrowing	20,350,000	3.63%	July 15, 2019
Bankers' acceptance borrowings	3,500,000	3.15%	April 7, 2017
	<u>53,850,000</u>		

The Credit Facility includes, inter alia, covenants that RW LP, the subsidiary of the REIT which is party to the Credit Facility, (i) will not allow the Total Funded Debt to Real Property Ratio to exceed 60% at any time; and (ii) the Interest Coverage Ratio shall not be less than 2.25:1.00. As at March 31, 2017, RW LP was in compliance with both of these covenants. The Credit Facility also contains restrictions on, inter alia, change of business, sale of assets, and mergers and acquisitions without the consent of the lender and includes events of default such as failure to pay the principal loan, failure to observe covenants and involuntary insolvency.

Total Funded Debt to Real Property Ratio is a defined term contained in the Credit Facility. Total Funded Debt to Real Property Ratio is calculated as the total amount drawn against the Credit Facility divided by the fair market value of the investment properties of RW LP.

Interest Coverage Ratio is a defined term contained in the Credit Facility. Interest Coverage Ratio is calculated by the dividing the interest expense of RW LP by the result of the following as contained in the RW LP Statement of Income: net income plus interest expense, plus loss on fair value adjustment of investment properties, less gain on fair value adjustment of investment properties, plus depreciation and amortization.

Total Funded Debt to Real Property Ratio and Interest Coverage Ratio are not measures defined by IFRS, do not have standardized meanings prescribed by IFRS and should not be construed as alternatives to net income/loss, financial position, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. These covenant calculations are not used by the REIT as a measure of the REIT's future or historical financial performance, financial position or cash flow, but are used solely to determine RW Real Estate LP's compliance with its covenants set out in the Credit Facility Agreement.

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and the reported amount of expenses during the period. Actual results may differ materially from these estimates.

The estimates and judgments used in determining the recorded amount for asset, liabilities and equity in the financial statements include the following:

Investment Properties

The assumptions and estimates used when determining the fair value of investment properties are stabilized income and capitalization rates. Management determines fair value internally utilizing financial information, external market data and capitalization rates determined by reference to third party appraisals and reports published by industry experts including commercial real estate brokerages. The REIT also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. The REIT considers all the properties it has acquired to date to be asset acquisitions. As at March 31, 2017, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$5,664,000 in the determination of the fair value of the investment properties. A 0.25% decrease in the weighted average capitalization rate would result in an increase of approximately \$6,059,000 in the determination of the fair value of the investment properties.

Unit options

The estimates used when determining the fair value of unit-based compensation are the average expected share option holding period, the average expected volatility rate, and the average risk-free interest rate. For vested options, the average expected unit option holding period used is estimated to be half of the life of the option. For unvested options, the average expected unit option holding period is estimated to be the period until the options vest plus half of the period from vesting to expiry. The average expected volatility rate is estimated based on the historical volatility of comparable companies over a period of time approximating the average expected unit option holding period. The average risk-free interest rate is based on government of Canada bonds with terms consistent with the average expected share option holding period.

FINANCIAL INSTRUMENTS AND RISKS AND UNCERTAINTIES

Real property ownership and tenant risk

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depends on the credit and financial stability of tenants and upon the vacancy rates of the property. The properties generate revenue through rental payments made by the tenants thereof. The ability to rent vacant property will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors.

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant will be replaced. The terms of any subsequent lease may be less favourable to the REIT than those of an existing lease. In the event of default by a tenant, the REIT may experience delays or limitations in enforcing its rights as landlord and incur substantial costs in protecting its investment. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of the lease of the tenant and, thereby, cause a reduction in the cash flows available to the REIT.

Outlook

The REIT has increased the geographic diversification of its portfolio through the acquisition of the 16 Nobel properties located in Quebec. Prior to acquiring the Nobel properties, the REIT had a more significant concentration of properties in Western Canada. The economy in Western Canada, and in particular, Alberta, has been experiencing pressure from sustained lower oil prices. Of late, anecdotal evidence of improvement in the current business environment and economic activity in Western Canada has been visible. It is still, however, uncertain when or if oil prices may further change, or when economic conditions will further improve. The REIT's properties in Alberta and Saskatchewan are primarily leased to tenants whose operations are not directly linked to the oil industry, and that are not expected to suffer significant financial deterioration as a result of low oil prices. The REIT properties in these markets are subject to leases with remaining terms of 8 years or more. The REIT does not expect to experience any significant negative impact to its revenue stream as a result of current economic conditions.

