Nexus REIT

Nexus Real Estate Investment Trust

Consolidated Financial Statements

December 31, 2019 and 2018

Independent auditor's report

To the Unitholders of Nexus Real Estate Investment Trust

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Nexus Real Estate Investment Trust and its subsidiaries (together, the REIT) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The REIT's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

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

Other information

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

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

(s) PricewaterhouseCoopers LLP[1]

Montréal, Quebec
March 12, 2020

[1] CPA auditor, CA, public accountancy permit No. A123475

Nexus Real Estate Investment Trust

Consolidated Statements of Financial Position
As at December 31, 2019 and 2018

	2019 $	2018 $
Non-current Assets		
Investment properties (notes 3 and 4)	584,772,861	530,191,912
Equity investment in joint venture (note 5)	7,395,957	4,353,866
Restricted cash	2,412,810	1,958,866
Derivative financial instruments (note 18)	781,269	-
Right-of-use assets (note 2)	1,272,348	-
Other non-current assets	87,274	146,885
	596,722,519	536,651,529
Current Assets		
Cash	7,875,818	3,354,169
Tenant and other receivables (note 6)	2,302,199	1,268,266
Deposits	-	300,000
Prepaid expenses	598,990	478,593
Other current assets (note 7)	5,879,941	6,328,182
	16,656,948	11,729,210
Total Assets	613,379,467	548,380,739
Non-current Liabilities		
Mortgages payable (notes 3 and 8)	186,971,943	158,343,585
Credit Facility (note 9)	65,009,228	-
Lease liabilities (notes 2 and 19)	3,737,072	-
Class B LP Units (note 10)	39,528,332	37,320,065
Warrants (note 11)	1,210	4,225
Unit options (note 12)	522,000	275,000
Restricted share units (note 13)	87,841	-
	295,857,626	195,942,875
Current Liabilities		
Mortgages payable (notes 3 and 8)	45,132,631	66,654,908
Credit Facility (note 9)	-	58,715,338
Lease liabilities (notes 2 and 19)	61,320	-
Distributions payable	1,361,152	1,235,681
Accounts payable, accruals and other liabilities (notes 14 and 21)	7,737,487	7,789,734
	54,292,590	134,395,661
Total Liabilities	350,150,216	330,338,536
Equity		
Unitholders' equity (note 15)	197,073,074	178,267,365
Retained earnings	66,156,177	39,774,838
Total Unitholders' Equity	263,229,251	218,042,203
Total Liabilities and Unitholders' Equity	613,379,467	548,380,739

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 years ended December 31, 2019 and 2018

	2019 $	2018 $
Net rental income		
Property revenues (note 17)	60,010,310	54,097,493
Property expenses	(22,082,210)	(20,331,964)
Net rental income	37,928,100	33,765,529
General and administrative expense (note 21)	(3,187,095)	(2,869,087)
Fair value adjustment of investment properties (note 4)	20,169,991	19,050,281
Fair value adjustment of Class B LP Units (note 10)	(5,165,873)	2,067,124
Fair value adjustment of warrants (note 11)	3,015	20,593
Fair value adjustment of unit options (note 12)	(247,000)	(16,000)
Fair value adjustment of restricted share units (note 13)	(15,841)	-
Fair value adjustment of derivative financial instruments (note 18)	781,269	-
Income (loss) from equity accounted investment in joint venture (note 5)	2,142,091	(770,522)
Loss on disposal of investment properties (note 3)	(134,313)	(48,721)
Other income (note 7)	4,624,419	-
	56,898,763	51,199,197
Finance expense		
Net interest expense (notes 8 and 9)	(11,620,169)	(9,897,583)
Distributions on Class B LP Units (note 10)	(2,890,624)	(2,467,348)
	(14,510,793)	(12,364,931)
Net income and comprehensive income for the year	42,387,970	38,834,266

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

Nexus Real Estate Investment Trust

Consolidated Statements of Changes in Unitholders' Equity
For the years ended December 31, 2019 and 2018

	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2019	178,267,365	39,774,838	218,042,203
Net income for the year	-	42,387,970	42,387,970
Class B LP Units exchanged for REIT Units (note 10)	17,158,582	-	17,158,582
Distributions	-	(16,006,631)	(16,006,631)
Issue of units under distribution reinvestment plan (note 16)	1,564,091	-	1,564,091
Issue of units under restricted share unit plan (note 13)	40,167	-	40,167
Issue of units to Trustees (note 21)	42,869	-	42,869
Balance – December 31, 2019	197,073,074	66,156,177	263,229,251

	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2018	170,527,290	15,352,889	185,880,179
Net income for the year	-	38,834,266	38,834,266
Class B LP Units exchanged for REIT Units (note 10)	2,171,539	-	2,171,539
Distributions	-	(14,412,317)	(14,412,317)
Units issued as acquisition consideration (note 3)	4,513,334	-	4,513,334
Issue of units under distribution reinvestment plan (note 16)	897,526	-	897,526
Issue of units to Trustees (note 21)	157,676	-	157,676
Balance – December 31, 2018	178,267,365	39,774,838	218,042,203

