Nexus Real Estate Investment Trust
(Formerly Edgefront Real Estate Investment Trust)

Consolidated Financial Statements

December 31, 2017 and 2016

March 15, 2018

Independent Auditor's Report

To the Unitholders of
Nexus Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Nexus Real Estate Investment Trust and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nexus Real Estate Investment Trust and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Nexus Real Estate Investment Trust

Consolidated Statements of Financial Position

	December 31, 2017 $	December 31, 2016 $
Non-current Assets		
Investment properties (notes 3 and 4)	431,807,144	173,774,872
Equity investment in joint venture (note 5)	4,624,388	-
Restricted cash (note 3)	2,175,831	-
Other non-current assets (note 3)	2,177,329	104,926
	440,784,692	173,879,798
Current Assets		
Cash	4,253,771	904,023
Tenant and other receivables (note 6)	1,700,559	350,654
Prepaid expenses	467,029	137,409
Other current assets (note 7)	2,225,521	240,866
	8,646,880	1,632,952
Total Assets	449,431,572	175,512,750
Non-current Liabilities		
Mortgages payable (note 8)	163,420,261	29,777,179
Credit Facility (note 9)	61,456,450	54,194,137
Class B LP units (note 10)	11,048,232	10,672,992
Warrants (note 11)	24,818	-
Unit options (note 12)	259,000	163,000
	236,208,761	94,807,308
Current Liabilities		
Mortgages payable (note 8)	17,934,023	1,535,793
Distributions payable	1,183,702	476,930
Accounts payable and accrued liabilities (notes 13 and 19)	8,224,907	1,864,490
	27,342,632	3,877,213
Total Liabilities	263,551,393	98,684,521
Equity		
Unitholders' equity (note 14)	170,527,290	66,076,700
Retained earnings	15,352,889	10,751,529
Total Unitholders' Equity	185,880,179	76,828,229
Total Liabilities and Unitholders' Equity	449,431,572	175,512,750

Commitments and contingencies (note 17)

On behalf of the Board:

"Lorne Jacobson" Trustee

"Brad Cutsey" Trustee

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

Nexus Real Estate Investment Trust

Consolidated Statements of Income and Comprehensive Income

	For the year ended December 31, 2017 $	December 31, 2016 $
Net rental income		
Property revenue	36,999,083	15,407,328
Property expenses	(11,859,515)	(2,584,637)
Net rental income	25,139,568	12,822,691
General and administrative expense (note 19)	(2,840,503)	(1,839,435)
Transaction costs (notes 3 and 19)	(3,520,786)	-
Fair value adjustment of investment properties (note 4)	4,157,945	3,717,571
Fair value adjustment of Class B LP Units (note 10)	(1,382,816)	(384,630)
Fair value adjustment of warrants (note 11)	(1,084)	-
Fair value adjustment of unit options (note 12)	(68,710)	(37,000)
Income from equity accounted investment in joint venture (note 5)	224,965	-
Gain from bargain purchase (note 3)	1,007,725	-
Other income	441,471	256,528
	23,157,775	14,535,725
Finance expense		
Net interest expense (notes 8 and 9)	(6,486,369)	(3,151,481)
Distributions on Class B LP Units (note 10)	(956,614)	(890,630)
	(7,442,983)	(4,042,111)
Income before taxes	15,714,792	10,493,614
Income taxes	(26,000)	(15,323)
Net income and comprehensive income for the year	15,688,792	10,478,291

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

Nexus Real Estate Investment Trust

Consolidated Statements of Changes in Unitholders' Equity

	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2017	66,076,700	10,751,529	76,828,229
Net income for the year	-	15,688,792	15,688,792
Class B LP Units exchanged for REIT Units	1,240,841	-	1,240,841
Distributions	-	(11,087,432)	(11,087,432)
Units issued as acquisition consideration (note 3)	35,803,085	-	35,803,085
Units issued for cash (note 14)	70,035,000	-	70,035,000
Unit issue costs	(3,864,004)	-	(3,864,004)
Issue of units under distribution reinvestment plan (note 15)	523,068	-	523,068
Issue of units to Manager (note 19)	608,603	-	608,603
Issue of units to Trustees (note 19)	103,997	-	103,997
Balance – December 31, 2017	170,527,290	15,352,889	185,880,179

	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2016	63,484,740	5,905,000	69,389,740
Net income for the year	-	10,478,291	10,478,291
Class B LP Units exchanged for REIT Units	978,815	-	978,815
Distributions	-	(5,631,762)	(5,631,762)
Issue of units under distribution reinvestment plan (note 15)	343,934	-	343,934
Issue of units to Manager (note 19)	1,162,512	-	1,162,512
Issue of units to Trustees (note 19)	106,699	-	106,699
Balance – December 31, 2016	66,076,700	10,751,529	76,828,229

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

Nexus Real Estate Investment Trust

Consolidated Statements of Cash Flows

	For the year ended December 31, 2017 $	December 31, 2016 $
Operating activities		
Net income for the year	15,688,792	10,478,291
Adjustment for items not involving cash:		
Asset management fees settled in REIT units (note 19)	307,521	1,181,316
Trustee fees settled in REIT units (note 19)	110,242	101,646
Share of income from equity accounted investment in joint venture (note 5)	(224,965)	-
Gain from business combination bargain purchase (note 3)	(1,007,725)	-
Amortization of deferred financing costs (notes 8 and 9)	310,677	164,366
Amortization of mortgage fair value adjustments	(705,783)	-
Straight-line adjustments of ground lease and rent	(583,799)	(144,960)
Fair value adjustment of investment properties (note 4)	(4,157,945)	(3,717,571)
Fair value adjustment of Class B LP Units (note 10)	1,382,816	384,630
Fair value adjustment of warrants (note 11)	1,084	-
Fair value adjustment of unit options (note 12)	68,710	37,000
Deferred income taxes	14,000	26,274
Changes in non-cash working capital		
Tenant and other receivables	(918,060)	(113,901)
Prepaid expenses	55,512	129,316
Deposits	50,000	-
Other current assets	(278,865)	251,795
Accounts payable and accrued liabilities	1,584,055	396,079
Changes in other non-current assets	(1,456)	(10,200)
Changes in restricted cash	(74,903)	-
Total cash generated by operating activities	11,619,908	9,164,081
Investing activities		
Additions to investment properties (note 3)	(72,554,813)	(6,793,599)
Cash acquired in a business combination financed through the issuance of REIT units (note 3)	275,424	-
Investment in joint venture	(1,750,000)	-
Capital expenditures, tenant incentives and leasing costs	(1,191,216)	(208,830)
Total cash used in investing activities	(75,220,605)	(7,002,429)
Financing activities		
Class B LP Unit issue costs	-	(11,025)
Proceeds from new financing	13,950,000	5,500,000
Financing costs	(607,436)	(45,038)
Mortgage principal repayments	(9,744,938)	(980,330)
Net borrowing on (repayments of) the Credit Facility	7,039,413	(1,605,823)
Issuance of units	70,035,000	-
Unit issuance costs	(3,864,004)	-
Distributions to unitholders	(9,857,590)	(5,267,581)
Total cash generated by (used in) financing activities	66,950,445	(2,409,797)
Change in cash during the year	3,349,748	(248,145)
Cash - beginning of year	904,023	1,152,168
Cash - end of year	4,253,771	904,023

