



Nexus REIT

Nexus Real Estate Investment Trust

Condensed Consolidated Interim Financial Statements
(Unaudited)

For the three months ended March 31, 2020

Nexus Real Estate Investment Trust
Condensed Consolidated Interim Statements of Financial Position
(unaudited)

	March 31, 2020 \$	December 31, 2019 \$
Non-current Assets		
Investment properties (notes 3 and 4)	604,445,158	584,772,861
Equity investment in joint venture (note 5)	6,993,082	7,395,957
Restricted cash	2,421,154	2,412,810
Derivative financial instruments (note 18)	-	781,269
Right-of-use assets	1,249,075	1,272,348
Other non-current assets	87,009	87,274
	<u>615,195,478</u>	<u>596,722,519</u>
Current Assets		
Cash	4,924,643	7,875,818
Tenant and other receivables (note 6)	2,162,679	2,302,199
Prepaid expenses	1,394,426	598,990
Other current assets (note 7)	4,984,076	5,879,941
	<u>13,465,824</u>	<u>16,656,948</u>
Total Assets	<u>628,661,302</u>	<u>613,379,467</u>
Non-current Liabilities		
Mortgages payable (notes 3 and 8)	185,435,717	186,971,943
Credit Facility (note 9)	65,020,886	65,009,228
Lease liabilities (note 19)	3,720,794	3,737,072
Derivative financial instruments (note 18)	4,657,143	-
Class B LP Units (note 10)	34,998,525	39,528,332
Warrants (note 11)	-	1,210
Unit options (note 12)	30,000	522,000
Restricted share units (note 13)	4,336	87,841
	<u>293,867,401</u>	<u>295,857,626</u>
Current Liabilities		
Mortgages payable (notes 3 and 8)	44,742,153	45,132,631
Lease liabilities (note 19)	62,679	61,320
Distributions payable	1,413,095	1,361,152
Accounts payable, accruals and other liabilities (notes 14 and 21)	7,562,000	7,737,487
	<u>53,779,927</u>	<u>54,292,590</u>
Total Liabilities	<u>347,647,328</u>	<u>350,150,216</u>
Equity		
Unitholders' equity (note 15)	205,371,908	197,073,074
Retained earnings	75,642,066	66,156,177
Total Unitholders' Equity	<u>281,013,974</u>	<u>263,229,251</u>
Total Liabilities and Unitholders' Equity	<u>628,661,302</u>	<u>613,379,467</u>

On behalf of the Board:

“Benjamin Rodney” _____ Trustee

“Brad Cutsey” _____ Trustee

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

Nexus Real Estate Investment Trust

Condensed Consolidated Interim Statements of Income and Comprehensive Income (unaudited)

	For the three months ended	
	March 31, 2020	March 31, 2019
	\$	\$
Net rental income		
Property revenues (note 17)	15,592,759	14,386,438
Property expenses	<u>(5,819,124)</u>	<u>(5,449,617)</u>
Net rental income	9,773,635	8,936,821
General and administrative expense (note 21)	(992,662)	(710,897)
Fair value adjustment of investment properties (note 4)	(1,381,065)	(194,182)
Fair value adjustment of Class B LP Units (note 10)	15,158,855	(2,288,919)
Fair value adjustment of warrants (note 11)	1,210	(962)
Fair value adjustment of unit options (note 12)	492,000	(133,000)
Fair value adjustment of restricted share units (note 13)	26,004	-
Fair value adjustment of derivative financial instruments (note 18)	(5,438,412)	-
Loss from equity accounted investment in joint venture (note 5)	(402,875)	(173,997)
Other income (note 7)	<u>-</u>	<u>2,523,625</u>
	<u>17,236,690</u>	<u>7,958,489</u>
Finance expense		
Net interest expense (notes 8 and 9)	(2,709,018)	(2,675,318)
Distributions on Class B LP Units (note 10)	<u>(856,672)</u>	<u>(682,194)</u>
	<u>(3,565,690)</u>	<u>(3,357,512)</u>
Net income and comprehensive income for the period	<u>13,671,000</u>	<u>4,600,977</u>

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

Nexus Real Estate Investment Trust

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity (unaudited)