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

Nexus Real Estate Investment Trust
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	2019 $	2018 $
Operating activities		
Net income for the year	42,387,970	38,834,266
Adjustment for items not involving cash:		
Trustee fees settled in REIT units (note 21)	-	171,237
Restricted share unit expense (note 13)	158,339	-
Share of net loss (income) from equity accounted investment in joint venture (note 5)	(2,142,091)	770,522
Amortization of deferred financing costs (notes 8 and 9)	373,695	503,806
Amortization of mortgage fair value adjustments (note 8)	(534,156)	(1,106,609)
Amortization of right-of-use assets	93,094	-
Amortization of tenant incentives and leasing costs (note 4)	317,326	85,242
Straight-line adjustments of rent	(489,473)	(358,336)
Fair value adjustment of investment properties (note 4)	(20,169,991)	(19,050,281)
Fair value adjustment of Class B LP Units (note 10)	5,165,873	(2,067,124)
Fair value adjustment of warrants (note 11)	(3,015)	(20,593)
Fair value adjustment of unit options (note 12)	247,000	16,000
Fair value adjustment of restricted share units (note 13)	15,841	-
Fair value adjustment of derivative financial instruments (note 18)	(781,269)	-
Changes in non-cash working capital		
Tenant and other receivables	(1,033,933)	1,607,513
Prepaid expenses	(120,397)	(11,564)
Deposits	300,000	(300,000)
Other current assets	(262,286)	667,811
Accounts payable, accruals and other liabilities	218,981	(460,871)
Changes in other non-current assets	59,611	30,444
Changes in restricted cash	(453,944)	216,965
Total cash generated by operating activities	23,347,175	19,528,428
Investing activities		
Acquisition of investment properties	(16,757,896)	(55,905,335)
Proceeds on disposal of investment properties	3,700,000	6,915,894
Investment in joint venture	(900,000)	(500,000)
Capital expenditures, tenant incentives and leasing costs	(4,035,745)	(3,365,783)
Total cash used in investing activities	(17,993,641)	(52,855,224)
Financing activities		
Proceeds from new financings	17,400,000	55,300,000
Financing costs	(538,442)	(362,470)
Lease principal repayments	(75,242)	-
Mortgage principal repayments	(9,631,561)	(6,146,215)
Net borrowing on (repayments of) the Credit Facility	6,330,435	(2,901,309)
Distributions to unitholders	(14,317,075)	(13,462,812)
Total cash (used in) generated by financing activities	(831,885)	32,427,194
Change in cash during the year	4,521,649	(899,602)
Cash - beginning of year	3,354,169	4,253,771
Cash - end of year	7,875,818	3,354,169

Supplemental cash flow information (note 22)

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

1 Organization

Nexus Real Estate Investment Trust 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 855-2nd Street S.W., Suite 3500, Calgary, AB, T2P 4J8.

2 Summary of significant accounting policies

Statement of compliance

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

Basis of presentation

The consolidated financial statements 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, warrants, unit options, restricted share units and interest rate swap agreements, 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 12, 2020.

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.

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.

Financial Instruments

Classification and measurement of financial assets and financial liabilities

Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). Financial assets are not reclassified subsequent to their initial recognition, unless the REIT identifies changes in its business model in managing financial assets and would reassess the classification of financial assets. The REIT's financial liabilities are classified and measured based on two categories: amortized cost or FVTPL.

The following table summarizes the measurement of the REIT's financial instruments:

Financial instrument	**Measurement**
Restricted cash	Amortized cost
Cash	Amortized cost
Tenant and other receivables	Amortized cost
Reserves held by mortgage lenders	Amortized cost
Other assets	Amortized cost
Class B LP Units	FVTPL
Warrants	FVTPL
Unit options	FVTPL
Restricted share units	FVTPL
Interest rate swaps – not designated as hedges	FVTPL
Mortgages payable	Amortized cost
Credit Facility	Amortized cost
Accounts payable, accruals and other liabilities	Amortized cost

Impairment of financial assets

The impairment model results in a single impairment model being applied to all financial instruments, which requires more timely recognition of expected credit losses.

For amounts receivable, the REIT applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized on initial recognition of the receivables. To measure the expected credit losses, the REIT has established a provision matrix that is based on its historical credit loss experience based on days past due, adjusted for forward-looking factors specific to the tenant and the economic environment. The REIT may also consider a financial asset to be in default when internal or external information indicates that it is unlikely to receive the outstanding contractual amounts in full.

A provision for impairment is recorded through an allowance account, and the amount of the loss is recognized in the consolidated statement of income and comprehensive income within property expenses. Bad debt write-offs occur when the REIT determines collection is not possible. Any subsequent recoveries of amounts previously written off are credited against property expenses in the consolidated statement of income and comprehensive income.

The REIT's financial instruments are initially recognized at fair value. 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.

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.

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. The REIT has selected the fair value method to account for its investment properties. 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 management.

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.

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.

Derivative financial instruments

From time to time, the REIT enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates of certain mortgages. These interest rate swaps usually require periodic exchanges of payments without the exchange of the notional principal amount on which the payments are based on and expire coterminous with the maturities of the corresponding debt. The interest rate swaps are not designated as hedging instruments under IFRS. The interest rate swaps are measured at fair value on initial recognition and are subsequently measured and classified at fair value through profit and loss, with changes in fair value presented in the consolidated statement of income and comprehensive income.

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, Financial Instruments, 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 with gains and losses reported within the consolidated statement of income and comprehensive income

Unit options are recorded as a liability and gains or losses in the fair value of the unit options are recognized over the vesting period (if any) based on the fair value of the unit options through the application of the Black-Scholes option valuation model.

Restricted share unit plan

The restricted share unit plan is measured at fair value at the date of grant and amortized to expense from the effective date of the grant to the final vesting date. The expense is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant. The expense for restricted share units granted under the plan is recognized in general and administrative expense with a corresponding liability recognized based upon the fair value of the REIT's units. During the period in which the restricted share units are outstanding, the liability is adjusted for changes in the market value of the REIT's units, with such adjustments being recognized as a fair value adjustment in the period in which they occur. The liability balance is reduced as restricted share units are settled for REIT units and recorded in equity.

