



Nexus REIT

NEXUS REAL ESTATE INVESTMENT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2018

April 2, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of Nexus Real Estate Investment Trust ("the REIT") for the year ended December 31, 2018 should be read in conjunction with the REIT's audited financial statements for the years ended December 31, 2018 and 2017.

The information contained in this MD&A reflects events up to April 2, 2019, the date on which this MD&A was approved by the REIT's Board of Trustees. Financial data included in this MD&A is presented in Canadian dollars, which is the functional currency of the REIT, and has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information about the REIT can be accessed at www.sedar.com.

FORWARD LOOKING STATEMENTS

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

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

NON-IFRS FINANCIAL MEASURES

Net operating income ("NOI") is a measure of operating performance based on income generated from the properties of the REIT. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance. Funds from operations ("FFO") is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for other capital needs. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance. Management considers adjusted funds from operations ("AFFO"), a non-IFRS measure, to be an important performance measure of recurring economic earnings.

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

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

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

The Real Property Association of Canada issued whitepapers on FFO for IFRS and AFFO for IFRS dated February 2017 (the “Whitepapers”), as amended in February 2018 and February 2019. The REIT calculates FFO and AFFO in accordance with the Whitepapers. Comparative AFFO figures have been restated to conform with the definition of AFFO adopted in the current year

FFO is defined as net income in accordance with IFRS, excluding gains or losses on sales of investment properties, tax on gains or losses on disposal of properties, transaction costs expensed as a result of acquisitions being accounted for as business combinations, gain from bargain purchase, fair value adjustments on investment properties, fair value adjustments on warrants and unit options, and fair value adjustments and other effects of redeemable units classified as liabilities and the Class B LP Units, if any. FFO also includes adjustments in respect of equity accounted entities for the preceding items. Normalized FFO is defined as FFO, net of adjustments for unique or non-recurring items.

AFFO is defined as FFO subject to certain adjustments, including: differences resulting from recognizing ground lease payments and rental income on a straight-line basis, and reserves for normalized maintenance capital expenditures, tenant incentives and leasing cost. Normalized AFFO is defined as AFFO, net of adjustments for unique or non-recurring items.

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

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

BUSINESS OVERVIEW AND STRATEGY

Nexus Real Estate Investment Trust (the “REIT”) was established under the laws of Ontario pursuant to its declaration of trust, as amended and restated effective April 28, 2014 and November 28, 2017. The REIT is an open-ended real estate investment trust which owns and operates commercial real estate properties in Western Canada, Ontario, Quebec and Atlantic Canada. On February 14, 2017, the REIT entered into an arrangement agreement (the “Arrangement”) with Nobel REIT (“Nobel”). On the closing of the Arrangement on April 3, 2017, the REIT acquired the assets and liabilities of Nobel (the “Nobel Transaction”), which included a total of 16 industrial, retail, and office properties located in the Province of Quebec.

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

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

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

HIGHLIGHTS

- Net income for the year of \$38,834,266 was up 150% as compared to 2017 net income of \$15,688,792.
- Total assets increased \$98,949,167 or 22% as compared to December 31, 2017, primarily as a result of accretive acquisitions completed in the year, and fair value increases of investment properties.
- Normalized AFFO per unit for the quarter of \$0.049 increased 2% as compared to Q4 2017 normalized AFFO per unit of \$0.048.
- Normalized AFFO payout ratio for the year of 83.3% is down from 83.6% for the year ended December 31, 2017.
- Q4 2018 normalized AFFO per unit of \$0.049 increased 1.4% compared to Q3 2018 normalized AFFO per unit of \$0.048.
- Q4 2018 normalized AFFO payout ratio of 81.6% decreased from 82.6% for Q3 2018.
- Debt to total assets ratio of 51.7%.
- Management of the REIT will host a conference call on Wednesday April 3rd at 1PM EST to review results and operations.

ACQUISITIONS AND DISPOSALS

1) *Acquisitions*

On October 17, 2018, the REIT acquired a property located in NW Calgary, Alberta (the "Calgary Property") for a contractual purchase price of \$8,500,000. The Calgary Property purchase price was satisfied through the issuance of \$2,550,000 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 1 basis to 3,140,475 REIT units, with closing adjustments satisfied in cash.

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 1 basis to 3,140,475 REIT units, with closing adjustments satisfied in cash.

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 Regina Property is 100% leased and has a gross leasable area ("GLA") of 38,690 square feet. 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.

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 Nisku Properties are 100% leased and have a GLA of 61,155 square feet. 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 1 basis to 2,540,476 REIT units at a deemed value of \$2.10 per REIT unit, with the balance, net of closing adjustments, satisfied in cash.

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 Richmond Property has a GLA of 174,059 square feet. 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 to REIT units on a 1 to 1 basis, with the balance, net of closing adjustments, satisfied in cash. The vendors of the Richmond Property are obligated to complete, at their cost, certain improvements to the property with an estimated cost of \$2,400,000. These improvements are required to prepare the property for occupancy by certain tenants who are not yet occupying the property. Until the construction is complete and tenants are all occupying and paying rent under the terms of their leases, the vendors will pay to the REIT a rent obligation equal to the rents that will be earned on the spaces that are being built out once the tenants take occupancy and are paying rent in accordance with their leases.

On July 7, 2017, the REIT acquired a 100% interest in two properties located in St. John, New Brunswick and Victoriaville, Quebec, and a 50% interest in 24 properties in the province of Quebec (together, the “Sandalwood Properties”), for a contractual purchase price of \$147,048,297 (the “Sandalwood Acquisition”). The Sandalwood Properties have a total GLA of 2.5 million square feet, and 1.5 million square feet at the REIT’s ownership interest. The purchase price was satisfied through the assumption of debt with a principal balance of \$75,712,788 (at the REIT’s proportionate interest) and the issuance of 952,381 REIT units to certain of the vendors at a deemed value of \$2.10 per unit, with the balance, net of closing adjustments, satisfied in cash.