	Unitholders' Equity \$	Retained Earnings \$	Total \$
Balance – January 1, 2020	197,073,074	66,156,177	263,229,251
Net income for the period	-	13,671,000	13,671,000
Units issued as acquisition consideration (note 3)	7,682,380	-	7,682,380
Distributions	-	(4,185,111)	(4,185,111)
Issue of units under distribution reinvestment plan (note 16)	524,523	-	524,523
Issue of units under restricted share unit plan (note 13)	91,931	-	91,931
Balance – March 31, 2020	205,371,908	75,642,066	281,013,974

	Unitholders' Equity \$	Retained Earnings \$	Total \$
Balance – January 1, 2019	178,267,365	39,774,838	218,042,203
Net income for the period	-	4,600,977	4,600,977
Class B LP Units exchanged for REIT Units (note 10)	13,847,244	-	13,847,244
Distributions	-	(3,819,053)	(3,819,053)
Issue of units under distribution reinvestment plan (note 16)	261,376	-	261,376
Issue of units to Trustees (note 21)	42,869	-	42,869
Balance – March 31, 2019	192,418,854	40,556,762	232,975,616

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

Nexus Real Estate Investment Trust
Condensed Consolidated Interim Statements of Cash Flows
(unaudited)

	For the three months ended	
	March 31,	March 31,
	2020	2019
	\$	\$
Operating activities		
Net income for the period	13,671,000	4,600,977
Adjustment for items not involving cash:		
Restricted share unit expense (note 13)	148,261	-
Share of net loss from equity accounted investment in joint venture (note 5)	402,875	173,997
Amortization of deferred financing costs (notes 8 and 9)	77,725	132,341
Amortization of mortgage fair value adjustments (note 8)	(70,061)	(268,289)
Amortization of right-of-use assets (note 19)	23,273	23,273
Amortization of tenant incentives and leasing costs (note 4)	140,786	35,080
Straight-line adjustments of rent	(97,234)	(115,124)
Fair value adjustment of investment properties (note 4)	1,381,065	194,182
Fair value adjustment of Class B LP Units (note 10)	(15,158,855)	2,288,919
Fair value adjustment of warrants (note 11)	(1,210)	962
Fair value adjustment of unit options (note 12)	(492,000)	133,000
Fair value adjustment of restricted share units (note 13)	(26,004)	-
Fair value adjustment of derivative financial instruments (note 18)	5,438,412	-
Changes in non-cash working capital		
Tenant and other receivables	139,520	(254,476)
Prepaid expenses	(795,436)	(464,129)
Deposits	-	(300,000)
Other current assets	793,099	(223,497)
Accounts payable, accruals and other liabilities	(289,316)	(523,465)
Changes in other non-current assets	265	26,812
Changes in restricted cash	(8,344)	(24,967)
Total cash generated by operating activities	<u>5,277,821</u>	<u>5,435,596</u>
Investing activities		
Acquisition of investment properties (note 3)	(165,682)	-
Investment in joint venture (note 5)	-	(500,000)
Capital expenditures, tenant incentives and leasing costs (note 4)	(2,517,038)	(491,288)
Total cash used in investing activities	<u>(2,682,720)</u>	<u>(991,288)</u>
Financing activities		
Lease principal repayments	(14,919)	(32,799)
Mortgage principal repayments	(1,927,560)	(1,773,883)
Net borrowing on the Credit Facility	4,850	1,715,621
Distributions to unitholders	(3,608,647)	(3,463,166)
Total cash used in financing activities	<u>(5,546,276)</u>	<u>(3,554,227)</u>
Change in cash during the period	(2,951,175)	890,081
Cash - beginning of period	7,875,818	3,354,169
Cash - end of period	<u>4,924,643</u>	<u>4,244,250</u>

Supplemental cash flow information (note 22)

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

Nexus Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(unaudited)

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 condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2019.

Basis of presentation

The condensed consolidated interim 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 condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the REIT. The condensed consolidated interim financial statements were authorized for issue by the board of trustees of the REIT on May 14, 2020.