Competition

The real estate business is competitive. Numerous developers, managers and owners of properties compete with the REIT when seeking tenants. Some of the competing properties may be better located than the REIT's properties. The existence of competition could have an impact on the REIT's ability to lease its properties and could have an impact on the rents that can be charged. The REIT is subject to competition for suitable real property investments and a number of these competitors have greater financial resources than those of the REIT. There is a risk that continuing increased competition for real property acquisitions may increase purchase prices to levels that are not accretive.

Fixed costs and increased expenses

The REIT incurs a number of fixed costs which must be paid throughout its ownership of real property, regardless of whether its properties are producing income. Fixed costs include utilities, property taxes, maintenance costs, mortgage payments, insurance costs, and related costs.

General uninsured risks

The REIT carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with customary policy specifications, limits and deductibles. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms.

Environmental and litigation risk

The REIT is subject to federal, provincial and local environmental regulations that apply generally to the ownership of real property and the operation of commercial properties. If it fails to comply with those laws, the REIT could be subject to significant fines or other governmental sanctions. Under various federal, provincial and local laws, ordinances and regulations, an owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at a facility and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with contamination. Such liability may be imposed whether or not the owner or operator knew of, or was responsible for, the presence of these hazardous or toxic substances. The cost of investigation, remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to properly remediate such substances, may adversely affect the REIT's ability

to sell or rent such facility or to borrow using such facility as collateral. In order to assess the potential for liabilities arising from the environmental condition at the REIT's properties, the REIT may obtain or examine environmental assessments prepared by environmental consulting firms. The environmental assessments received in respect of the investment properties have not revealed, nor is the REIT aware of, any environmental liability that the company believes will have a material adverse effect on it.

In addition, in connection with the ownership, operation and management of real properties, the REIT could potentially be liable for property damage or injuries to persons and property. In the normal course of the REIT's operations, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes.

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand or borrowing capacity to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at March 31, 2017, the REIT had cash of \$793,419 (December 31, 2016 - \$904,023), mortgages payable of \$31,244,205 (December 31, 2016 - \$31,522,584), a Credit Facility balance of \$53,850,000 (December 31, 2016 - \$54,485,734) and accounts payable and accrued liabilities of \$3,214,998 (December 31, 2016 - \$1,864,490). The REIT had a working capital deficit of \$3,146,745 as at March 31, 2017 (December 31, 2016 - \$2,244,261). It is not unusual for the REIT to have a working capital deficit, as cash generated by the REIT is generally used to pay down the Credit Facility, and the REIT does not maintain a significant balance of cash on hand, but has access to the undrawn borrowing capacity on the credit facility to fund cash requirements. The REIT expects to generate sufficient cash from operations to satisfy its financial liabilities as they come due. The REIT is not subject to significant liquidity risk.

The contractual maturities and repayment obligations of the REIT's financial liabilities are as follows:

	Accounts payable and accrued liabilities	Credit facility principal repayment	Interest on fixed portion of credit facility	Mortgage payable	Mortgage interest	Total
	\$	\$	\$	\$	\$	\$
Remainder of 2017	3,214,998	-	1,438,065	1,257,414	726,684	6,637,161
2018	-	-	1,908,705	1,142,178	921,135	3,972,018
2019	-	53,850,000	423,500	1,178,677	884,636	56,336,813
2020	-	-	-	13,679,173	785,075	14,464,248
2021	-	-	-	5,308,549	413,767	5,722,316
Thereafter	-	-	-	8,678,214	197,653	8,875,867
Total	3,214,998	53,850,000	3,770,270	31,244,205	3,928,950	96,008,423

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. There is a risk that the REIT may not be able to renegotiate its mortgages and Credit Facility at maturity on terms as favourable as the existing mortgages payable and Credit Facility. As at March 31, 2017 there was a total of \$3,500,000 (December 31, 2016 - \$4,135,734) drawn against the Credit Facility, which bears interest at floating bankers' acceptance or Canadian prime rates plus a fixed spread. There is a risk that prevailing interest rates could increase, and those increases could be significant. The REIT mitigates interest rate risk by maintaining reasonable levels of debt to investment property value and aims to structure new debt to stagger the maturities to ensure that the majority of debt does not come due for repayment in any one particular year. The REIT may also convert borrowings under the Credit Facility from floating rate to fixed rate borrowings as part of its interest rate risk management strategy.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss to another party by failing to pay for its obligations. The REIT is subject to credit risk with respect to its cash and tenant and other receivables. The REIT mitigates credit risk by depositing cash with a Canadian schedule I chartered bank and Alberta Treasury Branches, an Alberta Crown Corporation, and by monitoring the credit ratings of the institutions holding the REIT's deposits.