Supplemental cash flow information (note 20)

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

1 Organization

Nexus Real Estate Investment Trust (formerly Edgefront Real Estate Investment Trust or Edgefront) is an open-ended real estate investment trust established under the laws of Ontario pursuant to its declaration of trust, as amended and restated effective April 28, 2014 and November 28, 2017. Nexus Real Estate Investment Trust and its subsidiaries, (together, the REIT) own and operate commercial real estate properties in Western Canada, Ontario, Quebec and Atlantic Canada. The registered office of the REIT is located at Suite 4600, 400 3 Avenue S.W., Calgary, Alberta, T2P 4H2.

2 Summary of significant accounting policies

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

The consolidated financial statements of the REIT have been prepared on a going concern basis and under the historical cost convention, except for the revaluation of investment properties, Class B LP Units, unit options and warrants, which are presented at fair value. These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the REIT. The consolidated financial statements were authorized for issue by the board of trustees of the REIT on March 15, 2018.

Principles of consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries. Subsidiaries are all entities over which the REIT has control. The REIT controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All inter-entity transactions between the REIT and its subsidiaries have been eliminated in the consolidated financial statements.

Business combinations

The REIT uses the acquisition method to account for business combinations. The consideration transferred for the acquisition is measured as the aggregate of the fair values of the assets transferred, liabilities incurred or assumed, and any equity instruments of the REIT issued in exchange for control of the acquiree. Acquisition costs are recorded as an expense in earnings as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, Business Combinations (IFRS 3), are recognized at their fair values at the acquisition date.

The excess of the cost of acquisition over the fair value of the REIT’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the REIT’s share of the net assets acquired, the difference is recognized directly in net income for the year as an acquisition gain.

Joint arrangements

The REIT enters into joint arrangements via joint operations and joint ventures. Joint arrangements that involve the establishment of a separate entity in which each venture has rights to the net assets of the arrangement are referred to as joint ventures. The REIT reports its interests in joint ventures using the equity method of accounting. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities. In a co-ownership arrangement, the REIT owns jointly one or more investment properties with another party and has direct rights to the investment property, and obligations for the liabilities relating to the co-ownership. For co-ownerships, the REIT’s consolidated financial statements reflect only the REIT’s proportionate share of the assets, its share of any liabilities incurred directly, its share of any revenues earned or expenses incurred by the joint operation and any expenses incurred directly.

Segment reporting

The REIT owns and operates investment properties in Canada. In measuring performance, the REIT does not distinguish its operations on a geographic or any other basis and, accordingly, the REIT has a single reportable segment for disclosure purposes.

Revenue recognition

The REIT accounts for tenant leases as operating leases given that it has retained substantially all of the risks and benefits of ownership of its investment properties. Revenue includes base rents earned from tenants under lease agreements, realty tax and operating cost recoveries, lease termination fees, parking revenue and other incidental income. Lease related revenue is recognized as revenue over the term of the underlying leases. Recoveries from tenants are recognized as revenue in the period in which the corresponding costs are incurred. Other revenue is recognized at the time the service is provided. The REIT follows the straight-line method of recognizing rental revenue, whereby the total amount of rental revenue to be received from leases is accounted for on a straight-line basis over the term of the lease. Accordingly, an accrued rent receivable is recorded for the difference, if any, between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenant.

Financial instruments

The REIT's financial instruments are initially recognized at fair value. Subsequent measurement depends on the nature and classification adopted for the financial instrument as follows:

Financial instrument	**Classification**	**Measurement**
Restricted cash	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Tenant and other receivables	Loans and receivables	Amortized cost
Other assets	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Class B LP Units	Fair value through profit or loss	Fair value
Warrants	Fair value through profit or loss	Fair value
Unit options	Other liabilities	Amortized cost
Credit Facility	Other liabilities	Amortized cost
Mortgages payable	Other liabilities	Amortized cost

The REIT determines the fair value measurement based on the following hierarchy:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

As at December 31, 2017 and 2016, investment properties, and the fair values disclosed relating to mortgages payable and the credit facility are considered Level 3. There have been no transfers in or out of Level 3 during the reporting period.

Transaction costs relating to financial instruments measured at amortized cost are included in the carrying value of the financial instrument and amortized over the expected useful life of the instrument using the effective interest method. Financial assets are derecognized when contractual rights to the cash flow from the assets expire. Financial liabilities are derecognized when its contractual obligations are discharged, cancelled or expired.

Restricted cash

Restricted cash includes amounts held in reserve by lenders to fund repairs and capital expenditures and to finance the acquisition of land at a REIT property that is subject to a land lease.

Investment properties

The REIT has selected the fair value method to account for its investment properties. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment properties are initially recognized at the purchase price, including directly attributable costs. Subsequent to initial recognition, investment properties are carried at fair value. Fair value is determined with reference to external valuations and internal valuations based on the direct income capitalization method, with gains or losses in the fair value of the investment properties recognized in the consolidated statement of income and comprehensive income in the period in which they arise. Internal valuations are prepared by the REIT's Chief Financial Officer, and are reviewed and approved by the REIT's Chief Executive Officer.