Revenue recognition

The REIT earns revenue from its tenants from various sources consisting of base rent for the use of space leased, recoveries of property taxes and insurance and service revenue from utilities, cleaning and property maintenance costs.

Revenue from lease components is recognized on a straight-line basis over the lease term and includes the recovery of property taxes and insurance (rental income).

Revenue related to the service component of the REIT's leases is accounted for in accordance with IFRS 15. These services consist primarily of utilities, cleaning and property maintenance costs for which the revenue is recognized over time, typically as the costs are incurred, which is when the services are rendered (revenue from services).

Unit-based compensation

The fair value method is used to account for all options issued under the REIT's unit-based plans. Fair value 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.

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.

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 statement 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. Income tax expense arising from the taxation of subsidiaries which are incorporated companies is not significant and is recorded within general and administrative expenses in the consolidated statement of income and comprehensive income.

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.

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:

Valuation of investment properties

Fair value is determined with reference to external valuations and internal valuations based on the direct income capitalization method. 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.

New accounting standards adopted by the REIT

IFRS 16, Leases

The REIT adopted IFRS 16 on January 1, 2019, using the modified retrospective approach and, therefore, the comparative information has not been restated and continues to be reported under the previously applicable standards as disclosed in the 2018 annual consolidated financial statements.

The REIT leases mainly land and buildings. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants.

Policy applicable from January 1, 2019:

At inception of a contract, the REIT assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The REIT has chosen to account for each lease component. The REIT recognizes a right-of-use asset and a lease liability at the commencement date, which is the date the leased asset is available for use. Each lease payment is allocated between lease liabilities and financing costs. Financing costs are charged to the statement of income and comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of lease liabilities for each period. The right-of-use asset is initially measured at cost comprised of the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The right-of-use asset is subsequently depreciated over the shorter of the underlying asset's useful life and the lease term on a straight-line basis. The lease term includes periods covered by an option to extend if the REIT is reasonably certain to exercise that option. Also, the lease term includes periods covered by an option to terminate if the REIT is reasonably certain not to exercise that option. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the REIT's incremental borrowing rate. Generally, the REIT uses its incremental borrowing rate as the discount rate.

The lease liability includes the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or rate, initially measured using the index or the effective rate at the commencement date;
- amounts expected to be payable by the REIT under residual value guarantees;
- the exercise price of a purchase option if the REIT is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of that option by the REIT.

Remeasurement

The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the REIT’s estimate of the amount expected to be payable under a residual value guarantee, or if the REIT changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Exceptions to the application of IFRS 16

The REIT has elected to apply exemptions related to the recognition of short-term or low-value leases at the transition date. Under this exemption, the REIT is not required to recognize right-of-use assets and lease liabilities for such leases.

Policy applicable before January 1, 2019:

Leases were classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the REIT. Leases were classified as operating leases when the lease arrangement does not transfer substantially all the risks and rewards of ownership to the REIT. Payments made under operating leases were charged to the statement of income and comprehensive income on a straight-line basis over the lease term. Finance leases were capitalized at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment was allocated between the liability and financing costs so as to achieve a constant rate on the balance outstanding. Such lease liabilities, net of financing costs, were included under non-current liabilities. The interest component of the financing costs was charged to income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases were amortized over the shorter of the useful life of the underlying asset and the lease term.

Impact of transition to IFRS 16

IFRS 16 was applied using the modified retrospective approach effective January 1, 2019, under which approach the cumulative effect of initial application was recognized as at January 1, 2019. The information presented for 2018 has not been restated and remains as previously reported under IAS 17. On initial application, the REIT elected to record the right-of-use assets based on the corresponding lease liability. The lease liability was measured at the present value of the remaining lease payments, discounted using the REIT's incremental borrowing rate as of January 1, 2019.

The REIT has classified the right-of-use-assets in respect of land leases as investment property at fair value. Land lease related expense previously recorded in property expenses is now recorded as net interest expense in the consolidated statements of income and comprehensive income and as lease principal repayments in the consolidated statements of cash flows.

The REIT has classified the right-of-use-assets in respect of office leases as non-current assets at amortized cost. Office lease related expense previously recorded in general and administrative expense is now recorded partially as general and administrative expense, resulting from the amortization of right-of-use assets, and partially as net interest expense in the consolidated statements of income and comprehensive income and as lease principal repayments in the consolidated statements of cash flows.

The adoption of IFRS 16 resulted in the recognition on January 1, 2019 of lease liabilities amounting to $3,873,634, and right-of-use assets amounting to $3,599,109 relating to office and land leases. Right-of-use assets in the amount of $1,365,442 was recorded in non-current assets and $2,233,667 was recorded in investment properties in the consolidated statement of financial position. These liabilities were measured at the present value of the remaining lease payments, applying a discount rate of 6%.

The following presents the reconciliation of lease liabilities as of January 1, 2019:

	$
Minimum lease payments under operating leases as of December 31, 2018	7,508,802
Effect of discounting at the incremental borrowing rate as of January 1, 2019	(3,938,081)
Adjustments relating to changes in details of leases	302,913
Lease liabilities recognized at January 1, 2019	3,873,634

IFRIC 23, Uncertainty over Income Tax Treatments

On January 1, 2019, the REIT adopted IFRIC 23, Uncertainty Over Income Tax Treatments, using the retrospective approach. IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12, Income taxes, are applied where there is uncertainty over income tax treatments. The adoption of IFRIC 23 had no impact to the REIT's consolidated financial statements.