On the closing of the Arrangement on April 3, 2017, the REIT acquired the assets and liabilities of Nobel, which include a total of 16 industrial, retail, and office properties located in the province of Quebec with a total GLA of approximately 875,000 square feet. Included in the portfolio is a 15-storey downtown Montreal office property comprising 113,714 square feet of GLA. The property is located at 2039-2047 rue Stanley (“2045 rue Stanley”), and the REIT indirectly acquired a 50% interest in the property through a joint venture. The property is currently undergoing redevelopment with significant improvements having been made to the property and further improvements continuing.

The REIT issued 17,453,726 Nexus REIT units, 1,057,666 warrants to acquire REIT units at a weighted average exercise price of \$2.99 per unit, and 484,643 unit options at a weighted average exercise price of \$2.77 per unit as purchase consideration. Additionally, existing holders of 72,000 Class B LP Units of Nobel REIT Limited Partnership were granted the right to convert each of these units for 1.67 REIT units, and to receive distribution payments equal to 1.67 times the distributions per REIT unit.

As a result of the arrangement, the REIT acquired all of the assets and liabilities of Nobel, and 100% of the voting interest in Nobel (the “Nobel Acquisition”). As the REIT acquired an operating platform and the employees of Nobel were offered employment with the REIT, the acquisition was determined to be a business combination, and transaction costs of \$3,520,786 were expensed. As required by the Arrangement Agreement, the management contract with the REIT’s external manager was terminated concurrently with the close of the Nobel Acquisition, and an amount of \$1,515,000 was expensed, and is included in the \$3,520,786 of transaction costs.

2) Disposals

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 proceeds of \$1,278,029 on the sale. The sale of the property generated a loss on sale of \$21,971.

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 sale of \$26,750.

REIT PROPERTIES AS AT DECEMBER 31, 2018

Property Address	Property Use	Rentable Area (Square Feet)	Rentable Area (Square Feet) At REIT Ownership Interest	Occupancy	Weighted Average Remaining Lease Term
<u>Northwest Territories</u>					
348-352 Old Airport Rd., Yellowknife, NWT	Industrial	53,212	53,212	100%	6.9 years
<u>British Columbia</u>					
965 McMaster Way, Kamloops, BC	Industrial	13,706	13,706	100%	6.9 years
988 Great St., Prince George, BC	Multi-Tenant Service, Warehousing, Retail	53,126	53,126	100%	4.7 years
1751 & 1771 Savage Road, Richmond, BC	Industrial and Retail Mixed Use	174,059	174,059	100%	7.3 years
<u>Alberta</u>					
4700 & 4750 - 102 Ave., SE, Calgary, AB	Industrial	29,471	29,471	100%	6.0 years
3780 & 4020 - 76 th Ave., SE, Calgary, AB	Industrial	58,937	58,937	100%	6.9 years
41 Royal Vista Drive, NW, Calgary, AB	Industrial	36,915	36,915	100%	6.4 years
8001 - 99 St., Clairmont, AB	Office and Warehouse	26,638	26,638	100%	10.5 years
12104 & 12110 - 17 th St., NE, Edmonton, AB	Industrial and Headquarters	116,582	116,582	100%	6.9 years
14801 - 97 th St., Grande Prairie, AB	Industrial	42,120	42,120	100%	6.9 years
3501 Giffen Rd. North & 3711 - 36 St. North, Lethbridge, AB	Industrial	229,000	229,000	100%	10.5 years
5406 - 59 th Ave., Lloydminster, AB	Industrial	12,425	12,425	100%	6.9 years
4301 - 45 Ave., Rycroft, AB	Industrial	22,110	22,110	100%	10.5 years
2301 - 8 St., Nisku, AB	Industrial	21,506	21,506	100%	5.8 years
2303A - 8 St., Nisku, AB	Industrial	39,649	39,649	100%	6.8 years
<u>Saskatchewan</u>					
110 - 71 st St., Saskatoon, SK	Industrial	74,796	74,796	100%	6.9 years
15 Peters Ave., Saskatoon, SK	Industrial	38,160	38,160	100%	6.9 years
850 Manitoba St. East & 15 - 9 th Ave., NE, Moose Jaw, SK	Industrial	18,800	18,800	100%	6.9 years
4271 - 5 Ave. East, Prince Albert, SK	Industrial	24,600	24,600	100%	7.0 years

Property Address	Property Use	Rentable Area (Square Feet)	Rentable Area (Square Feet) At REIT Ownership Interest	Occupancy	Weighted Average Remaining Lease Term
1117 -1135 Pettigrew Ave., Regina, SK	Industrial	38,690	38,690	100%	2.6 years
<u>Ontario</u>					
455 Welham Rd., Barrie, ON	Industrial	109,366	109,366	100%	6.5 years
200 Sheldon Drive, Cambridge, ON	Industrial	150,000	150,000	100%	1.7 years
5005 South Service Road, Beamsville, ON	Retail	8,125	8,125	100%	4.3 years
<u>Quebec</u>					
935-965 rue Reverchon, Saint-Laurent, QC	Multi-tenant Industrial	114,236	114,236	73%	3.5 years
2045 rue Stanley, Montréal, QC ⁽¹⁾⁽⁴⁾	Office	113,714	56,857	69% ⁽²⁾⁽⁴⁾	16.5 years ⁽²⁾
1901 Dickson / 5780 Ontario Est, Montréal, QC	Industrial	91,068	91,068	100%	6.4 years
72 rue Laval, Gatineau, QC ⁽¹⁾	Office	68,473	34,237	100%	3.2 years
6810 boul. Des Grandes Prairies, Montréal, QC	Industrial	60,786	60,786	100%	3.5 years
3330 2 ^e rue, Saint-Hubert, QC	Multi-tenant Industrial	60,441	60,441	100%	2.9 years
3600 1 ^{ère} rue, Saint-Hubert, QC	Multi-tenant Industrial	37,554	37,554	100%	1.7 years
3550 1 ^{ère} rue, Saint-Hubert, QC	Industrial	22,428	22,428	100%	3.1 years
1185-1195 Chemin du Tremblay, Longueuil, QC	Commercial Mixed Use	53,913	53,913	89%	3.7 years
41 boulevard Saint-Jean-Baptiste, Châteauguay, QC	Retail	53,151	53,151	100%	6.8 years
10500 avenue Ryan, Dorval, QC	Office	52,372	52,372	100%	10.9 years
3490-3504 rue Griffith, Saint-Laurent, QC	Multi-tenant Industrial	39,952	39,952	42%	3.1 years
955 boulevard Michèle-Bohec, Blainville, QC	Office	33,461	33,461	100%	7.5 years
1600 rue Montgolfier, Laval, QC	Office	27,097	27,097	100%	5.5 years
10330-10340 Ch. Côte-de-Liesse, Lachine, QC	Office	26,281	26,281	40%	1.4 years
2301 rue Versailles, Mascouche, QC	Commercial Mixed Use	18,435	18,435	69%	4.0 years
1094-1100 boulevard Des Chutes, Beauport, QC ⁽¹⁾	Retail	32,211	16,106	94%	5.8 years