The application of the direct income capitalization method results in these measurements being classified as Level 3 in the fair value hierarchy. In applying the direct income capitalization method, the stabilized net rental income of each property is divided by a capitalization rate appropriate for the property based on the market in which the property is located and the specific details of the property. Investment properties are valued based on the highest and best use for the properties. For all of the REIT's investment properties, the current use is considered to be the highest and best use. The significant unobservable inputs used in the Level 3 valuation of the investment properties are the capitalization rate and the stabilized net rental income used in the calculations.

Current and deferred income taxes

The REIT currently qualifies as a "mutual fund trust" under the Income Tax Act (Canada). The REIT expects to distribute or designate all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, except for the REIT's subsidiaries, no provision for income taxes payable is required.

The legislation relating to the federal income taxation of a Specified Investment Flow Through (SIFT) trust or partnership was enacted on June 22, 2007. Under the SIFT rules, certain distributions from a SIFT will not be deductible in computing the SIFT's taxable income and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as a return of capital should generally not be subject to tax. Under the SIFT rules, the taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the REIT Conditions). The REIT has reviewed the SIFT rules and has assessed its interpretation and application to the REIT's assets and revenue. While there are uncertainties in the interpretation and application of the SIFT rules, the REIT believes it meets the REIT Conditions and accordingly, no net current income tax expense or deferred income tax expense has been recorded in the consolidated statements of income and comprehensive income in respect of the REIT.

However, certain of the REIT's subsidiaries are incorporated companies. For these companies, the REIT follows the asset and liability method of accounting for income taxes. Under this method, income tax is recognized in the consolidated statement of income and comprehensive income except to the extent it relates to items recognized in equity, in which case the income tax is also recognized in equity. Current tax assets and liabilities are recognized at the amount expected to be paid or received from tax authorities using rates enacted or substantively enacted at the date of the consolidated statement of financial position. Deferred tax assets and liabilities are recognized at the tax rates enacted or substantively enacted at the date of the consolidated statement of financial position for the years that an asset is expected to be realized or a liability is expected to be settled. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be generated and available for the asset to be utilized against.

Unit equity

The REIT is an open-ended real estate investment trust, and units of the REIT are redeemable (puttable) at the option of the REIT's unitholders. IAS 32 requires puttable instruments to be accounted for as financial liabilities, except where certain conditions as detailed in IAS 32 are met. This exemption is known as the Puttable Instrument Exemption. The units of the REIT meet the Puttable Instrument Exemption criteria and, accordingly, are classified and presented as equity in the consolidated statement of financial position. In addition to the REIT units, Class B LP Units may be issued. These units do not qualify for the Puttable Instrument Exemption, and are classified as liabilities on the consolidated statement of financial position. They are remeasured at each reporting date to fair value.

Unit options are recorded as a liability and compensation expense is recognized over the vesting period (if any) based on the fair value of the unit options.

Distributions

Distributions to unitholders are recognized as a liability in the period in which the distributions are approved by the Board of Trustees and are recorded as a reduction of retained earnings.

Unit-based compensation

The fair value method is used to account for all options issued under the REIT's unit-based plans. Fair value at the date of grant is established through the application of the Black-Scholes option valuation model. The REIT accounts for the options as an expense over the vesting period of the options using the fair value of the underlying units, as determined by the closing price of the REIT's publicly traded units on the reporting date. Changes in the REIT's liability subsequent to the vesting date of the award and prior to the settlement date, resulting from changes in the market value of the REIT's units, are recorded as a charge to income in the period incurred.

Significant accounting judgments, estimates and assumptions

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:

Business combinations

Accounting for business combinations under IFRS 3 applies when it is determined that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lowering costs or providing other economic benefits directly and proportionately to the REIT. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. The REIT applies judgment in determining whether property acquisitions qualify as a business combination in accordance with IFRS 3 or as an asset acquisition.

When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, the REIT applies judgment when considering the following:

- whether the investment property or properties are capable of producing outputs;
- whether the market participant could produce outputs if missing elements exist;
- whether employees were assumed in the acquisition; and
- whether an operating platform has been acquired.

When the REIT acquires properties or a portfolio of properties and does not take on or assume employees or does not acquire an operating platform, it classifies the acquisition as an asset acquisition.

Valuation of investment properties

The critical assumptions and estimates used by management and external valuations when determining the fair value of investment properties are stabilized net rental income and capitalization rates (see note 4). 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.

Unit options and warrants

The estimates used when determining the fair value of unit-based compensation and warrants are the average expected unit option or warrant holding period, the average expected volatility rate and the average risk-free interest rate. For vested options, the holding period used is estimated to be half of the remaining 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 unit option or warrant holding period.

Standards issued but not yet effective

There are pending changes to IFRS which are not yet effective for the current period and have not been applied in the preparation of the REIT's consolidated financial statements:

IFRS 16, Leases, was published on January 13, 2016 and replaces IAS 17, Leases, IFRIC 4, Determining Whether an Arrangement Contains a Lease, SIC 15, Operating Leases – Incentives, and SIC 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 applies to all leases, except those specifically exempted in the standard and specifies how leases will be recognized, measured and disclosed. IFRS 16 requires lessees to recognize right of use assets and lease liabilities for all leases, with the exception of leases with a term of less than 12 months where no purchase option exists and leases where the leased asset, when new, has a low value. Lessors are required to classify leases as operating or finance. A lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset is classified as a finance lease. Other leases are classified as operating leases. Lessor accounting for operating and finance leases will remain substantially unchanged under IFRS 16. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and must be applied retrospectively. The REIT is currently assessing the impact of IFRS 16, and to date has identified that it is a lessee with respect to two ground leases, which will require recognition as right of use assets and lease liabilities under IFRS 16.

IFRS 15, Revenue from Contracts with Customers, is a new standard replacing IAS 11, Construction Contracts, and IAS 18, Revenue Recognition, and provides accounting guidance on the recognition, measurement and disclosure of revenue from contracts with customers. IFRS 15 does not apply to rental revenue earned from leases. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The REIT's revenue is comprised of both lease and non-lease components earned from tenants pursuant to lease agreements. The non-lease components are in scope of IFRS 15. The REIT is currently reviewing contracts with tenants to assess these non-lease components that will be recognized in accordance with IFRS 15 and the impact this standard may have on the timing and amount of revenues that are recognized and the disclosures required in the consolidated financial statements.