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 3, Business Combinations

In October 2018, the IASB issued amendments to IFRS 3, Business Combinations. The amendments clarified the definition of a business and provide guidance on whether an acquired set of activities and assets is a group of assets rather than a business. An acquirer only recognizes goodwill when acquiring a business, and not when acquiring a group of assets. The amendments apply to transactions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020. Earlier adoption is permitted. These amendments are not expected to impact the REIT's consolidated financial statements.

3 Acquisitions and disposals

1) Acquisitions

On April 2, 2019, the REIT acquired four industrial properties located in Fort St John, British Columbia; Blackfalds, Alberta; Medicine Hat, Alberta and Estevan, Saskatchewan (the Mastec Properties) for a contractual purchase price of $31,000,000. The purchase price was partially satisfied through the issuance of 7,030,186 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of $2.10 per unit and convertible into REIT units on a one to one basis, with the balance, net of closing adjustments, satisfied in cash. The fair value of the units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on April 2, 2019 of $2.02. The Mastec Properties were initially recorded at $30,437,585, the fair value of the consideration paid. The carrying amount was subsequently adjusted to the acquisition date fair value of the Mastec Properties of $31,000,000.

On October 17, 2018, the REIT acquired a property located in Calgary, Alberta (the Calgary Property) for a contractual purchase price of $8,500,000. The purchase price was partially satisfied through the issuance of 1,214,286 REIT Units at a deemed value of $2.10 per REIT unit, with the balance, net of closing adjustments, satisfied in cash. The Calgary Property was initially recorded at $8,378,572, the fair value of the consideration paid. The fair value of the REIT units issued as purchase price consideration was measured at the closing price of the REIT's units on October 17, 2018 of $2.00 per unit. The carrying amount was subsequently adjusted to the acquisition date fair value of the Calgary Property of $8,500,000.

On August 1, 2018, the REIT acquired a property located in Beamsville, Ontario (the Beamsville Property) for a contractual purchase price of $6,595,000. The purchase price was satisfied through the issuance of 1,880,524 Class B LP units of a subsidiary limited partnership of the REIT at a deemed value of $2.10 per unit, convertible on a 1.67 to one basis to 3,140,475 REIT units, with closing adjustments satisfied in cash. The Beamsville Property was initially recorded at $6,249,545, the fair value of the consideration paid. The fair value of the Class B LP units issued as purchase price consideration was measured at the closing price of the REIT's units on August 1, 2018 of $1.99 per unit. The carrying amount was subsequently adjusted to the acquisition date fair value of the Beamsville Property of $6,595,000.

On June 27, 2018, the REIT acquired an industrial property located in Regina, Saskatchewan (the Regina Property) for a contractual purchase price of $6,300,000. The purchase price was partially satisfied through the issuance of 1,047,619 REIT units at a deemed value of $2.10 per unit, with the balance, net of closing adjustments, satisfied in cash. The Regina Property was initially recorded at $6,184,762, the fair value of the consideration paid. The fair value of the 1,047,619 REIT units issued as purchase price consideration, on the date of issuance, was measured at the closing price of the REIT's units on June 27, 2018 of $1.99 per unit. The carrying amount was subsequently adjusted to the acquisition date fair value of the Regina Property of $6,300,000.

On June 7, 2018, the REIT acquired two industrial properties located in Nisku, Alberta (the Nisku Properties) for a contractual purchase price of $12,345,000. The purchase price was partially satisfied through the issuance of 1,533,219 Class B LP Units of a subsidiary limited partnership of the REIT convertible on a 1.67 to one basis to 2,560,476 REIT units at a deemed value of $2.10 per REIT unit, with the balance, net of closing adjustments, satisfied in cash. The Nisku Properties were initially recorded at $12,088,951, the fair value of the consideration paid. The fair value of the units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on June 7, 2018 of $2.00. The carrying amount was subsequently adjusted to the acquisition date fair value of the Nisku Properties of $12,345,000.

On April 30, 2018, the REIT acquired a property located in Richmond, British Columbia (the Richmond Property) for a contractual purchase price of $57,380,000. The purchase price was partially satisfied through the issuance of 9,666,667 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of $2.10 per unit and convertible into REIT units on a one to one basis, with the balance, net of closing adjustments, satisfied in cash. The units issued as purchase consideration were measured at the closing price of the REIT's units on April 30, 2018 of $1.98. The vendor is obligated to complete certain improvements to the property with an estimated cost of $2,400,000. The REIT received a credit of $659,356 from the vendor at closing, and an additional $1,175,220 was recorded as an estimate of the amount that would be payable by the vendor to the REIT (the vendor rent obligation) during the completion of the property improvements and commencement of tenant leases. The Richmond Property was initially recorded at the fair value of the net consideration payable of $54,385,425, with $2,400,000 of this amount classified as prepaid development charges.

The impact of the acquisition completed during the year ended December 31, 2019 is as follows:

	Mastec **$**
Investment properties acquired	30,437,585
Transaction costs	521,287
Working capital acquired	586,678
Net assets acquired	31,545,550
Consideration:	
Proceeds of new mortgages financing	17,400,000
Issuance of Class B LP Units to the vendor	14,200,976
Deferred financing costs - new financing	(55,426)
	31,545,550

The impact of the acquisitions completed during the year ended December 31, 2018 is as follows:

	Richmond $	Nisku $	Regina $	Beamsville $	Calgary $	Total $
Investment properties acquired	51,985,425	12,088,951	6,184,762	6,249,545	8,378,572	84,887,255
Prepaid development charges	2,400,000	-	-	-	-	2,400,000
Transaction costs	1,940,313	133,766	91,771	223,710	77,131	2,466,691
Working capital acquired	1,016,462	(96,860)	(75,348)	-	-	844,254
Net assets acquired	57,342,200	12,125,857	6,201,185	6,473,255	8,455,703	90,598,200
Consideration:						
Cash, net of cash acquired	4,354,842	(400,051)	40,884	223,710	315,204	4,534,589
Proceeds of new mortgages financing	34,000,000	7,450,000	4,100,000	-	5,750,000	51,300,000
Deferred financing costs - new financing	(152,642)	(45,043)	(24,461)	-	(38,073)	(260,219)
Issuance of REIT units to the vendors	-	-	2,084,762	-	2,428,572	4,513,334
Issuance of Class B LP Units to the vendors	19,140,000	5,120,951	-	6,249,545	-	30,510,496
	57,342,200	12,125,857	6,201,185	6,473,255	8,455,703	90,598,200

2) Disposals

On December 2, 2019, the REIT sold a property located in Mascouche, Quebec for a selling price of $3,700,000. Net of selling costs of $134,313, the REIT received cash proceeds of $3,565,687. The sale of the property generated a loss on disposal of $134,313.

On April 30, 2018, the REIT sold a property located in Kelowna, British Columbia for a selling price of $10,000,000. Net of selling costs of $26,750 and related mortgage debt with a principal amount of $4,384,106, the REIT received proceeds of $5,589,144 on the sale. The sale of the property generated a loss on disposal of $26,750.

On April 6, 2018, the REIT sold a property located in Yellowknife, Northwest Territories for a selling price of $1,300,000. Net of selling costs of $21,971, the REIT received cash proceeds of $1,278,029 on the sale. The sale of the property generated a loss on disposal of $21,971.

4 Investment properties

	December 31, 2019 $	December 31, 2018 $
Balance, beginning of year	530,191,912	431,807,144
IFRS 16 transition - recognition of right-of-use assets (note 2)	2,233,667	-
Acquisition of investment properties, including acquisition costs of $521,287 (2018 - $2,466,691) (note 3)	30,958,872	87,353,946
Additions - capital expenditures	1,438,780	2,230,870
Additions - tenant incentives and leasing costs	2,596,965	1,134,913
Amortization of tenant incentives and leasing costs	(317,326)	(85,242)
Reclassified from prepaid development charges (note 7)	1,200,000	-
Disposal of investment properties (note 3)	(3,700,000)	(11,300,000)
Fair value adjustment	20,169,991	19,050,281
Balance, end of year	584,772,861	530,191,912

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 $162,390,000 were valued by qualified external valuation professionals during the year ended December 31, 2019.

The fair value of the investment properties as at December 31, 2019 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, 2019	**December 31, 2018**
Weighted average capitalization rate	6.70%	6.77%
Range of capitalization rates	5.75% - 10.10%	5.75% - 9.50%
Stabilized net operating income	$39,575,000	$36,100,000

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at December 31, 2019, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately $21,262,000 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 $22,910,000 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

The REIT has a 50% interest in Société en Commandite 2045 Stanley, the limited partnership that owns the office building located at 2039-2047 rue Stanley in Montreal.

The following table summarizes the equity investment in the joint venture:

	December 31, 2019 $	**December 31, 2018 $**
Balance, beginning of year	4,353,866	4,624,388
Capital contribution	900,000	500,000
Share of net income (loss) from investment in joint venture	2,142,091	(770,522)
Balance, end of year	7,395,957	4,353,866

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

	December 31, 2019 $	**December 31, 2018 $**
Property under development	31,300,000	26,200,000
Other non-current assets	564,988	393,641
Cash	210,095	393,949
Tenant and other receivables	389,811	380,611
Other current assets	-	245,732
Derivative financial instruments	(65,543)	229,090
Bank facility	(17,145,680)	(18,000,000)
Accounts payable, accruals and other liabilities	(461,757)	(1,135,291)
Net assets	14,791,914	8,707,732
50% investment in joint venture	7,395,957	4,353,866

	For the year ended December 31, 2019 $	**For the year ended December 31, 2018 $**
Property revenues	3,088,003	2,090,535
Property expenses	(1,838,998)	(1,328,615)
Net rental income	1,249,005	761,920
General and administrative expense	(160,950)	(228,170)
Net interest expense	(464,174)	(342,268)
Fair value adjustment of property under development	3,954,933	(1,783,113)
Fair value adjustment of derivative financial instruments	(294,633)	50,587
Net income (loss) and comprehensive income (loss) for the year	4,284,181	(1,541,044)
Share of net income (loss) from 50% investment in joint venture	2,142,091	(770,522)

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, 2019 $
2020	40,388,112
2021 – 2024	127,061,532
2025 – Thereafter	59,023,064
	226,472,708

7 Other current assets

Other current assets are comprised as follows:

	December 31, 2019 $	December 31, 2018 $
Prepaid development charges (note 3)	1,200,000	2,400,000
Vendor rent obligation (note 3)	2,116,452	-
Capital expenditures escrow	-	2,000,000
Reserves held by mortgage lenders with respect to property taxes and capital expenditures	564,168	610,871
Cumulative straight-line rent adjustments	1,707,229	1,214,338
Other	292,092	102,973
Total other current assets	5,879,941	6,328,182

During the year ending December 31, 2019, the vendor rent obligation was reassessed in the context of anticipated delays in the completion of property improvements required before the commencement of certain leases. The total amount of vendor rent obligation receivable between January 1, 2019 and the commencement of these leases was estimated as $4,624,419, and this amount is recorded in other income in the consolidated statement of income and comprehensive income. As at December 31, 2019, the vendor rent obligation receivable of $2,116,452 represents the amount of vendor rent obligation estimated to be collectible from the vendor in the future until the property improvements are complete and tenant leases have commenced.