Property Address	Property Use	Rentable Area (Square Feet)	Rentable Area (Square Feet) At REIT Ownership Interest	Occupancy	Weighted Average Remaining Lease Term
1700 rue Sherbrooke, Magog, QC ⁽¹⁾	Retail	133,406	66,703	84%	4.0 years
1971 rue Bilodeau, Plessisville, QC ⁽¹⁾	Retail	99,611	49,806	91%	5.9 years
4000 boulevard Du Jardin, Québec City, QC ⁽¹⁾	Retail	44,619	22,310	100%	4.4 years
6700 rue St-Georges, Lévis, QC ⁽¹⁾	Retail	43,203	21,602	90%	3.4 years
10516 boulevard Sainte-Anne, Ste-Anne-de-Beaupré, QC ⁽¹⁾	Retail	88,625	44,313	89%	4.9 years
9550 boulevard L'Ornière, Québec, QC ⁽¹⁾	Retail	114,396	57,198	98%	3.0 years
333 Côte Joyeuse, St-Raymond, QC ⁽¹⁾	Retail	64,468	32,234	80%	2.3 years
161 Route 230 Ouest, La Pocatière, QC ⁽¹⁾	Retail	208,800	104,400	71%	4.3 years
25 Route 138, Forestville, QC ⁽¹⁾	Retail	55,962	27,981	89%	3.9 years
2000 boulevard Louis-Frédette, Nicolet, QC ⁽¹⁾	Retail	88,383	44,192	93%	7.1 years
3856 boulevard Taschereau, Greenfield Park, QC ⁽¹⁾	Retail	213,982	106,991	97%	4.8 years
250 boulevard Fiset, Sorel, QC ⁽¹⁾	Retail	116,348	58,174	100%	6.6 years
8245 boulevard Taschereau, Brossard, QC ⁽¹⁾	Retail	43,329	21,665	81%	5.3 years
340 rue Belvédère Sud, Sherbrooke, QC ⁽¹⁾	Retail	170,953	85,477	100%	4.8 years
401-571 boulevard Jutras Est, Victoriaville, QC	Retail	377,396	377,396	96%	5.6 years
7500 boulevard Les Galeries d'Anjou, Anjou, QC ⁽¹⁾	Retail	105,398	52,699	97%	4.4 years
353 St-Nicolas, Montréal, QC ⁽¹⁾	Office	35,480	17,740	83%	2.2 years
410 St-Nicolas, Montréal, QC ⁽¹⁾	Office	154,515	77,258	97%	2.0 years
360 Notre-Dame Ouest, Montréal, QC ⁽¹⁾	Office	29,758	14,879	86%	2.3 years
321 de la Commune, Montréal, QC ⁽¹⁾	Office	11,502	5,751	100%	2.8 years
329 de la Commune, Montréal, QC ⁽¹⁾	Office	21,022	10,511	100%	3.6 years
127, 137 & 145 St-Pierre, Montréal, QC ⁽¹⁾	Office	36,620	18,310	100%	3.5 years

Property Address	Property Use	Rentable Area (Square Feet)	Rentable Area (Square Feet) At REIT Ownership Interest	Occupancy	Weighted Average Remaining Lease Term
63 rue des Brésoles, Montréal, QC ⁽¹⁾	Office	39,020	19,510	100%	4.7 years
425 rue Guy, Montréal, QC ⁽¹⁾	Multi-tenant Industrial	37,196	18,598	96%	2.9 years
<u>New Brunswick</u>					
400 Main Street, St. John, NB	Office	159,927	159,927	83%	1.7 years
<u>Prince Edward Island</u>					
695 University Ave., Charlottetown, PEI	Retail	4,500	4,500	100%	2.5 years
Total		4,759,985	3,710,493	95% ⁽³⁾	5.5 years ⁽³⁾

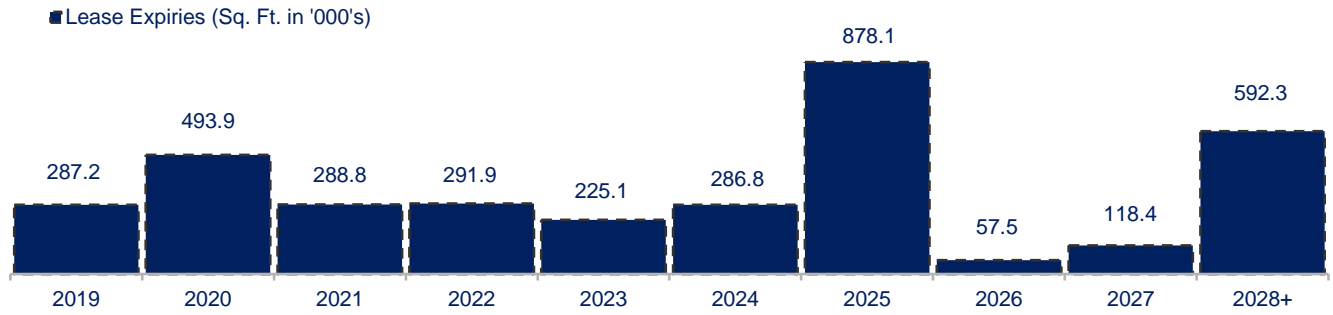
(1) Nexus owns a 50% interest in these properties.