Significant accounting judgments, estimates and assumptions

The duration and full impact of the coronavirus disease 2019 (“COVID-19”) pandemic are unknown at this point in time. As such, it is not possible to reliably estimate COVID-19 related impacts on the REIT’s financial results and operations. Any estimates are therefore subject to significant uncertainty and may materially and adversely vary from actual outcomes. In particular, there is increased estimation uncertainty in determining the fair value of the REIT’s investment properties and the recoverability of amounts receivable. Estimates and assumptions used in these condensed consolidated interim financial statements are based on information available to the REIT as at the end of the reporting period.

The accounting policies applied by the REIT in the preparation of these condensed consolidated interim financial statements are consistent with those applied for the year ended December 31, 2019, except for the following accounting policy adopted by the REIT as of January 1, 2020:

IFRS 3, Business Combinations

On January 1, 2020, the REIT adopted IFRS 3, Business Combinations. IFRS 3 clarifies the definition of a business and provides 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 adoption of IFRS 3 had no impact on the REIT’s condensed consolidated interim financial statements.

Nexus Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

3 Acquisitions and disposals

1) Acquisitions

On February 3, 2020, the REIT acquired three industrial properties located in Regina and Saskatoon, Saskatchewan (the "Access Properties") for a contractual purchase price of \$17,400,000. The 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 a deemed value of \$2.10 per unit, with 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 Units on February 3, 2020 of \$2.21 per unit. The Access Properties were initially recorded at \$18,311,428, the fair value of the consideration paid. The carrying amount was subsequently adjusted to the acquisition date fair value of the Access Properties of \$17,400,000.

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 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.

The impact of the acquisition completed during the period ended March 31, 2020 is as follows:

	\$
Investment properties acquired	18,311,428
Transaction costs	165,682
Net assets acquired	<u>18,477,110</u>
Consideration:	
Cash	165,682
Issuance of REIT Units to the vendor	7,682,380
Issuance of Class B LP Units to the vendor	10,629,048
	<u>18,477,110</u>

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

	\$
Investment properties acquired	30,437,585
Transaction costs	521,287
Working capital acquired	586,678
Net assets acquired	<u>31,545,550</u>
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)
	<u>31,545,550</u>

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Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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.

4 Investment properties

	March 31, 2020 \$	December 31, 2019 \$
Balance, beginning of period	584,772,861	530,191,912
IFRS 16 transition - recognition of right-of-use assets	-	2,233,667
Acquisition of investment properties, including acquisition costs of \$165,682 (December 31, 2019 - \$521,287) (note 3)	18,477,110	30,958,872
Additions - capital expenditures	1,400,097	1,438,780
Additions - tenant incentives and leasing costs	1,116,941	2,596,965
Amortization of tenant incentives and leasing costs	(140,786)	(317,326)
Reclassified from prepaid development charges (note 7)	200,000	1,200,000
Disposal of an investment property (note 3)	-	(3,700,000)
Fair value adjustment	(1,381,065)	20,169,991
Balance, end of period	<u>604,445,158</u>	<u>584,772,861</u>

The fair value of the investment properties as at March 31, 2020 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 fair value of the investment properties as at March 31, 2020 represents the REIT's best estimate based on the available information as at the end of the reporting period. Inputs used in determining the fair value of investment properties have not been adjusted to reflect future impacts related to COVID-19. The REIT will continue to monitor the effect of the economic environment on the valuation of its investment properties.

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

	March 31, 2020	December 31, 2019
Weighted average capitalization rate	6.72%	6.70%
Range of capitalization rates	5.75% - 10.10%	5.75% - 10.10%
Stabilized net operating income	\$41,120,000	\$39,575,000

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at March 31, 2020, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$21,925,000 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 \$23,618,000 in the determination of the fair value of the investment properties.

Nexus Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(unaudited)

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:

	March 31, 2020	December 31, 2019
	\$	\$
Balance, beginning of period	7,395,957	4,353,866
Capital contribution	-	900,000
Share of net income (loss) from investment in joint venture	(402,875)	2,142,091
Balance, end of period	<u>6,993,082</u>	<u>7,395,957</u>

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

	March 31, 2020	December 31, 2019
	\$	\$
Property under development	31,498,885	31,300,000
Other non-current assets	607,267	564,988
Cash	144,512	210,095
Tenant and other receivables	403,404	389,811
Other current assets	204,094	-
Derivative financial instruments	(1,058,815)	(65,543)
Bank facility	(16,929,340)	(17,145,680)
Accounts payable, accruals and other liabilities	(883,843)	(461,757)
Net assets	<u>13,986,164</u>	<u>14,791,914</u>
50% investment in joint venture	<u>6,993,082</u>	<u>7,395,957</u>