8 Mortgages payable

As at December 31, 2019, the mortgages payable are secured by charges against 53 of the REIT's investment properties. The weighted average interest rate, including deferred financing costs and interest rate swap agreements, of the mortgages payable is 3.89% and the weighted average term to maturity is 3.68 years (December 31, 2018 - 2.76 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled Repayments $	Principal Maturities $	Total $
2020	7,017,203	38,138,628	45,155,831
2021	6,168,108	16,989,177	23,157,285
2022	5,753,437	15,972,007	21,725,444
2023	4,435,007	48,955,120	53,390,127
2024	2,480,871	43,027,899	45,508,770
Thereafter	2,591,856	40,552,686	43,144,542
Total	28,446,482	203,635,517	232,081,999

The following table summarizes the changes in mortgages payable for the years ended December 31, 2019 and 2018:

	December 31, 2019 $	December 31, 2018 $
Mortgages payable, beginning of year	224,313,560	179,543,881
New mortgage financing, net of mortgages assumed on disposal (note 3)	17,400,000	50,915,894
Principal repayments	(9,631,561)	(6,146,215)
Mortgages payable, end of year	232,081,999	224,313,560
Less: Deferred financing costs, beginning of year	(563,134)	(544,273)
Less: Additions to deferred financing costs	(401,554)	(335,675)
Plus: Amortization of deferred financing costs	273,352	316,814
Plus: Fair value adjustment of mortgages, beginning of year	1,248,067	2,354,676
Less: Amortization of fair value adjustments	(534,156)	(1,106,609)
Balance, end of year	232,104,574	224,998,493
Less: Current portion	(45,132,631)	(66,654,908)
	186,971,943	158,343,585

9 Credit Facility

On September 13, 2019, the REIT refinanced its existing credit facility to a fixed-term facility of $65,000,000 and a revolving facility of $5,000,000 (together the Credit Facility). The Credit Facility matures on September 13, 2024 and is secured against 13 of the REIT's investment properties.

The $65,000,000 fixed-term facility bears interest at the 30-day Bankers' acceptance rate plus 150 basis points. Concurrent with the refinancing, the REIT entered into interest rate swap agreements totalling $65,000,000 to swap floating 30-day Bankers' acceptance rates for a fixed rate of 1.65%. The $5,000,000 revolving credit facility allows the REIT to draw against the facility in the form of prime rate advances or Bankers' acceptances. Prime rate advances bear interest at 100 basis points per annum over the Canadian prime borrowing rate. Bankers' acceptance advances bear interest at 200 basis points per annum over the floating bankers' acceptance rate.

The REIT has 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 six 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, 2019, this line of credit was undrawn (December 31, 2018 - undrawn).

Funds drawn against the Credit Facility and the revolving line of credit are as follows:

	December 31, 2019 $	December 31, 2018 $
Fixed-term borrowings	65,000,000	50,350,000
Bankers' acceptance borrowings	-	6,000,000
Prime rate borrowings	139,273	2,458,838
Total drawn against the Credit Facility	65,139,273	58,808,838
Less: deferred financing costs	(130,045)	(93,500)
	65,009,228	58,715,338

Amounts drawn on the Credit Facility as at December 31, 2019 are as follows:

	Principal Amount $	Interest Rate	Repricing Date
Fixed-term borrowings	65,000,000	3.49% (1)	January 13, 2020 (1)
Prime rate borrowings	139,273	4.95%	Variable
	65,139,273		

(1) The REIT entered into interest rate swap agreements to swap floating rate interest for a fixed rate of 3.15% over the term of the Credit Facility (see note 18).

The following table summarizes the changes in the Credit Facility for the years ended December 31, 2019 and 2018:

	December 31, 2019 $	December 31, 2018 $
Drawn against credit facility, beginning of year	58,808,838	61,710,147
Net borrowings (repayments) during the year	6,330,435	(2,901,309)
Drawn against credit facility, end of year	65,139,273	58,808,838
Less: Deferred financing costs, beginning of year	(93,500)	(253,697)
Less: Deferred financing costs incurred	(136,888)	(26,795)
Plus: Amortization of deferred financing costs	100,343	186,992
Balance, end of year	65,009,228	58,715,338

10 Class B LP Units

The following table summarizes the changes in Class B LP Units for the year ended December 31, 2019:

	Class B LP Units	Amount $
Balance as at December 31, 2018	19,746,065	37,320,065
Class B LP Units issued for purchase price consideration (note 3)	7,030,186	14,200,976
Class B LP Units exchanged for REIT units	(8,560,432)	(17,158,582)
Fair value adjustment during the year	-	5,165,873
Balance as at December 31, 2019	18,215,819	39,528,332

The following table summarizes the changes in Class B LP Units for the year ended December 31, 2018:

	Class B LP Units	Amount $
Balance as at December 31, 2017	5,440,275	11,048,232
Class B LP Units issued for purchase price consideration (note 3)	13,080,410	30,510,496
Class B LP Units exchanged for REIT units	(1,086,954)	(2,171,539)
Subdivision of Class B LP Units	2,312,334	-
Fair value adjustment during the year	-	(2,067,124)
Balance as at December 31, 2018	19,746,065	37,320,065

Distributions in the amount of $2,890,625 (2018 - $2,467,348) were declared payable to holders of Class B LP Units for the year ended December 31, 2019. These amounts have been recognized as finance expense in the consolidated statement of income and comprehensive income. Distributions payable in the amount of $242,817 were accrued as at December 31, 2019 (December 31, 2018 - $263,215).