(2) Property is under redevelopment.

(3) Excluding 2045 rue Stanley, which is under redevelopment, the occupancy rate is 95% and the weighted average remaining lease term is 5.6 years.

(4) Stanley has a total committed occupancy of 83%

LEASE EXPIRIES



Expiring Annual Base Revenue (\$Ms)

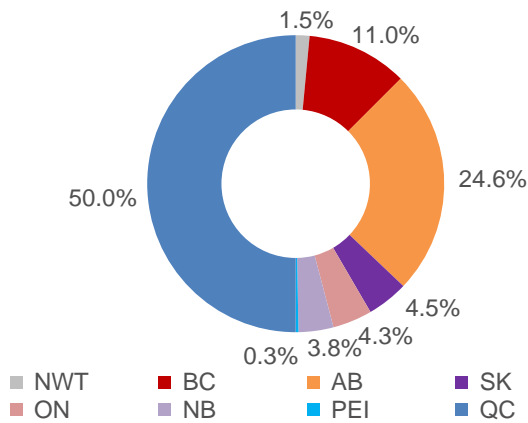


% of Total Leased GLA Expiring

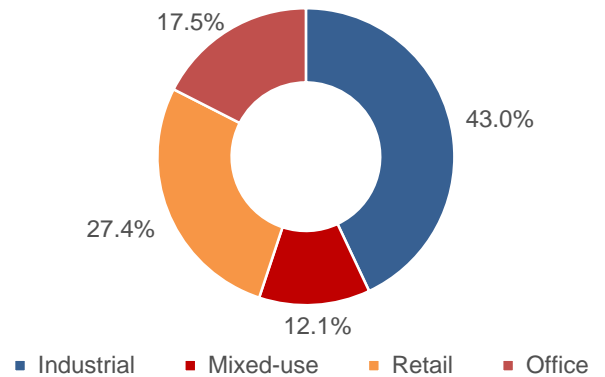


PROPERTY COMPOSITION DIVERSITY

GEOGRAPHIC MIX (BY BASE RENT)



ASSET CLASS MIX (BY BASE RENT)



SUMMARY OF RESULTS

To conform with the definition of FFO and AFFO adopted during the period, comparative period FFO and AFFO has been restated in the table below:

	Three months ended		Year ended	
	December 31, 2018 \$	December 31, 2017 \$	December 31, 2018 \$	December 31, 2017 \$
Financial highlights				
Funds from operations (FFO) ⁽¹⁾	5,574,014	5,339,619	20,909,100	15,961,115
Normalized FFO ^{(1) (7)}	6,244,514	5,339,619	22,703,205	15,961,115
Adjusted funds from operations (AFFO) ⁽¹⁾	4,840,327	4,534,756	18,318,672	14,062,927
Normalized AFFO ^{(1) (7)}	5,510,827	4,534,756	20,112,777	14,062,927
Distributions declared ⁽²⁾	4,494,971	3,768,425	16,879,656	12,203,008
Distributions declared on units issued June 30, 2017 on the closing of the bought deal and private placement ⁽⁴⁾	-	-	-	444,556
Distributions declared on units issued April 30, 2018 on the closing of an acquisition ⁽⁵⁾	-	-	128,857	-
Normalized distributions declared ^{(4) (5)}	4,494,971	3,768,425	16,750,799	11,758,452
Weighted average units outstanding – basic ⁽³⁾	112,169,870	94,213,235	104,620,008	72,657,067
Weighted average units outstanding – diluted ⁽³⁾	112,216,160	94,277,656	104,677,571	72,739,276
Distributions per unit, basic and diluted ^{(2) (3)}	0.040	0.040	0.161	0.168
Adjusted distributions per unit, basic and diluted ^{(2) (3) (4) (5)}	0.040	0.040	0.160	0.162
FFO per unit, basic ^{(1) (3)}	0.050	0.057	0.200	0.220
FFO per unit, diluted ^{(1) (3)}	0.050	0.057	0.200	0.219
Normalized FFO per unit, basic ^{(1) (3) (7)}	0.056	0.057	0.217	0.220
Normalized FFO per unit, diluted ^{(1) (3) (7)}	0.056	0.057	0.217	0.219
AFFO per unit, basic ^{(1) (3)}	0.043	0.048	0.175	0.194
AFFO per unit, diluted ^{(1) (3)}	0.043	0.048	0.175	0.193
Normalized AFFO per unit, basic ^{(1) (3) (7)}	0.049	0.048	0.192	0.194
Normalized AFFO per unit, diluted ^{(1) (3) (7)}	0.049	0.048	0.192	0.193
AFFO payout ratio, basic ^{(1) (2)}	92.9%	83.1%	92.1%	86.8%
Normalized AFFO payout ratio, basic ^{(1) (2) (7)}	81.6%	83.1%	83.9%	86.8%
Normalized AFFO payout ratio, basic, calculated with normalized distributions declared ^{(1) (2) (4)} ^{(5) (6) (7)}	81.6%	83.1%	83.3%	83.6%
Debt to total assets ratio	51.7%	54.0%	51.7%	54.0%

(1) See Non-IFRS Measures

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

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

(4) 33,350,000 REIT units were issued on June 30, 2017 on the closing of an equity financing and private placement. These units were eligible to receive distributions for the month of June. Normalized distributions declared and Normalized AFFO payout ratio, basic, calculated with normalized distributions declared each exclude distributions declared on these units which were outstanding for only 1 day in the quarter.

(5) 9,666,667 REIT units were issued on April 30, 2018 on the closing of an acquisition. These units were eligible to receive distributions for the month of April. Normalized distributions declared and Normalized AFFO payout ratio, basic, calculated with normalized distributions declared each exclude distributions declared on these units for the month of April 2018.

(6) Calculated based on normalized distributions declared as presented in the table above.

(7) Normalized FFO and Normalized AFFO include a vendor rent obligation amount related to the Richmond Property which is received in cash from the vendor of the Richmond Property until the property build out is complete and all tenants are occupying and paying rent. The vendor rent obligation amount is not included in NOI for IFRS accounting purposes.