IFRS 9, Financial Instruments, is a new standard which will replace IAS 39, Financial Instruments: Recognition and Measurement, and addresses classification and measurement of financial assets, as well as providing guidance on financial liabilities and derecognition of financial instruments and a single forward-looking expected loss impairment model. IFRS 9 provides a single approach, based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. In November 2013, amendments were made to IFRS 9 which include new hedge accounting guidelines. In July 2014, further amendments were made to include an effective date for annual periods beginning on or after January 1, 2018. The REIT is currently assessing the potential impact of this standard but does not expect the application of IFRS 9 to have a material impact on the carrying value of its tenant and other receivables or the measurement of its other financial assets or liabilities; however, additional disclosures may be required to comply with IFRS 9 and amended IFRS 7 disclosures as described below.

IFRS 7, Financial Instruments: Disclosures, has been amended by the International Accounting Standards Board (IASB) to require additional disclosures on transition from International Accounting Standard (IAS) 39 to IFRS 9. The amendment to IFRS 7 is effective for periods beginning on or after January 1, 2018.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the REIT.

3 Acquisitions

Sandalwood Properties

On July 7, 2017, the REIT acquired a 100% interest in two properties located in St. John, New Brunswick and Victoriaville, Quebec, and a 50% interest in 24 properties located in the province of Quebec (together, the Sandalwood Properties), for a contractual purchase price of $147,048,297 (the Sandalwood Acquisition). The purchase price was satisfied through the assumption of debt with a principal balance of $75,712,788 (at the REIT's proportionate interest) and the issuance of 952,381 REIT units to certain of the vendors at a deemed value of $2.10 per unit, with the balance, net of closing adjustments, satisfied in cash. The Sandalwood Properties were initially recorded at the fair value of consideration paid, with the 952,381 REIT units issued as purchase consideration measured at the closing price of the REIT's units on July 7, 2017 of $2.04 per unit, and the mortgages assumed measured at their fair value of $77,716,549 (at the REIT's interest). The carrying amount of the Sandalwood Properties was subsequently adjusted to its fair value of $145,240,950. The acquisition has been accounted for as an asset acquisition.

The impact of acquiring the properties is as follows:

	$
Investment properties acquired	145,183,807
Transaction costs	3,219,304
Assumed mortgages	(77,716,549)
Capital expenditures escrow	2,000,000
Interest buy down escrow (note 7)	1,109,855
Restricted cash acquired	701,253
Working capital acquired	161,670
Net assets acquired	74,659,340
Consideration:	
Cash	64,642,978
Proceeds of new mortgage financing	8,500,000
Issuance of REIT Units to the vendor	1,942,857
Deferred financing costs	(426,495)
	74,659,340

The capital expenditure escrow of $2,000,000 is held in escrow by the vendors' lawyers pursuant to an escrow agreement and will be used to fund the REIT's proportionate cost of capital expenditures at the 24 properties that the REIT acquired a 50% interest in. The capital expenditure escrow is recorded within other non-current assets in the consolidated statements of financial position. As capital expenditures are made and funded from the capital expenditure escrow, the carrying amount of the capital expenditure escrow will be reduced, and the amount of the capital expenditure will be capitalized to the investment property to which it relates.

Restricted cash acquired of $701,253 represents funds on holdback with a lender with respect a mortgage assumed in the Sandalwood Acquisition. The restricted cash will be released upon completion of repairs and capital improvements required by the lender.

Nobel Real Estate Investment Trust

On February 14, 2017, the REIT entered into an arrangement agreement (the Arrangement Agreement) with Nobel Real Estate Investment Trust (Nobel), pursuant to which the REIT acquired all of the assets and liabilities of Nobel in exchange for the issuance of units of the REIT to Nobel (the Arrangement). The Arrangement 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. The unit consideration issued was measured at $1.94 per unit, the trading price of the REIT units on the close of business March 31, 2017, the last trading day prior to the completion of the Arrangement.

Holders of 72,000 Class B LP Units of a subsidiary limited partnership of Nobel were granted the right to convert these Class B LP Units for 1.67 REIT Units for each such Class B LP Unit converted, and to receive distribution payments equivalent to 1.67 times the distribution per REIT unit. The Class B LP Unit liability assumed was measured at $1.94 per unit, the trading price of the REIT units on the close of business March 31, 2017, the last trading day prior to the completion of the Arrangement, multiplied by 1.67.

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. The weighted average exercise prices of the warrants and options issued are $2.99 and $2.77, respectively. The fair values of these warrants and options as at the acquisition were determined through the application of the Black-Scholes method.

As a result of the Arrangement, the REIT acquired all of the assets and liabilities of Nobel and 100% of the voting interest in Nobel (the Nobel Acquisition). As the REIT acquired an operating platform and the employees of Nobel were offered employment with the REIT, the acquisition was determined to be a business combination, and transaction costs of $3,520,786 were expensed. As required by the Arrangement Agreement, the management contract with the REIT's external manager was terminated concurrently with the close of the

Nobel Acquisition, and an amount of $1,515,000 was expensed, and is included in the $3,520,786 of transaction costs.

The purchase price equation for the Nobel Acquisition is as follows:

	$
Investment properties	104,280,000
Equity investment in joint venture	2,649,423
Restricted cash	1,399,675
Other non-current assets	84,947
Cash	275,424
Tenant and other receivables	431,845
Deposits	50,000
Prepaid expenses	385,132
Total assets acquired	109,556,446
Class B LP Units	233,265
Mortgages	69,160,145
Line of credit	185,000
Accounts payable and accrued liabilities	5,059,059
Total liabilities assumed	74,637,469
Net assets acquired	34,918,977
Consideration:	
Issuance of REIT units	33,860,228
Issuance of replacement warrants	23,734
Issuance of replacement options	27,290
	33,911,252
Excess of net assets acquired over consideration paid – bargain purchase	1,007,725

The number of Nexus units issued to the former Nobel unitholders was derived by reference to the net asset values per unit of each REIT at a point in time. The fair value of the Edgefront units issued to the former Nobel unitholders was determined by reference to the trading price of the Edgefront units at the time the Nobel Transaction closed, which was less than the net asset value per Edgefront unit arrived at during negotiations with Nobel, resulting in the bargain purchase.

The purchase price equation was adjusted as compared to the amount initially reported in previous interim periods of the year ended December 31, 2017. Accounts payable was revised from $5,517,877 to $5,059,059 and bargain purchase was revised from $548,907 to $1,007,725.