11 Warrants

The following table presents the changes in warrants for the year ended December 31, 2019:

	Number of warrants	Weighted average exercise price $	Weighted average remaining contract life
Outstanding as at December 31, 2018	1,057,666	2.99	0.95
Warrants expired	(556,666)	2.99	
Outstanding as at December 31, 2019	501,000	2.99	0.42

The following table presents the details of warrants outstanding as at December 31, 2019:

Exercise price $	Number of warrants	Expiration date	Number of vested warrants
2.99	501,000	June 2, 2020	501,000
	501,000		501,000

Warrants are fair valued by applying the Black-Scholes 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, 2019 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, 2019	December 31, 2018
Weighted average expected warrant life (in years)	0.42	0.95
Weighted average volatility rate	25.00%	25.00%
Weighted average risk-free interest rate	1.71%	1.87%
Distribution yield	7.37%	8.47%

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 and restricted share units that may be reserved under the Plan and the Incentive Plan (note 13) is 10% of the outstanding units of the REIT.

The following table presents the changes in unit options for the year ended December 31, 2019:

	Number of unit options	Weighted average exercise price $	Weighted average remaining contract life	Number of vested unit options
Outstanding as at December 31, 2018	3,706,820	2.03	2.93	2,085,153
Unit options forfeited	(455,020)	2.06		
Unit options expired	(710,000)	2.00		
Outstanding as at December 31, 2019	2,541,800	2.04	2.51	1,983,466

The following table presents the details of unit options outstanding as at December 31, 2019:

Exercise price $	Number of unit options	Weighted average remaining contract life	Number of vested unit options
1.88	800,000	1.65	800,000
2.10	1,675,000	2.99	1,116,666
2.54	66,800	0.66	66,800
	2,541,800	2.51	1,983,466

Options are fair valued applying the Black-Scholes 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, 2019 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, 2019	December 31, 2018
Weighted average expected unit option life (in years)	1.36	1.75
Weighted average volatility rate	25.00%	25.00%
Weighted average risk-free interest rate	1.71%	1.82%
Distribution yield	7.37%	8.47%

13 Restricted share units

The REIT has adopted an incentive unit plan (the Incentive Plan) effective June 22, 2018. Under the Incentive Plan, the Board of Trustees may grant restricted share units (RSUs) of the REIT to trustees, officers and employees of the REIT and consultants. The REIT is authorized to issue up to 4,448,704 units under the Incentive Plan. The maximum number of restricted share units and options that may be reserved under the Incentive Plan and the Plan is 10% of the outstanding units of the REIT.

On July 12, 2019, the REIT granted an aggregate of 130,348 RSUs. These RSUs vest one-third on the date of issuance, one-third on February 28, 2020 and one-third on February 28, 2021. The initial fair value of each unit granted is determined based on the volume-weighted average trading price of units of the REIT for the five trading days prior to the grant date. The RSUs are remeasured at each reporting date to fair value with gains and losses reported within the consolidated statement of income and comprehensive income.

14 Accounts payable, accruals and other liabilities

Accounts payable, accruals and other liabilities are comprised as follows:

	December 31, 2019 $	December 31, 2018 $
Prepaid rent	1,354,022	1,246,147
Security deposits	1,825,341	1,665,202
Accrued interest expense	795,959	968,674
Transaction costs related to acquisitions (note 3)	-	42,067
Sales and other taxes payable	742,735	625,378
Trade accounts payable and other	3,019,430	3,242,266
	7,737,487	7,789,734

15 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.

The following table presents the changes in unitholders' equity for the year ended December 31, 2019:

	Units	Amount $
Unitholders' equity as at December 31, 2018	92,699,252	178,267,365
Class B LP Units exchanged for REIT units (note 10)	8,560,432	17,158,582
Units issued under distribution reinvestment plan (note 16)	809,176	1,564,091
Units issued under restricted share unit plan (note 13)	20,215	40,167
Units issued as consideration for trustee services (note 21)	22,844	42,869
Unitholders' equity as at December 31, 2019	102,111,919	197,073,074

The following table presents the changes in unitholders' equity for the year ended December 31, 2018:

	Units	Amount $
Unitholders' equity as at December 31, 2017	88,799,851	170,527,290
Class B LP Units exchanged for REIT units (note 10)	1,090,974	2,171,539
Units issued as purchase price consideration (note 3)	2,261,905	4,513,334
Units issued under distribution reinvestment plan (note 16)	467,482	897,526
Units issued as consideration for trustee services (note 21)	79,040	157,676
Unitholders' equity as at December 31, 2018	92,699,252	178,267,365

16 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, 2019, 809,176 units (2018 – 467,482 units) were issued under the DRIP for a stated value of $1,564,091 (2018 - $897,526).

17 Property revenues

The following table presents the main components of property revenues according to their nature:

	For the year ended December 31, 2019	December 31, 2018
Rental income	51,272,413	45,945,447
Revenue from services	7,590,705	7,167,275
Other revenue	1,147,192	984,771
	60,010,310	54,097,493

18 Financial instruments

Fair value

The fair value of cash, restricted cash, tenant and other receivables, other current assets, and accounts payable, accrued and other liabilities approximates carrying values due to the short-term nature of these instruments. The fair value of the mortgages payable as at December 31, 2019 is approximately $215,474,000 (2018 - $214,940,000).

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 mortgages payable has been calculated using Level 2 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.

As at December 31, 2019, the Company has classified the fair value measurement of non-current liabilities as follows: mortgages payable (Level 2), Credit Facility (Level 2), Class B LP Units (Level 2), warrants (Level 2), unit options (Level 2) and restricted share units (Level 2). There was no transfer between the levels during the fiscal year 2019.