	Three months ended		Year ended	
	December 31, 2018 \$	December 31, 2017 \$	December 31, 2018 \$	December 31, 2017 \$
Financial results				
Property revenues	14,221,166	13,135,686	54,097,493	36,999,083
Property expenses	<u>(5,216,276)</u>	<u>(4,974,420)</u>	<u>(20,331,964)</u>	<u>(11,859,515)</u>
Net operating income	9,004,890	8,161,266	33,765,529	25,139,568
General and administrative expense	(719,027)	(993,970)	(2,869,087)	(2,866,503)
Transaction costs	-	-	-	(3,520,786)
Fair value adjustment of investment properties	17,533,027	6,798,029	19,050,281	4,157,945
Fair value adjustment of Class B LP Units	2,391,146	(60,353)	2,067,124	(1,382,816)
Fair value adjustment of warrants	8,000	2,524	20,593	(1,084)
Fair value adjustment of unit options	116,000	44,000	(16,000)	(68,710)
Income (loss) from equity accounted investment in joint venture	(1,063,727)	(51,449)	(770,522)	224,965
Loss on disposal of investment properties	-	-	(48,721)	-
Gain from bargain purchase	-	458,818	-	1,007,725
Other income	-	315,719	-	441,471
	<u>27,270,309</u>	<u>14,674,584</u>	<u>51,199,197</u>	<u>23,131,775</u>
Net interest expense	(2,698,438)	(2,137,863)	(9,897,583)	(6,486,369)
Distributions on Class B LP Units	<u>(818,464)</u>	<u>(233,806)</u>	<u>(2,467,348)</u>	<u>(956,614)</u>
Net income	<u>23,753,407</u>	<u>12,302,915</u>	<u>38,834,266</u>	<u>15,688,792</u>

For the three months ended December 31, 2018, net operating income of \$9,004,890 was \$843,624 higher than NOI in the same period of 2017 of \$8,161,266. Properties acquired in 2018 contributed approximately \$860,000 of NOI in Q4 2018, compared to \$nil in Q4 2017. Two properties were sold in April 2018 that were owned for all of Q4 2017. Q3 NOI decreased approximately \$185,000 as compared to Q4 2017 as a result of these dispositions.

For the year ended December 31, 2018, net operating income of \$33,765,529 was \$8,625,961 higher than 2017 NOI of \$25,139,568 primarily due to the impact of the Sandalwood Acquisition in Q3 2017, which accounted for approximately \$10,380,000 of net operating income in the year ended December 31, 2018, as compared to approximately \$5,720,000 in the same period of 2017, the impact of the Nobel Transaction in Q2 2017, which accounted for approximately \$8,560,000 of net operating income in the period, as compared to approximately \$6,650,000 in the same period of 2017, and the impact of acquisitions completed in 2018, which accounted for approximately \$1,715,000 of net operating income in the period, as compared to \$nil in the same period of 2017.

For the three months ended December 31, 2018, general and administrative expense of \$719,027 was \$274,943 lower than general and administrative expense of \$993,970 in the same period of the prior year primarily due to higher bonuses accrued in the fourth quarter of 2017.

For the year ended December 31, 2018, general and administrative expense of \$2,869,087 was \$2,584 higher than general and administrative expense of \$2,866,503 in the same period of the prior year.

Fair value adjustments of Class B LP Units are driven by changes in the trading price of the REIT units, multiplied by the number of Class B LP Units outstanding at a quarter end, as well as fair value adjustments to the date that Class B LP Units are exchanged for REIT units. As at December 31, 2018, 19,746,065 Class B LP Units were outstanding, which are exchangeable for REIT units on a 1 to 1 basis. The trading price of the REIT units as at December 30, 2018 was \$1.88 as compared to \$2.01 as at September 30, 2018 and \$2.02 per unit as at December 31, 2017.

Fair value adjustments of unit options are impacted primarily by changes in the trading price of the REIT's units relative to the strike price of the unit options and by the number of unit options outstanding, as well as by changes in interest rates and expected remaining life of unit options. The trading price of the REIT's units decreased from \$2.02 at December 31, 2017 (December 31, 2016 - \$1.79) to \$2.01 at September 30, 2018 (September 30, 2017 - \$2.04) and \$1.89 at December 31, 2018 (December 31, 2017 - \$2.02). No new options were granted in 2018. The change in fair value was primarily driven by vesting of options that were not yet fully vested at the start of the period and increases in interest rates in the period.

Loss from equity accounted investment in joint venture for the three months ended December 31, 2018 of \$1,063,727 relates to a joint venture which owns 2045 rue Stanley, a downtown Montreal office building with 113,714 square feet of GLA, in which the REIT indirectly acquired a 50% joint venture interest as part of the Nobel Transaction. The property was vacant and under redevelopment as at April 3, 2017, when the Nobel Transaction was completed, and as at December 31, 2017. The loss from equity accounted investment in joint venture in the quarter relates to a fair value adjustment of property under development of \$891,557 and to a fair value adjustment of \$203,884 to mark to market a swap in place at the joint venture to swap floating rate bankers' acceptance rates to a fixed rate. The net rental income of \$97,821 partially offset the loss.

Loss from equity accounted investment in joint venture for the year ended December 31, 2018 of \$770,522 relates to a fair value adjustment of property under development of \$891,557, general and administrative expenses of \$114,085 and interest expense of \$171,134. The loss is partially offset by a net rental income of \$380,960 and an amount of \$25,294 which relates to a fair value adjustment to mark to market a swap in place at the joint venture to swap floating rate bankers' acceptance rates to a fixed rate.

For the three months ended December 31, 2018, net interest expense of \$2,698,438 was \$560,575 higher than net interest expense of \$2,137,863 during the three months ended December 31, 2017 primarily due to the impact of acquisitions in 2018, which accounted for \$514,266 of interest expense in the period.

For the year ended December 31, 2018, net interest expense of \$9,897,583 was \$3,411,214 higher than net interest expense of \$6,486,369 during the year ended December 31, 2017 primarily due to the impact of the Nobel Transaction and the Sandalwood Acquisition completed in April and July 2017, as well as mortgages with total principal of approximately \$50,900,000 placed on properties acquired in 2018, which accounted for interest expense of \$1,249,276.