	For the three months ended March 31, 2020	March 31, 2019
Property revenues	838,322	646,322
Property expenses	(459,683)	(422,824)
Net rental income	<u>378,639</u>	<u>223,498</u>
General and administrative expense	(54,268)	(60,265)
Net interest expense	(136,848)	(98,378)
Fair value adjustment of derivative financial instruments	(993,272)	(412,849)
Net loss and comprehensive loss for the period	<u>(805,749)</u>	<u>(347,994)</u>
Share of net loss from 50% investment in joint venture	<u>(402,875)</u>	<u>(173,997)</u>

Nexus Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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:

	March 31, 2020
	\$
Remainder of 2020	31,945,737
2021	39,243,090
2022	36,029,892
2023	31,802,007
2024	27,740,987
Thereafter	61,023,696
	<u>227,785,409</u>

7 Other current assets

Other current assets are comprised as follows:

	March 31, 2020	December 31, 2019
	\$	\$
Prepaid development charges	1,000,000	1,200,000
Vendor rent obligation	1,514,983	2,116,452
Reserves held by mortgage lenders with respect to property taxes and capital expenditures	412,698	564,168
Cumulative straight-line rent adjustments	1,803,463	1,707,229
Other	252,932	292,092
Total other current assets	<u>4,984,076</u>	<u>5,879,941</u>

As at March 31, 2020, the vendor rent obligation receivable of \$1,514,983 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.

Nexus Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(unaudited)

8 Mortgages payable

As at March 31, 2020, 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 3.43 years (December 31, 2019 – 3.68 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled Repayments \$	Principal Maturities \$	Total \$
Remainder of 2020	5,130,255	38,098,016	43,228,271
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	<u>26,559,534</u>	<u>203,594,905</u>	<u>230,154,439</u>

The following table summarizes the changes in mortgages payable for the three months ended March 31, 2020 and year ended December 31, 2019:

	March 31, 2020 \$	December 31, 2019 \$
Mortgages payable, beginning of period	232,081,999	224,313,560
New mortgage financing, net of mortgages assumed on acquisition (note 3)	-	17,400,000
Principal repayments	(1,927,560)	(9,631,561)
Mortgages payable, end of period	<u>230,154,439</u>	<u>232,081,999</u>
Less: Deferred financing costs, beginning of period	(691,336)	(563,134)
Less: Additions to deferred financing costs	-	(401,554)
Plus: Amortization of deferred financing costs	70,917	273,352
Plus: Fair value adjustment of mortgages, beginning of period	713,911	1,248,067
Less: Amortization of fair value adjustments	(70,061)	(534,156)
Balance, end of period	<u>230,177,870</u>	<u>232,104,574</u>
Less: Current portion	(44,742,153)	(45,132,631)
	<u>185,435,717</u>	<u>186,971,943</u>

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%, such that the interest rate on the fixed-term facility, including the 150 basis point spread, is fixed at 3.15%. 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.

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Notes to Condensed Consolidated Interim Financial Statements (unaudited)

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 March 31, 2020, this line of credit was undrawn (December 31, 2019 - undrawn).

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

	March 31, 2020	December 31, 2019
	\$	\$
Fixed-term borrowings	65,000,000	65,000,000
Prime rate borrowings	144,123	139,273
Total drawn against the Credit Facility	<u>65,144,123</u>	<u>65,139,273</u>
Less: deferred financing costs	<u>(123,237)</u>	<u>(130,045)</u>
	<u><u>65,020,886</u></u>	<u><u>65,009,228</u></u>

Amounts drawn on the Credit Facility as at March 31, 2020 are as follows:

	Principal Amount	Interest Rate	Repricing Date
	\$		
Fixed-term borrowings	65,000,000	3.11% ⁽¹⁾	April 13, 2020 ⁽¹⁾
Prime rate borrowings	<u>144,123</u>	3.45%	Variable
	<u><u>65,144,123</u></u>		

⁽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 three months ended March 31, 2020 and year ended December 31, 2019:

	March 31, 2020	December 31, 2019
	\$	\$
Drawn against credit facility, beginning of period	65,139,273	58,808,838
Net borrowings during the period	4,850	6,330,435
Drawn against credit facility, end of period	<u>65,144,123</u>	<u>65,139,273</u>
Less: Deferred financing costs, beginning of period	(130,045)	(93,500)
Less: Deferred financing costs incurred	-	(136,888)
Plus: Amortization of deferred financing costs	6,808	100,343
Balance, end of period	<u><u>65,020,886</u></u>	<u><u>65,009,228</u></u>

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Notes to Condensed Consolidated Interim Financial Statements (unaudited)

10 Class B LP Units

The following table summarizes the changes in Class B LP Units for the period ended March 31, 2020:

	Class B LP Units	Amount \$
Balance as at December 31, 2019	18,215,819	39,528,332
Class B LP Units issued for purchase price consideration (note 3)	4,809,524	10,629,048
Fair value adjustment during the period	-	(15,158,855)
Balance as at March 31, 2020	<u>23,025,343</u>	<u>34,998,525</u>

Distributions in the amount of \$856,673 (2019 - \$682,194) were declared payable to holders of Class B LP Units for the period ended March 31, 2020. These amounts have been recognized as finance expense in the condensed consolidated interim statement of income and comprehensive income. Distributions payable in the amount of \$306,928 were accrued as at March 31, 2020 (December 31, 2019 - \$242,817).

11 Warrants

The following table presents the changes in warrants for the period ended March 31, 2020:

	Number of warrants	Weighted average exercise price \$	Weighted average remaining contract life
Outstanding as at December 31, 2019	<u>501,000</u>	2.99	0.42
Outstanding as at March 31, 2020	<u>501,000</u>	2.99	0.17

The following table presents the details of warrants outstanding as at March 31, 2020:

Exercise price \$	Number of warrants	Expiration date	Number of vested warrants
2.99	<u>501,000</u>	June 2, 2020	<u>501,000</u>
	<u>501,000</u>		<u>501,000</u>

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.

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Notes to Condensed Consolidated Interim Financial Statements

(unaudited)

The fair value of the warrants as at March 31, 2020 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:

	March 31, 2020	December 31, 2019
Weighted average expected warrant life (in years)	0.17	0.42
Weighted average volatility rate	25.00%	25.00%
Weighted average risk-free interest rate	0.20%	1.71%
Distribution yield	10.53%	7.37%

12 Unit options

The REIT has adopted a unit-based compensation plan (the "Option Plan") effective January 13, 2014. Under the terms of the Option 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 Option 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 period ended March 31, 2020:

	Number of unit options	Weighted average exercise price \$	Weighted average remaining contract life	Number of vested unit options
Outstanding as at December 31, 2019	2,541,800	2.04	2.51	1,983,466
Outstanding as at March 31, 2020	<u>2,541,800</u>	2.04	2.26	1,983,466

The following table presents the details of unit options outstanding as at March 31, 2020:

Exercise price \$	Number of unit options	Weighted average remaining contract life	Number of vested unit options
1.88	800,000	1.40	800,000
2.10	1,675,000	2.74	1,116,666
2.54	66,800	0.41	66,800
	<u>2,541,800</u>	2.26	<u>1,983,466</u>

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.

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The fair value of the unit options as at March 31, 2020 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:

	March 31, 2020	December 31, 2019
Weighted average expected unit option life (in years)	1.21	1.36
Weighted average volatility rate	25.00%	25.00%
Weighted average risk-free interest rate	0.35%	1.71%
Distribution yield	10.53%	7.37%

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 Option Plan is 10% of the outstanding units of the REIT.

On March 25, 2020, the REIT granted an aggregate of 217,468 RSUs. These RSUs vest one-third on the date of issuance, one-third on February 28, 2021 and one-third on February 28, 2022.

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 condensed consolidated interim statement of income and comprehensive income.

14 Accounts payable, accruals and other liabilities

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

	March 31, 2020 \$	December 31, 2019 \$
Prepaid rent	1,408,068	1,354,022
Security deposits	1,909,280	1,825,341
Accrued interest expense	858,889	795,959
Sales and other taxes payable	1,184,967	742,735
Trade accounts payable and other	2,200,796	3,019,430
	<u>7,562,000</u>	<u>7,737,487</u>

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.