Restricted cash relates to a mortgage holdback in the original principal amount of $1,150,000, which funds are being held to be used to finance the acquisition of land at a REIT property that is subject to a land lease. The REIT has an option to purchase the land which becomes exercisable in 2022. The restricted cash also relates to funds withheld by lenders with respect to the mortgages assumed in the Nobel Acquisition in an amount of $249,675. The funds will be released upon completion of repairs and capital improvements required by the lender.

For the year ended December 31, 2017, $8,734,690 of revenue and $4,382,508 of net income of Nobel, the acquiree, is included in the consolidated statements of income and comprehensive income. It is estimated that if the Nobel Acquisition had taken place on January 1, 2017, the revenue and net income of the combined entity for the year ended December 31, 2017 would have been approximately $39,870,000 and $16,070,000, respectively.

Prior year acquisition

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. The Cambridge Property was initially recorded at $8,380,000, the fair value of the consideration paid. The fair value of the Class B LP Units issued as purchase consideration was measured at the closing price of the REIT's units on August 22, 2016 of $1.88 per unit. The carrying amount of the Cambridge Property was subsequently adjusted to its fair value of $8,400,000.

The impact of acquiring the property is as follows:

	$
Investment property acquired	8,380,000
Transaction costs	293,599
Net assets acquired	8,673,599
Consideration:	
Cash	1,338,637
Issuance of Class B LP Units to the vendor	1,880,000
Proceeds from new mortgage financing	5,500,000
Deferred financing costs – new financing	(45,038)
	8,673,599

During the three months ended March 31, 2016, all conditions relating to an escrow agreement in respect of certain investment properties acquired in 2014 were satisfied resulting in $256,528 being released to the REIT, and recorded in other income during that period.

4 Investment properties

	December 31, 2017 $	December 31, 2016 $
Balance, beginning of year	173,774,872	161,174,872
Investment properties acquired in a business combination (note 3)	104,280,000	-
Acquisition of investment properties, including acquisition costs of $3,219,304 (2016 – $293,599)	148,403,111	8,673,599
Additions – capital expenditures	853,010	208,830
Additions – tenant incentives and leasing costs	338,206	-
Fair value adjustment	4,157,945	3,717,571
Balance, end of year	431,807,144	173,774,872

The REIT obtains third party appraisals to supplement internal management valuations in support of the determination of the fair market value of investment properties. Investment properties with an aggregate fair value of $225,430,000 were valued by qualified external valuation professionals during the year ended December 31, 2017.

The fair value of the investment properties as at December 31, 2017 was determined primarily through the application of the direct capitalization method, with certain adjustments for the present value of rents determined to be above or below market rents.

The key valuation metrics used in determining the fair value of the investment properties are as detailed below:

	December 31, 2017	December 31, 2016
Weighted average capitalization rate	6.98%	7.42%
Range of capitalization rates	5.75% - 10.00%	6.25% - 10.00%
Stabilized net operating income	$ 30,416,000	$ 12,906,000

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at December 31, 2017, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately $15,033,000 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 $16,150,000 in the determination of the fair value of the investment properties.

The calculation of the fair value of investment properties using the direct income capitalization method results in the measurement being classified as Level 3 in the fair value hierarchy. Significant unobservable inputs used in the Level 3 valuation of the investment properties are the capitalization rate and the stabilized net operating income applied in the valuations. Generally, an increase in stabilized net operating income or a decrease in capitalization rates will result in an increase in the fair value of investment properties. Conversely, a decrease in stabilized net operating income or an increase in capitalization rates will generally result in a decrease in the fair value of investment properties.

5 Equity investment in joint venture

On completion of the Arrangement, the REIT indirectly acquired 50% of the units of Société en Commandite 2045 Stanley, the limited partnership that owns the office building located at 2039-2047 rue Stanley (2045 rue Stanley) in Montréal, as well as 50% of the shares of 9301-6897 Québec Inc., the general partner of Société en Commandite 2045 Stanley. The following table summarizes the equity investment in the joint venture:

	December 31, 2017 $	December 31, 2016 $
Balance, beginning of year	-	-
Equity investment in joint venture acquired in a business combination (note 4)	2,649,423	-
Capital contribution	1,750,000	
Share of net income from investment in joint venture	224,965	-
Balance, end of year	4,624,388	-

The following table summarizes the cumulative financial information of the joint venture:

	December 31, 2017 $	December 31, 2016 $
Property under development	25,000,000	-
Other non-current assets	117,457	-
Cash	2,309,404	-
Tenant and other receivables	175,968	-
Other current assets	238,259	-
Bank facility	(17,981,808)	-
Accounts payable and accrued liabilities	(610,504)	-
Net assets	9,248,776	-
50% investment in joint venture	4,624,388	-

	Period from April 3, 2017 to December 31, 2017 $	Twelve months ended December 31, 2016 $
Revenue	202,133	-
Expenses	(281,716)	-
Net rental loss	(79,583)	-
General and administrative expense	(271,686)	-
Fair value adjustment of property under development	168,890	-
Fair value adjustment of financial instruments	632,309	-
Net income and comprehensive income for the period	449,930	-
Share of net income from 50% investment in joint venture	224,965	-

6 Tenant and other receivables

The REIT leases industrial, office and retail properties to tenants under operating leases. Minimum rental commitments on non-cancellable tenant operating leases over their remaining terms are as follows:

	December 31, 2017 $
2018	32,515,382
2019 – 2022	99,825,907
2023 – Thereafter	71,199,138
	203,540,427

7 Other current assets

Other current assets are comprised as follows:

	December 31, 2017 $	December 31, 2016 $
Interest buy down escrow (note 3)	848,802	-
Reserves held by mortgage lenders with respect to property taxes and capital expenditures	541,778	-
Cumulative straight-line rent adjustments	834,941	229,072
Other	-	11,794
Total other current assets	2,225,521	240,866

The interest buy down escrow is held by the lawyers of the Sandalwood Properties' vendor pursuant to an escrow agreement and will be released to the REIT over time in accordance with the interest rate escrow agreement to partially offset interest costs of the assumed mortgages.

8 Mortgages payable

As at December 31, 2017, the mortgages payable are secured by charges against 47 of the REIT's investment properties. The weighted average interest rate, including deferred financing costs, of the mortgages payable is 4.07% and the weighted average term to maturity is 3.29 years (2016 – 4.52 years).