For the three months ended December 31, 2018, distributions on Class B LP Units of \$818,464 were \$584,658 higher than distributions on Class B LP Units of \$233,806 the same period of the prior year due to 30,510,496 Class B LP Units issued in connection with the acquisitions of the Richmond, Nisku and Beamsville Properties in 2018.

For the year ended December 31, 2018, distributions on Class B LP Units of \$2,467,348 were \$1,510,734 higher than distributions on Class B LP Units of \$956,614 the same period of the prior year due to 30,510,496 Class B LP Units issued in connection with the acquisitions of the Richmond, Nisku and Beamsville Properties in 2018.

	As at December 31, 2018 \$	As at December 31, 2017 \$
Select balance sheet data		
Investment properties	530,191,912	431,807,144
Cash	3,354,169	4,253,771
Total Assets	548,380,739	449,431,572
Current portion of mortgages payable	66,654,908	17,934,023
Credit Facility	58,715,338	-
Total Current Liabilities	134,395,661	27,342,632
Non-current portion of mortgages payable	158,343,585	163,420,261
Credit Facility	-	61,456,450
Class B LP units	37,320,065	11,048,232
Warrants	4,225	24,818
Unit Options	275,000	259,000
Total Non-current Liabilities	195,942,875	236,208,761
Total Unitholders' Equity	218,042,203	185,880,179
Debt to total assets ratio	51.7%	54.0%

Debt to total assets

The REIT's debt to total assets as at December 31, 2018 was 51.7% as compared to 54.0% as at December 31, 2017. The REIT's calculation of debt includes mortgages payable and Credit Facility balances at the amounts carried on the REIT's consolidated statements of financial position.

SUMMARY OF QUARTERLY RESULTS ⁽¹⁾

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Property revenues	\$ 14,221,167	\$ 13,450,841	\$ 13,121,925	\$ 13,303,561
Property expenses	<u>\$ (5,216,276)</u>	<u>\$ (4,885,799)</u>	<u>\$ (4,886,255)</u>	<u>\$ (5,373,634)</u>
Net operating income (NOI)	\$ 9,004,891	\$ 8,565,042	\$ 8,235,670	\$ 7,929,927
Net income	\$ 23,753,407	\$ 4,157,032	\$ 4,498,873	\$ 6,424,954
Weighted average number of units, basic	112,169,870	109,956,419	101,829,119	94,331,914
Weighted average number of units, diluted	112,216,160	110,015,122	101,888,051	94,400,403
	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Property income	\$ 13,135,686	\$ 12,996,361	\$ 6,856,900	\$ 4,010,136
Property expenses	<u>\$ (4,974,420)</u>	<u>\$ (4,570,287)</u>	<u>\$ (1,623,658)</u>	<u>\$ (691,150)</u>
Net operating income (NOI)	\$ 8,161,266	\$ 8,426,074	\$ 5,233,242	\$ 3,318,986
Net income	\$ 12,302,915	\$ 3,359,029	\$ 13,559	\$ 13,289
Weighted average number of units, basic	94,213,235	94,049,376	59,670,062	41,886,354
Weighted average number of units, diluted	94,277,656	94,124,232	59,851,912	41,901,070

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

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

	Three months ended		Year ended	
	December 31, 2018 \$	December 31, 2017 \$	December 31, 2018 \$	December 31, 2017 \$
FFO ⁽¹⁾				
Net income	23,753,407	12,302,915	38,834,266	15,688,792
Adjustments:				
Transaction costs expensed for acquisitions accounted for as business combinations	-	-	-	3,520,786
Gain from business combination bargain purchase	-	(458,818)	-	(1,007,725)
Loss on disposals	-	-	48,721	-
Fair value adjustment of investment properties	(17,533,027)	(6,798,029)	(19,050,281)	(4,157,945)
Fair value adjustment of Class B LP Units	(2,391,146)	60,353	(2,067,124)	1,382,816
Fair value adjustment of warrants	(8,000)	(2,524)	(20,593)	1,084
Fair value adjustment of unit options ⁽¹⁾	(161,125)	(57,901)	(169,500)	(36,707)
Adjustments for equity accounted joint venture ⁽²⁾	1,095,441	56,317	866,263	(400,600)
Distributions on Class B LP Units expensed	818,464	233,806	2,467,348	956,614
Deferred income taxes	-	3,500	-	14,000
Funds from operations (FFO)	<u>5,574,014</u>	<u>5,339,619</u>	<u>20,909,100</u>	<u>15,961,115</u>
Add: Vendor income support ⁽⁴⁾	<u>670,500</u>	<u>-</u>	<u>1,794,105</u>	<u>-</u>
Normalized FFO	<u><u>6,244,514</u></u>	<u><u>5,339,619</u></u>	<u><u>22,703,205</u></u>	<u><u>15,961,115</u></u>
AFFO ⁽¹⁾				
FFO	5,574,014	5,339,619	20,909,100	15,961,115
Adjustments:				
Straight-line adjustments ground lease and rent	(194,687)	(304,863)	(496,428)	(627,188)
Capital reserve ⁽³⁾	(539,000)	(500,000)	(2,094,000)	(1,271,000)
Adjusted funds from operations (AFFO)	<u>4,840,327</u>	<u>4,534,756</u>	<u>18,318,672</u>	<u>14,062,927</u>
Add: Income support ⁽⁴⁾	<u>670,500</u>	<u>-</u>	<u>1,794,105</u>	<u>-</u>
Normalized AFFO	<u><u>5,510,827</u></u>	<u><u>4,534,756</u></u>	<u><u>20,112,777</u></u>	<u><u>14,062,927</u></u>

(1) 2017 comparative period FFO has been restated to conform with the Realpac Whitepaper definition of FFO as amended in February 2018, impacting the amount of fair value adjustment of unit options included in arriving at FFO. 2017 comparative period AFFO has been restated to conform with the Realpac Whitepaper definition of AFFO as first issued in February 2017 and amended in February 2018 and February 2019, and as first adopted by the REIT in the second quarter of 2017.