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, 2019, the REIT had cash of $7,875,818 (December 31, 2018 - $3,354,169), mortgages payable of $232,081,999 (December 31, 2018 - $224,313,560), a Credit Facility balance of $65,139,273 (December 31, 2018 - $58,808,838) and accounts payable, accruals and other liabilities of $7,737,487 (December 31, 2018 - $7,789,734). The REIT had a working capital deficit of $37,635,642 as at December 31, 2019 (December 31, 2018 - $122,666,451). Excluding the current portion of mortgages payable of $45,132,631, the working capital would be a surplus of $7,496,989. The REIT expects that it will be able to refinance the mortgages on their maturities. 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 accruals and other liabilities $	Lease liabilities $	Credit Facility principal repayment	Interest on fixed portion of Credit Facility $	Mortgages payable $	Mortgage interest $	Total $
2020	7,737,487	286,273	-	2,047,500	45,155,831	8,034,274	63,261,365
2021	-	287,739	-	2,047,500	23,157,285	7,037,412	32,529,936
2022	-	287,739	-	2,047,500	21,725,444	5,973,130	30,033,813
2023	-	297,039	-	2,047,500	53,390,127	4,442,601	60,177,267
2024	-	291,994	65,139,273	1,535,625	45,508,770	2,588,857	115,064,519
Thereafter	-	6,236,264	-	-	43,144,542	2,456,993	51,837,799
Total	7,737,487	7,687,048	65,139,273	9,725,625	232,081,999	30,533,267	352,904,699

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, 2019, there was a total of $101,536,795 (December 31, 2018 - $8,458,838) of mortgage and Credit Facility borrowings which bear 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 has entered into interest rate swap agreements totalling $101,397,522 to mitigate interest rate risk arising from floating rate debt.

In April 2019, the REIT entered into certain mortgages and simultaneously entered into interest rate swap agreements to swap floating rate interest for fixed rate interest over the terms of these mortgages. The interest rate swap agreements expire coterminous with the maturity of the corresponding mortgages.

In September 2019, the REIT refinanced its Credit Facility and simultaneously entered into interest rate swap agreements to swap floating rate interest for fixed rate interest over the term of the Credit Facility. The interest rate swap agreements expire coterminous with the maturity of the Credit Facility.

The fair value measurements of the interest rate swap agreements have been classified as Level 2, as they are based mainly on observable market data, namely government bond yields and interest rates.

The following table presents relevant information on interest rate swap agreements:

Transaction date	Effective fixed interest rate	Maturity date	Original principal amount $	Outstanding amount $	Unrealized loss (gain) on change in the fair value $
April 2019	3.67 %	April 24, 2024	12,000,000	11,802,096	13,186
April 2019	3.74 %	April 24, 2026	12,500,000	12,295,863	77,966
April 2019	3.87 %	April 24, 2029	12,500,000	12,299,563	221,707
September 2019	3.15 %	September 13, 2024	65,000,000	65,000,000	(1,094,128)
			102,000,000	101,397,522	(781,269)

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, 2019, one tenant accounted for approximately 13% of the REIT's base rental income, resulting in a concentration of credit risk. The REIT monitors the creditworthiness of its tenants on an ongoing basis.

19 Lease liabilities

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 comprising 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.

The REIT has 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 this option may first be exercised on May 25, 2022.

The REIT has the rights and obligations of a 20-year term lease of 7,170 square feet of office space in a property owned at 50% by the REIT through investments in a joint venture. The lease commenced on January 1, 2018. The REIT has the rights and obligations of a 5-year term lease of 1,760 square feet of office space. The lease commenced on November 1, 2018.

Amounts payable in addition to base rents under leases as recovery of variable expenses such as property taxes, insurance and repairs and maintenance are not included in lease liabilities and totaled $159,096 for the year ended December 31, 2019.

Interest expense on lease liabilities included in the consolidated statements of income and comprehensive income for the year ended December 31, 2019 is $209,270.

20 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, 2019, the REIT was in compliance with all of the financial covenants contained within the Credit Facility and the mortgages.

21 Related party transactions

For the year ended December 31, 2019, trustee retainer fees in the amount of $195,951 were expensed (2018 - $212,500) and 22,844 units (2018 – 79,040 units) at an average price per unit of $1.88 (2018 - $1.99) were issued to trustees as payment of retainer fees. Trustee retainer fees are settled in cash commencing with retainer fees earned in respect of 2019. Trustee retainer fees in the amount of $44,375 were accrued as at December 31, 2019 (December 31, 2018 - $55,538).

Trustee meeting fees in the amount of $52,200 were expensed for the year ended December 31, 2019 (2018 - $37,500). Trustee meeting fees in the amount of $11,500 were accrued as at December 31, 2019 (December 31, 2018 - $6,500).

For the year ended December 31, 2019, key management earned salaries and other short-term employee benefits in the amount of $1,170,698 (2018 - $1,050,308).

The REIT received lease payments from companies controlled by funds associated with TriWest, a related party to a trustee of the REIT, totalling $3,603,174 for the year ended December 31, 2019 (2018 - $3,530,199).

22 Supplemental cash flow information

Interest and income taxes paid are as follows:

	For the year ended December 31, 2019	December 31, 2018 $
Interest paid	14,587,528	12,622,299
Income taxes paid	34,320	14,443

23 Subsequent event

On February 3, 2020, the REIT purchased three industrial properties located in Regina and Saskatoon, Saskatchewan for a contractual purchase price of $17,400,000. The contractual purchase price was satisfied through the issuance of 4,809,524 Class B LP Units of a subsidiary limited partnership of the REIT, which are convertible to REIT Units on a one to one basis, and 3,476,190 REIT units, with both the REIT Units and the Class B LP Units issued at deemed value of $2.10 per unit.