	Scheduled Repayments $	Principal Maturities $	Total $
2018	4,649,329	13,331,378	17,980,707
2019	4,375,418	48,655,975	53,031,393
2020	3,488,310	38,175,915	41,664,225
2021	2,394,352	16,989,177	19,383,529
2022	1,830,732	15,972,007	17,802,739
Thereafter	2,626,936	27,054,352	29,681,288
Total	19,365,077	160,178,804	179,543,881

The following table summarizes the changes in mortgages payable for the year ended December 31, 2017:

	December 31, 2017 $	December 31, 2016 $
Mortgages payable, beginning of year	31,522,584	27,002,914
New mortgage financing	13,950,000	5,500,000
Mortgages assumed in the Nobel Acquisition	68,103,447	-
Mortgages assumed in the Sandalwood Acquisition	75,712,788	-
Principal repayments	(9,744,938)	(980,330)
Mortgages payable, end of year	179,543,881	31,522,584
Less: deferred financing, beginning of year	(209,612)	(212,305)
Less: Additions to deferred financing	(522,318)	(45,038)
Plus: Amortization of deferred financing	187,657	47,731
Plus: Fair value adjustment of mortgages assumed	3,060,459	-
Less: Amortization of fair value adjustments	(705,783)	-
Balance, end of year	181,354,284	31,312,972
Less: Current portion	(17,934,023)	(1,535,793)
	163,420,261	29,777,179

9 Credit Facility

The REIT has a revolving credit facility of $57,500,000, and a $7,500,000 term facility (together the Credit Facility). The Credit Facility matures on July 15, 2019, is secured against 14 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, 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 and financing costs in the amount of $85,120 were incurred in connection with increasing the revolving credit facility by $5,000,000 on November 14, 2017.

As part of the Nobel Acquisition, the REIT assumed a $500,000 revolving line of credit bearing interest at 100 basis points per annum over the Canadian prime borrowing rate. The line of credit is secured against 6 of the REIT's investment properties and allows the REIT to draw down a yearly average maximum of 75% of the $500,000 credit limit. As at December 31, 2017, this line of credit was undrawn.

Funds drawn against the Credit Facility are as follows:

	December 31, 2017 $	December 31, 2016 $
Fixed rate and term borrowing	50,350,000	50,350,000
Bankers' acceptance borrowings	9,500,000	-
Prime rate borrowings	1,860,147	4,135,734
Total drawn against the Credit Facility	61,710,147	54,485,734
Less: deferred financing	(253,697)	(291,597)
	61,456,450	54,194,137

Amounts drawn on the Credit Facility as at December 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	9,500,000	3.58%	January 15, 2018
Prime rate borrowings	1,860,147	4.45%	Variable
	61,710,147		

The following table summarizes the changes in the Credit Facility for the year ended December 31, 2017:

	December 31, 2017 $	December 31, 2016 $
Drawn against credit facility, beginning of year	54,485,734	56,091,557
Net borrowings (repayments) during the year	7,039,413	(1,605,823)
Balance assumed in the Nobel Acquisition	185,000	-
Drawn against credit facility, end of year	61,710,147	54,485,734
Less: Deferred financing costs, beginning of year	(291,597)	(408,233)
Less: Deferred financing costs incurred	(85,120)	-
Plus: Amortization of deferred financing costs	123,020	116,636
Balance, end of year	61,456,450	54,194,137

10 Class B LP Units

The following table summarizes the changes in Class B LP Units for the year ended December 31, 2017:

	Class B LP Units	Amount $
Balance as at December 31, 2016	5,962,565	10,672,992
Class B LP Units assumed in business combination	72,000	233,265
Class B LP Units exchanged for REIT units	(594,290)	(1,240,841)
Fair value adjustment during the year	-	1,382,816
Balance as at December 31, 2017	5,440,275	11,048,232

The following table summarizes the changes in Class B LP Units for the year ended December 31, 2016:

	Class B LP Units	Amount $
Balance as at December 31, 2015	5,528,354	9,398,202
Issuance of Class B LP Units as purchase consideration	1,000,000	1,880,000
Class B LP Units exchanged for REIT units	(565,789)	(978,815)
Unit issuance costs	-	(11,025)
Fair value adjustment during the year	-	384,630
Balance as at December 31, 2016	5,962,565	10,672,992

On April 3, 2017, on the completion of the Nobel Acquisition, the REIT acquired Nobel REIT Limited Partnership which had 72,000 Class B LP Units outstanding. Holders of these Class B LP Units were granted the right to convert the units for 1.67 REIT Units for each such Class B LP Unit converted, and to receive distribution payments equivalent to 1.67 times the distribution per REIT unit. As at December 31, 2017, 28,500 of these units had been exchanged for REIT units and 43,500 of these Class B LP Units remained outstanding.

Distributions in the amount of $956,614 (2016 - $890,630) were declared payable to holders of Class B LP Units for the year ended December 31, 2017. These amounts have been recognized as finance expense in the consolidated statement of income and comprehensive income. Distributions payable in the amount of $72,907 were accrued as at December 31, 2017 (December 31, 2016 - $79,481).

11 Warrants

Pursuant to the Arrangement Agreement, 1,057,666 warrants were issued to replace Nobel REIT warrants which were outstanding on the date of the Nobel Acquisition.

The following table presents the changes in warrants for the year ended December 31, 2017:

	Number of warrants	Weighted average exercise price	Weighted average remaining contract life
Outstanding as at December 31, 2016	-	-	-
Warrants issued	1,057,666	2.99	2.45
Outstanding as at December 31, 2017	1,057,666	2.99	1.95

Awards of warrants are fair valued applying the Black-Scholes warrant valuation method. The average expected volatility rate used in the valuation is estimated based on the historical volatility of comparable companies over a period of time approximating the average expected warrant holding period. The average risk-free interest rate used is based on Government of Canada bonds with terms consistent with the average expected warrant holding period.