(2) Adjustment for equity accounted joint venture relates to a fair value adjustment of a swap in place at the joint venture to swap floating rate bankers' acceptance rates to a fixed rate, and fair value adjustment of the joint venture property under redevelopment.

(3) Capital reserve includes maintenance capital expenditures, tenant incentives and leasing costs. Reserve amounts are established with reference to building condition reports, appraisals, and internal estimates of tenant renewal, tenant incentives and leasing costs. The REIT believes that a reserve is more appropriate given the fluctuating nature of these expenditures.

(4) Normalized FFO and Normalized AFFO include a vendor rent obligation amount related to the Richmond Property which is received in cash from the vendor of the Richmond Property until the property build out is complete and tenants are occupying and paying rent. The vendor rent obligation amount is not included in NOI for accounting.

AFFO Capital Reserve

	Three months ended		Year ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	\$	\$	\$	\$
Capital reserve ⁽³⁾	539,000	500,000	2,094,000	1,271,000
Average square feet of GLA	3,704,392	3,494,537	3,607,743	2,532,964
Annualized capital reserve per square foot of GLA	\$0.58	\$0.57	\$0.58	\$0.50

	Three months ended		Year ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	\$	\$	\$	\$
Actual tenant incentives and leasing costs	300,929	92,003	1,134,913	338,206
Actual maintenance capital expenditures	791,431	789,653	2,230,870	853,010
Total	<u>1,092,360</u>	<u>881,656</u>	<u>3,365,783</u>	<u>1,191,216</u>
Less expenditures funded from mortgage escrow	-	-	(316,828)	-
Total spending funded by the REIT	<u>1,092,360</u>	<u>881,656</u>	<u>3,048,955</u>	<u>1,191,216</u>
Average square feet of GLA	3,704,392	3,494,537	3,607,743	2,532,964
Annualized capital spent per square foot of GLA	\$1.18	\$1.01	\$0.85	\$0.47

Actual capital spending and tenant incentive and leasing costs for the year ended December 31, 2018 of \$3,365,783 exceeded the amount of the capital reserve included in AFFO of \$2,094,000 by \$1,271,783. Of the total actual spending for the quarter and year ended December 31, 2018 of \$1,092,360 and \$3,365,783, respectively, \$877,899 and \$2,915,156, respectively, related to properties acquired in the Sandalwood Acquisition. Capital spending on this portfolio is anticipated to be higher in the first 2 to 3 years post-acquisition, and to then normalize.

On the acquisition date of the Sandalwood Properties, there was \$701,253 of mortgage holdbacks for capital expenditures at certain of these properties. The lender released \$316,828 of the holdback upon completion of certain of the items subject to the holdback, and \$384,425 remains in escrow with the lender to be released upon completion of additional required capital projects.

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

	Three months ended		Year ended	
	December 31, 2018 \$	December 31, 2017 \$	December 31, 2018 \$	December 31, 2017 \$
Cash flows generated by operating activities	7,946,394	4,202,076	19,528,428	11,619,908
Adjustments:				
Changes in non-cash working capital	(3,099,842)	396,381	(1,502,889)	(492,642)
Changes in other non-current assets	(6,421)	10,228	(30,444)	1,456
Changes in restricted cash	(291,867)	74,903	(216,965)	74,903
Distributions on Class B LP Units expensed	818,464	233,806	2,467,348	956,614
Loss on disposals	-	-	48,721	-
Transaction costs expensed for acquisitions accounted as business combinations	-	-	-	3,520,786
Adjustments for equity accounted joint venture	1,095,441	56,317	866,263	(400,600)
Share of net income (loss) from 50% investment in joint venture	(1,063,727)	(51,449)	(770,522)	224,965
Straight-line rent adjustments of equity accounted joint venture	(48,689)	(43,389)	(138,092)	(43,389)
Non-cash asset management fees settled in units	-	-	-	(307,521)
Non-cash trustee fees settled in units	(42,809)	(29,125)	(171,237)	(110,242)
Attribution of grant date fair value of unit options	(45,125)	(13,901)	(185,500)	(105,417)
Amortization of deferred financing fees	(114,627)	(114,135)	(503,806)	(310,677)
Amortization of mortgage fair value adjustments	267,214	313,044	1,106,609	705,783
Amortization of tenant incentives and leasing costs	(35,079)	-	(85,242)	-
Capital reserve	(539,000)	(500,000)	(2,094,000)	(1,271,000)
AFFO	<u>4,840,327</u>	<u>4,534,756</u>	<u>18,318,672</u>	<u>14,062,927</u>

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The REIT's principal source of liquidity is cash on hand and the undrawn borrowing capacity on its Credit Facility. As at December 31, 2018, the REIT had cash of \$3,354,169 (December 31, 2017 - \$4,253,771) and working capital deficit of \$122,666,451 (December 31, 2017 – \$18,695,752). Included in current liabilities at December 31, 2018 is the current portion of mortgages payable totalling \$66,654,908 and a Credit Facility balance of \$58,808,838. Subsequent to year end, the REIT signed mortgage commitments in respect of new financing to replace \$36,792,890 of current mortgages payable which will mature in April 2019. The REIT expects that it will also be able to refinance the remaining mortgages and the Credit Facility on their maturity. Management of the REIT believes that sufficient cash from operations will be generated to settle the REIT's liabilities as they come due, and the REIT has the ability to draw funds on the Credit Facility if required. The REIT has sufficient liquidity to maintain and expand its business.

Changes in cash for the periods noted are detailed in the following table:

	Three months ended		Year ended	
	December 31, 2018 \$	December 31, 2017 \$	December 31, 2018 \$	December 31, 2017 \$
Cash generated by (used in)				
Operating activities	7,946,394	4,202,076	19,528,428	11,619,908
Investing activities	(7,119,491)	(2,881,331)	(52,855,224)	(75,220,605)
Financing activities	(1,158,489)	(1,752,036)	32,427,194	66,950,445
Change in cash	(331,586)	(431,291)	(899,602)	3,349,748
Cash – beginning of period	3,685,755	4,685,062	4,253,771	904,023
Cash – end of period	3,354,169	4,253,771	3,354,169	4,253,771

Cash generated by operating activities for the three months ended December 31, 2018 of \$7,946,394 is comprised of net income of \$23,753,407, cash from changes in non-cash working capital, other non-current assets and restricted cash of \$3,398,130, and non-cash items of \$19,205,143. Prepaid expenses decreased in the quarter, generating \$1,848,935 with most property taxes having been fully paid for the year prior to the fourth quarter. Collection of tenant and other receivable balances generated \$923,614 in the quarter.