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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 period ended March 31, 2020:

	Units	Amount \$
Unitholders' equity as at December 31, 2019	102,111,919	197,073,074
Units issued as purchase price consideration (note 3)	3,476,190	7,682,380
Units issued under distribution reinvestment plan (note 16)	260,759	524,523
Units issued under restricted share unit plan (note 13)	55,347	91,931
Unitholders' equity as at March 31, 2020	<u>105,904,215</u>	<u>205,371,908</u>

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 period ended March 31, 2020, 260,759 units (2019 - 138,536 units) were issued under the DRIP for a stated value of \$524,523 (2019 - \$261,376).

17 Property revenues

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

	For the three months ended	
	March 31, 2020	March 31, 2019
Rental income	13,097,322	12,096,125
Revenue from services	2,274,274	2,070,249
Other revenue	221,163	220,064
	<u>15,592,759</u>	<u>14,386,438</u>

18 Financial instruments

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand or borrowing capacity to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at March 31, 2020, the REIT had cash of \$4,924,643 (December 31, 2019 - \$7,875,818), mortgages payable of \$230,154,439 (December 31, 2019 - \$232,081,999), a Credit Facility balance of \$65,144,123 (December 31, 2019 - \$65,139,273) and accounts payable, accruals and other liabilities of \$7,562,000 (December 31, 2019 - \$7,737,487). The REIT had a working capital deficit of \$40,314,103 as at March 31, 2020 (December 31, 2019 - \$37,635,642). Excluding the current portion of mortgages payable of \$44,742,453, the working capital would be a surplus of \$4,428,050. 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. As at March 31, 2020, the REIT owned unencumbered properties with a carrying value of \$26,535,000 that can be mortgaged to provide additional liquidity.

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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 \$
Remainder of 2020	7,562,000	214,778	-	1,535,625	43,228,271	5,905,186	58,445,860
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	-	269,905	65,144,123	1,535,625	45,508,770	2,588,857	115,047,280
Thereafter	-	6,275,953	-	-	43,144,542	2,456,993	51,877,488
Total	7,562,000	7,633,153	65,144,123	9,213,750	230,154,439	28,404,179	348,111,644

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. There is a risk that the REIT may not be able to renegotiate its mortgages and Credit Facility at maturity on terms as favourable as the existing mortgages payable and Credit Facility. As at March 31, 2020, there was a total of \$101,311,799 (December 31, 2019 - \$101,536,795) 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. As at March 31, 2020, the REIT has interest rate swap agreements totalling \$101,167,676 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 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 on change in the fair value \$
April 2019	3.67 %	April 24, 2024	12,000,000	11,726,626	518,910
April 2019	3.74 %	April 24, 2026	12,500,000	12,217,992	794,384
April 2019	3.87 %	April 24, 2029	12,500,000	12,223,058	1,203,744
September 2019	3.15 %	September 13, 2024	65,000,000	65,000,000	2,140,105
			102,000,000	101,167,676	4,657,143

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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.

COVID-19 has resulted in government mandated shutdowns, and an economic slow down which are creating financial difficulties for tenants. While government plans have been put in place to support businesses through the COVID-19 pandemic, at this time, the impact on the collection of accounts receivable and future rents is uncertain.

As at March 31, 2020, 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 and commitments

The REIT has a leasehold interest in a property subject to a 66-year land lease, which commenced on May 1, 2006, and has two ten-year options to renew. The land lease provides for annual base rent and additional rent 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 \$39,774 for the period ended March 31, 2020.

Interest expense on lease liabilities of \$56,576 (2019 - \$38,255) and amortization of right-of-use assets of \$23,273 (2019 - \$23,273) are included in the condensed consolidated interim statements of income and comprehensive income for the period ended March 31, 2020.

On March 16, 2020, the REIT entered into a development management agreement (the "DMA") with the vendor of the REIT'S Richmond, BC property (the "Developer"). Pursuant to the DMA, the REIT will redevelop approximately 60,000 square feet previously occupied by an industrial tenant. The Developer will manage the redevelopment and has secured new tenants for the space, and the REIT has entered into lease agreements with these tenants. The REIT will assume the costs of the redevelopment, which have been capped at \$7,360,000, including leasing costs, tenant incentives, and construction costs.