The fair value of the warrants as at December 31, 2017 was determined through the application of the Black-Scholes method. The key assumptions used in determining the fair value of the warrants are detailed below:

	December 31, 2017	December 31, 2016
Weighted average expected unit option life (in years)	1.95	-
Weighted average volatility rate	25.00%	-
Weighted average risk-free interest rate	1.56%	-
Distribution yield	7.92%	-

12 Unit options

The REIT has adopted a unit-based compensation plan (the Plan) effective January 13, 2014. Under the terms of the Plan, the Board of Trustees may from time to time, at its discretion, grant options to purchase units of the REIT to trustees, officers and employees of the REIT and its affiliates, agents in connection with equity offerings and other consultants. The maximum number of options that may be reserved under the Plan is 10% of the outstanding units of the REIT.

Pursuant to the Arrangement Agreement, 484,636 unit options were issued to replace Nobel REIT unit options which were outstanding on the date of the Nobel Acquisition. On the date of completion of the Nobel Acquisition, several trustees of Nobel REIT and Nexus REIT resigned. Any unvested options these former trustees held expired upon their resignation, and vested options expire 90 days from the date these individuals ceased to be trustees of the REIT.

On December 27, 2017, 2,515,000 unit options were issued to trustees, officers and employees of the REIT at an exercise price of $2.10 per unit. These options vest one-third on the first anniversary of the grant date, and one-third on each of the second and third anniversaries of the grant date and expire on the fifth anniversary of the grant date. Each option allows its holder to subscribe to one unit of the REIT.

The following table presents the changes in unit options for the year ended December 31, 2017:

	Number of unit options	Weighted average exercise price	Weighted average remaining contract life	Number of vested unit options
Outstanding as at December 31, 2016	2,395,000	1.93	3.51	810,000
Unit options issued	2,999,636	2.21		
Unit options cancelled	(645,142)	2.20		
Unit options expired	(213,750)	2.00		
Outstanding as at December 31, 2017	4,535,744	2.07	3.97	1,370,744

The following table presents the details of unit options outstanding as at December 31, 2017:

Exercise price	Number of unit options	Weighted average remaining contract life	Number of vested unit options
$ 1.88	975,000	3.65	325,000
$ 2.00	730,000	1.50	730,000
$ 2.10	2,515,000	4.99	-
$ 2.25	60,120	1.67	60,120
$ 2.54	242,150	2.66	242,150
$ 5.99	13,474	4.47	13,474
	4,535,744	3.97	1,370,744

Awards of options are fair valued applying the Black-Scholes option valuation method. The average expected volatility rate used in the valuation 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 used is based on Government of Canada bonds with terms consistent with the average expected unit option holding period. 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 fair value of the unit options as at December 31, 2017 was determined through the application of the Black-Scholes method. The key assumptions used in determining the fair value of the unit options are as detailed below:

	December 31, 2017	December 31, 2016
Weighted average expected unit option life (in years)	2.71	2.24
Weighted average volatility rate	25.00%	31.50%
Weighted average risk-free interest rate	1.73%	0.75%
Distribution yield	7.92%	8.94%

13 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised as follows:

	December 31, 2017 $	December 31, 2016 $
Prepaid rent	1,150,653	578,817
Security deposits	1,289,221	336,045
Accrued interest expense	601,489	161,930
Transaction costs related to acquisitions (note 3)	833,639	-
Sales and other taxes payable	562,913	-
Accrued asset management fees	-	353,365
Trade accounts payable and other	3,786,992	434,333
Total accounts payable and accrued liabilities	8,224,907	1,864,490

14 Unitholders’ equity

The REIT is authorized to issue an unlimited number of units and special voting units. Each unit entitles the holder to a single vote at any meeting of unitholders and entitles the holder to receive a pro rata share of all distributions and in the event of termination or winding up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. The units are redeemable at any time at the demand of the holders to receive a price per unit as determined by the REIT’s declaration of trust. Among other conditions for redemption, the total amount payable by the REIT in respect of units surrendered for redemption shall not exceed $50,000 in any one calendar month.

The declaration of trust provides for the issuance of special voting units which have no economic entitlement in the REIT or in the distribution of assets of the REIT, but are used to provide voting rights proportionate to the votes of the units to holders of securities exchangeable into units, including Class B LP Units.

On June 30, 2017, 33,350,000 REIT units were issued at $2.10 per unit in a prospectus offering and private placement. Gross proceeds of the offering and private placement were $70,035,000, and net proceeds were $66,202,496.

The following table presents the changes in unitholders' equity for the year ended December 31, 2017:

	Units	Amount $
Unitholders' equity as at December 31, 2016	35,778,636	66,076,700
Class B LP Units exchanged for REIT Units (note 10)	613,385	1,240,841
Units issued for cash, net of $3,832,504 of issuance costs	33,350,000	66,202,496
Units issued in completion of the Arrangement, net of $31,500 of issuance costs	17,453,726	33,828,728
Units issued as purchase price consideration	952,381	1,942,857
Units issued under distribution reinvestment plan (note 15)	270,690	523,068
Units issued as consideration for management services (note 19)	327,684	608,603
Units issued as consideration for trustee services (note 19)	53,349	103,997
Unitholders' equity as at December 31, 2017	88,799,851	170,527,290

The following table presents the changes in unitholders' equity for the year ended December 31, 2016:

	Units	Amount $
Unitholders' equity as at December 31, 2015	34,259,763	63,484,740
Class B LP Units exchanged for REIT Units (note 10)	565,789	978,815
Units issued under distribution reinvestment plan (note 15)	207,552	343,934
Units issued as consideration for management services (note 19)	682,401	1,162,512
Units issued as consideration for trustee services (note 19)	63,131	106,699
Unitholders' equity as at December 31, 2016	35,778,636	66,076,700

15 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 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. During the year ended December 31, 2017, 270,690 units (2016 - 207,552 units) were issued under the DRIP for a stated value of $523,068 (2016 - $343,934).

16 Financial instruments

Fair value
The REIT's financial instruments consist of cash, restricted cash, tenant and other receivables, other receivables (included in other current assets), and accounts payable and accrued liabilities, the fair value of which approximates carrying values due to the short-term nature of these instruments. The fair value of the mortgages payable as at December 31, 2017 is approximately $174,620,000 (2016 - $31,079,000).

The fair value of prime rate and bankers' acceptance advances under the Credit Facility approximates carrying value due to the short-term nature of these instruments. The fair value of the fixed rate and term borrowings under the Credit Facility as at December 31, 2017 is approximately $52,580,000 (2016 - $51,475,000).