As at March 31, 2017, the REIT had fourteen tenants, with one tenant accounting for approximately 42% of the REIT's rental income, resulting in concentration of credit risk. The REIT monitors the creditworthiness of its tenants on an ongoing basis.

COMMITMENTS

The REIT has a leasehold interest in a property subject to a 66-year land lease which commenced on May 1, 2006, and has two ten-year options to renew. The land lease provides for annual base rent and additional rent comprised of the property's proportionate share of common area maintenance and property tax expense. The full annual ground lease payment is due in advance each May 1st. As at March 31, 2017, annual future minimum ground lease payments on account of base rent are as follows:

	2017	2018	2019	2020	2021	Thereafter
	\$	\$	\$	\$	\$	\$
Minimum annual rent	52,800	52,800	52,800	52,800	52,800	3,370,514

OUTSTANDING UNIT DATA

	Units	Amount
		\$
Unitholders' equity, December 31, 2016	35,778,636	66,076,700
Units issued as consideration for management services	168,664	301,082
Units issued as consideration for Trustee services	12,839	22,874
Units issued under distribution reinvestment plan	45,704	83,318
Unitholders' equity, March 31, 2017	<u>36,005,843</u>	<u>66,483,974</u>

As at May 30, 2017, a total of 53,664,641 REIT units and 6,034,565 Class B LP Units were issued and outstanding.

DISTRIBUTIONS

The REIT currently pays a monthly distribution of \$0.01333 per unit, representing \$0.16 per unit on an annualized basis. Total distributions declared with respect to REIT units in the three months ended March 31, 2017 amounted to \$1,439,202 (2016 - \$1,378,499).

In accordance with National Policy 41-201, “Income Trusts and Other Offerings”, the REIT is required to provide the following information:

	Three months ended March 31, 2017 \$	Year ended December 31, 2016 \$	Year ended December 31, 2015 \$
Cash flows from operating activities	2,156,365	9,164,081	6,651,639
Net income	13,289	10,478,291	5,803,962
Actual cash distributions paid or payable during the period	1,439,202	5,631,762	4,909,156
Excess of cash flows from operating activities over cash distributions paid	717,163	3,532,319	1,742,483
Excess (shortfall) of net income over cash distributions paid	(1,425,913)	4,846,529	894,806

Actual cash distributions paid or payable includes all distributions declared payable to holders of REIT units and excludes distributions declared payable to holders of Class B LP Units during the period. Actual cash distributions paid or payable is unadjusted for distributions settled through the issuance of REIT units under the distribution reinvestment program. Of distributions declared in three months ended March 31, 2017, \$83,318 was settled through the issuance of REIT units under the distribution reinvestment program.

Actual cash distributions paid or payable for the three months ended March 31, 2017 of \$1,439,202 exceeded net income of \$13,289 by \$1,425,913. Net income excluding transaction costs of \$778,155, non-cash fair value adjustments of Class B LP Units of \$894,386, and non-cash fair value adjustments of unit options of \$93,000, was \$1,778,830 for the three months ended March 31, 2017, which exceeded actual cash distributions paid or payable by \$339,628. Cash from operations for all periods above exceeds actual cash distributions paid or payable during the periods.

DISTRIBUTION REINVESTMENT PLAN

The REIT adopted a distribution reinvestment plan (DRIP) on February 20, 2014, pursuant to which resident Canadian holders of not less than 1,000 units are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional units at a price per unit calculated by reference to the weighted average of the trading price for the units on the relevant stock exchange or marketplace for the five trading days immediately preceding the relevant distribution date. Eligible unitholders who so elect will receive a bonus distribution of units equal to 4% of each distribution that was reinvested by them under the DRIP (3% prior to the June 2015 distribution). During the three-month period ended March 31, 2017, 45,704 units (2016 - 40,412 were issued under the DRIP for a stated value of \$83,318 (2016 - \$61,430).