Per the DMA, the REIT will also construct an approximately 70,000 square foot addition at this property. The REIT will assume the costs of the construction. The Developer will secure tenants and manage the construction. The REIT will pay the Developer a development management fee estimated at \$3,000,000. The DMA provides that, as long as certain conditions are met, the development management fee may be paid by issuing to the Developer Class B LP Units of a subsidiary limited partnership of the REIT, valued at \$2.30 per unit and exchangeable on a 1 for 1 basis for REIT units. It is expected that 465,837 units will be released to the Developer on August 1, 2020, and that an additional 93,167 units a month will be issued to the Developer between September 1, 2020 and April 1, 2021, and that a final issuance of 93,175 units will be made on May 1, 2021 in full settlement of the estimated development management fee.

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Also, pursuant to the DMA, the REIT will split the value enhancement of the property, measured as the difference between the fair market value of the property following completion of the redevelopment and addition described above, less the REIT's total cost of the property. The REIT's total cost of the property will be measured as the REIT's original acquisition cost plus costs of redevelopment and construction (inclusive of construction costs, tenant incentives, leasing costs, and development management fees). The first \$20,000,000 of value enhancement will be for the benefit of the REIT. The next \$20,000,000 of value enhancement will be for the benefit of the Developer, provided that the Developer's share of value enhancement will be reduced by the amount of rental income that would have been received between December 15, 2019 and the date the two new tenants take occupancy, had the previous industrial tenancy not been earlier terminated on December 15, 2019. Any value enhancement in excess of \$40,000,000 will be split equally between the REIT and the Developer. As long as certain conditions are met, the REIT may satisfy its obligation to split the value enhancement with the Developer by issuing Class B LP Units valued at \$2.30 per unit.

An advance of \$5,000,000 in Class B LP Units, valued at \$2.30 per unit and exchangeable on a 1 for 1 basis for REIT units, is due to be released to the vendor in monthly installments of 181,159 units, commencing on April 1, 2020 and continuing until March 1, 2021, when a total of 2,173,908 units will have been released to the Developer. On April 1, 2020, 2,173,908 Class B LP Units were issued from treasury, and 181,159 units were released to the Developer, with 1,992,749 units held by the REIT for release to the vendor between May 1, 2020 and March 1, 2021.

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 March 31, 2020, 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 period ended March 31, 2020, trustee retainer fees in the amount of \$44,375 were expensed (2019 - \$53,125) and nil units (2019 - 22,844 units at an average price per unit of \$1.88) 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 service. Trustee retainer fees in the amount of \$44,375 were accrued as at March 31, 2020 (December 31, 2019 - \$44,375).

Trustee meeting fees in the amount of \$7,000 were expensed for the period ended March 31, 2020 (2019 - \$17,200). Trustee meeting fees in the amount of \$7,000 were accrued as at March 31, 2020 (December 31, 2019 - \$11,500).

For the period ended March 31, 2020, key management earned salaries and other short-term employee benefits in the amount of \$ 184,250 (2019 - \$159,250).

The REIT received lease payments from companies controlled by funds associated with TriWest, a related party to a trustee of the REIT, totalling \$918,857 for the period ended March 31, 2020 (2019 - \$900,793).

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22 Supplemental cash flow information

Interest and income taxes paid are as follows:

	For the three months ended	
	March 31, 2020	March 31, 2019
	\$	\$
Interest paid	3,493,765	3,560,080
Income taxes paid	-	5,361

23 Subsequent event

The continuing COVID-19 pandemic has resulted in the Canadian federal and provincial governments and other governments around the world imposing new restrictions and continuing previously enacted restrictions which have included mandatory closures of businesses, travel restrictions and social distancing requirements, which have had an impact on the REIT and its tenants, and have resulted in a global economic slow down. Governments have also announced various monetary and fiscal support measures designed to help stabilize the economy. COVID-19 has resulted in several of the REIT's tenants not paying rents in full or seeking rental arrangements with the REIT in respect of April and May rents. To date, approximately 84% of the REIT's April billings and 80% of May billings have been collected. The remainder is subject to ongoing discussions or deferral arrangements. The duration and impact of COVID-19 on the REIT's business cannot be fully determined at this time.