The fair value of the mortgages payable and the fixed rate and term borrowings under the Credit Facility has been calculated using Level 3 inputs by discounting the expected cash flows of each debt using a discount rate based on the Government of Canada benchmark bond yield for instruments of similar maturity, adjusted for the risk profile specific to the REIT and the investment properties. Changes in benchmark bond yields for instruments of similar maturity are applied to the interest rates of the mortgages to maintain an appropriate risk adjustment factor when selecting a discount rate.

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 December 31, 2017, the REIT had cash of $4,253,771 (December 31, 2016 - $904,023), mortgages payable of $181,354,284 (December 31, 2016 - $31,312,972), a Credit Facility balance of $61,710,147 (December 31, 2016 - $54,485,734) and accounts payable and accrued liabilities of $8,224,907 (December 31, 2016 - $1,864,490). The REIT had a working capital deficit of $18,695,752 as at December 31, 2017. The current portion of mortgages payable accounts for $17,934,023 of the working capital deficit, and the REIT expects that it will be able to refinance these mortgages on their maturity. The REIT has access to undrawn funds under the Credit Facility and expects to generate sufficient cash from operations to satisfy its financial liabilities as they come due.

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 $	Mortgages payable $	Mortgage interest $	Total $
2018	8,224,907	-	1,908,705	17,980,707	6,705,218	34,819,537
2019	-	61,710,147	423,500	53,031,393	4,757,345	119,922,385
2020	-	-	-	41,664,225	3,297,444	44,961,669
2021	-	-	-	19,383,529	2,460,145	21,843,674
2022	-	-	-	17,802,739	1,544,811	19,347,550
Thereafter	-	-	-	29,681,288	2,347,129	32,028,417
Total	8,224,907	61,710,147	2,332,205	179,543,881	21,112,092	272,923,232

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 December 31, 2017, there was a total of $11,360,147 (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 monitoring the credit ratings of the institutions holding the REIT's deposits.

As at December 31, 2017, one tenant accounted for approximately 17% of the REIT's base rental income, resulting in concentration of credit risk. The REIT monitors the creditworthiness of its tenants on an ongoing basis.

17 Commitments and contingencies

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 in May of each year.

Following the Nobel Acquisition, the REIT indirectly acquired a leasehold interest in a property subject to a 25-year land lease, which commenced on May 25, 2012, and has two five-year options to renew. The land lease provides for annual base rent. The REIT has the option to purchase the land subject to the land lease, and such option may not be exercised earlier than May 25, 2022.

Following the Nobel Acquisition, the REIT indirectly acquired the rights and obligations of a 20-year term offer to lease 7,170 square feet of office space in a property owned at 50% by the REIT through investments in a joint venture. The lease will commence on January 1, 2018.

As at December 31, 2017, annual future minimum lease payments on account of base rent are as follows:

	2018 $	2019 $	2020 $	2021 $	2022 $	Thereafter $
Minimum annual rent	248,013	248,013	248,013	248,013	248,013	6,516,750

18 Capital management

The REIT defines its capital as its total unitholders' equity net of retained earnings or deficit, mortgages payable, Class B LP Units, and the Credit Facility. The REIT manages its capital to ensure that sufficient funds are available to fund operations, including the identification and acquisition of businesses or assets. The REIT ensures that it has sufficient capital to fund its operations as a going concern, and to identify, analyze, and finance further potential acquisitions. As part of the REIT's strategy for managing its capital, it may adjust the amount of distributions paid to unitholders, issue new units or debt, borrow against the Credit Facility, or repay debt.

The REIT's Credit Facility contains interest coverage, distribution and loan to value covenants, for which non-compliance would result in an event of default, allowing the lender to demand repayment of amounts outstanding under the Credit Facility. As at December 31, 2017, the REIT was in compliance with all of the financial covenants contained within the Credit Facility.

19 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 12% economic and voting interest in the REIT as at December 31, 2017. A member of TriWest is a trustee of the REIT.

In performing its obligations under the Management Agreement, the Manager was 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.

On April 3, 2017, the Management Agreement was terminated and the Manager received a termination fee of $1,500,000 plus applicable sales taxes. Other than the termination fee, no fees were paid to the Manager in connection with the Nobel Acquisition.

During the year ended December 31, 2017, asset management fees in the amount of $330,800 were expensed (2016 - $1,234,408) and 327,684 units (2016 - 682,401 units) at an average price per unit of $1.86 (2016 - $1.70) were issued to the Manager in respect of asset management fees.

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

During the year ended December 31, 2017, acquisition fees in the amount of $nil (2016 - $42,000) were paid to the manager. During the year ended December 31, 2017, property management fees in the amount of $15,644 (2016 - $62,290) were recovered from tenants and expensed as property management fees to the Manager.

During the year ended December 31, 2017, trustee retainer fees in the amount of $130,000 were expensed (2016 - $142,881), and 53,349 units (2016 - 63,131 units) at an average price per unit of $1.95 (2016 - $1.69) were issued to trustees as payment of retainer fees, net of associated withholding taxes.

Trustee retainer fees in the amount of $34,375 were accrued as at December 31, 2017 (December 31, 2016 - $48,032).

Trustee meeting fees in the amount of $30,000 were expensed for the year ended December 31, 2017 (2016 - $23,450).

Trustee meeting fees in the amount of $11,000 were accrued as at December 31, 2017 (December 31, 2016 - $41,400).

The REIT received lease payments from companies controlled by funds associated with TriWest Capital Partners totalling $3,480,600 during the year ended December 31, 2017 (2016 - $3,434,601).

During the year ended December 31, 2017, salaries and other short-term employee benefits of key management in the amount of $940,914 were expensed (2016 - $nil).

Included in the net assets acquired in the Nobel Acquisition is an amount of $1,485,874, plus applicable taxes, paid to Nobel's former external manager (the Nobel Manager). The amount was payable in respect of a fee for termination, effective April 3, 2017, of the management contract between Nobel and the Nobel Manager. The beneficiaries of this termination fee were two entities, one of which a trustee of the REIT has an ownership in, and another of which two other trustees have ownership interests in, control over, or are senior officers of.

20 Supplemental cash flow information

Cash interest and income taxes paid and received are as follows:

	Year ended December 31, 2017 $	Year ended December 31, 2016 $
Cash interest paid	7,531,851	3,846,170
Cash interest received	-	8,698
Cash income taxes paid	1,019	26,118
Cash income taxes received	-	9,367