RELATED PARTY TRANSACTIONS

Pursuant to an asset management agreement (the “Management Agreement”) dated January 14, 2014 entered into between the REIT and Edgefront Realty Advisors (the “Manager”), the REIT engaged the Manager to provide management services to the REIT, including providing the services of a chief executive officer and a chief financial officer to the REIT. The Manager is owned by a group including the chief executive officer and chief financial officer of the REIT, who collectively own 50% of the Manager, as well as a group including TriWest Capital Partners (“TriWest”) which owns 50% of the manager. TriWest controls RTL-Westcan LP, which holds an approximately 26.1% economic and voting interest in the REIT as at March 31, 2017. A member of TriWest is a trustee of the REIT.

In performing its obligations under the Management Agreement, the Manager will be entitled to receive the following fees from the REIT or its subsidiaries:

i) An annual asset management fee in the amount of:

0.75% of the gross book value, as defined in the Management Agreement, up to \$150 million, to be paid in units;

0.65% of the gross book value, as defined in the Management Agreement, between \$150 million and \$300 million, to be paid 50% in units and 50% in cash; and

0.50% of the gross book value, as defined in the Management Agreement, over \$300 million, to be paid 50% in units and 50% in cash.

ii) An acquisition fee in the amount of 0.50% of the purchase price of any property acquired by the REIT payable in cash on completion of each acquisition.

iii) A construction management fee payable on capital projects in an amount equal to 5% of all hard construction costs incurred on a project, excluding any maintenance capital expenditures. The construction management fee will be paid in cash upon substantial completion of each capital project.

iv) A property management fee, being the fee payable in respect of such services provided by the Manager that is deemed recoverable and recovered from the tenants, payable in cash on a cost recovery basis.

During the period ended March 31, 2017, asset management fees in the amount of \$330,800 were expensed (2016 - \$302,178) and 168,664 units (2016 - 167,690) at an average price per unit of \$1.79 (2016 - \$1.68) were issued to the Manager in respect of asset management fees.

Asset management fees in the amount of \$331,584 were accrued as at March 31, 2017 (December 31, 2016 - \$353,365).

During the period ended March 31, 2017, acquisition fees in the amount of \$nil were paid to the manager (2016 - \$nil).

During the period ended March 31, 2017, property management fees in the amount of \$15,644 (2016 - \$15,482) were recovered from tenants and expensed as property management fees to the Manager.

During the period ended March 31, 2017, trustee retainer fees in the amount of \$26,875 were expensed (2016 - \$33,125), and 12,839 units (2016 - 16,360) at an average price per unit of \$1.78 (2016 - \$1.66) were issued to trustees as payment of retainer fees, net of associated withholding taxes. Trustee retainer fees in the amount of \$46,875 were accrued as at March 31, 2017 (December 31, 2016 - \$46,032).

Trustee meeting fees in the amount of \$8,700 (2016 - \$5,500) were expensed for the period ended December 31, 2016. Trustee meeting fees in the amount of \$50,100 were accrued as at March 31, 2017 (December 31, 2016 - \$41,400).

The REIT received lease payments from companies controlled by funds associated with TriWest Capital Partners totalling \$870,150 during the period ended March 31, 2017 (2016 - \$861,038).

SUBSEQUENT EVENT

On February 14, 2017, the REIT announced that it had entered into the Arrangement with Nobel. On March 27, 2017, both the REIT's unitholders and Nobel's unitholders voted to approve the Arrangement, which closed on April 3, 2017. The REIT issued 1.67 Nexus REIT units for each of the 10,451,333 outstanding units of Nobel, or 17,453,726 Nexus REIT units. Holders of 72,000 Class B LP Units of a subsidiary limited partnership of Nobel are entitled to convert these Class B LP Units for 1.67 REIT Units for each such Class B LP Unit converted, and are entitled to receive distribution payments equivalent to 1.67 times the distribution per REIT unit. Holders of 633,333 warrants and 290,200 options to purchase Nobel units received 1.67 equivalent securities of the REIT for each warrant or option held. As a result of the Arrangement, the REIT acquired all of the assets and liabilities of Nobel. A circular further describing the transaction was mailed to the REIT's unitholders on March 3, 2017 and was filed on SEDAR on the same date. Also on April 3, 2017, the Management Agreement was terminated, and a termination fee of \$1,500,000 was paid to the Manager.