Cash used in investing activities for the three months ended December 31, 2018 of \$7,119,491 is primarily related to the acquisition of the Calgary Property which used \$6,027,131 of cash, and capital expenditures, leasing commissions and tenant improvement spending of \$1,092,360

Cash used in financing activities for the three months ended December 31, 2018 of \$1,158,489 is primarily related to cash distributions to unitholders of \$3,399,471, mortgage principal repayments in accordance with scheduled amortization of \$1,706,869 and revolving credit facility repayments of \$5,688,620, partially offset by proceeds from new financing of \$9,750,000. \$5,750,000 of the new mortgage financing was used to finance the acquisition of the Calgary property and \$4,000,000 of mortgage was added to a REIT property. The funds from this mortgage were used to pay down the Credit Facility.

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

Mortgages Payable

As at December 31, 2018, the mortgages payable are secured by charges against 51 of the REIT's investment properties. The weighted average interest rate, including deferred financing costs, of the mortgages payable is 3.86% and the weighted average term to maturity is 2.76 years (2017 - 3.29 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled Repayments \$	Principal Maturities \$	Total \$
2019	6,371,987	60,282,921	66,654,908
2020	4,929,145	38,137,829	43,066,974
2021	4,003,349	16,989,177	20,992,526
2022	3,509,153	15,972,007	19,481,160
2023	2,123,587	48,955,120	51,078,707
Thereafter	1,343,905	21,695,380	23,039,285
Total	<u>22,281,126</u>	<u>202,032,434</u>	<u>224,313,560</u>

Credit Facility

The REIT has a revolving credit facility of \$57,500,000, and a \$7,500,000 term facility (together the "Credit Facility"). The Credit Facility matures on July 15, 2019, is secured against 13 of the REIT's investment properties, and allows the REIT to draw against the facility in the form of prime advances, bankers' acceptance advances, or fixed rate and term advances. Prime rate advances bear interest at 125 basis points per annum over the Canadian prime borrowing rate. Bankers' acceptance advances bear interest at 225 basis points per annum over the floating bankers' acceptance rate. Total financing costs in the amount of \$497,666 were incurred in connection with the establishment of the Credit Facility, financing costs in the amount of \$135,288 were incurred in connection with the addition of the \$7,500,000 term facility to the Credit Facility and financing costs in the amount of \$132,513 were incurred in connection with increasing the revolving credit facility by \$5,000,000 on November 14, 2017.

As part of the Nobel Acquisition, the REIT assumed a \$500,000 revolving line of credit bearing interest at 100 basis points per annum over the Canadian prime borrowing rate. The line of credit is secured against 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, 2018, this line of credit was undrawn (December 31, 2017 - undrawn).

Funds drawn against the Credit Facility are as follows:

	December 31, 2018 \$	December 31, 2017 \$
Fixed rate and term borrowing	50,350,000	50,350,000
Bankers' acceptance borrowings	6,000,000	9,500,000
Prime rate borrowings	2,458,838	1,860,147
Total drawn against the Credit Facility	<u>58,808,838</u>	<u>61,710,147</u>
Less: deferred financing	(93,500)	(253,697)
	<u>58,715,338</u>	<u>61,456,450</u>

Amounts drawn on the Credit Facility at December 31, 2018 are as follows:

	Principal Amount \$	Interest Rate	Repricing Date
Fixed rate and term borrowing	30,000,000	3.90%	July 15, 2019
Fixed rate and term borrowing	20,350,000	3.63%	July 15, 2019
Bankers' acceptance borrowings	6,000,000	4.54%	January 28, 2019
Prime rate borrowings	2,458,838	5.20%	Variable
	<u>58,808,838</u>		

The Credit Facility includes, inter alia, covenants that RW LP, the subsidiary of the REIT which is party to the Credit Facility: (i) will not allow the Total Funded Debt to Real Property Ratio to exceed 60% at any time; and (ii) the Interest Coverage Ratio shall not be less than 2.25:1.00. As at December 31, 2018, RW LP was in compliance with both of these covenants. The Credit Facility also contains restrictions on, inter alia, change of business, sale of assets, and mergers and acquisitions without the consent of the lender and includes events of default such as failure to pay the principal loan, failure to observe covenants and involuntary insolvency.

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

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

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

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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

Business combinations

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

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

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

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

Investment Properties

The assumptions and estimates used when determining the fair value of investment properties are stabilized income and capitalization rates. Management determines fair value internally utilizing financial information, external market data and capitalization rates determined by reference to third party appraisals and reports published by industry experts including commercial real estate brokerages. The REIT also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. As at December 31, 2018, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$18,962,000 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 \$20,415,000 in the determination of the fair value of the investment properties.

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 average expected unit option holding period used is estimated to be half of the life of the option. For unvested options, the average expected unit option holding period is estimated to be the period until the options vest plus half of the period from vesting to expiry. The average expected volatility rate is estimated based on the historical volatility of comparable companies over a period of time approximating the average expected unit option holding period. The average risk-free interest rate is based on Government of Canada bonds with terms consistent with the average expected unit option or warrant holding period.

Standards issued but not yet effective

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

IFRS 16, Leases

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

IFRS 3, Business Combinations

In October 2018, the IASB issued amendments to IFRS 3, Business Combinations ("IFRS 3"). 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. The REIT is assessing the impact of these amendments on its consolidated financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IFRS Interpretations Committee issued IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23") which clarifies how the recognition and measurement requirements of IAS 12, Income taxes, are applied where there is uncertainty over income tax treatments. This standard is effective for annual periods beginning on or after January 1, 2019. The REIT is currently assessing the impact of IFRIC 23 on its consolidated financial statements.

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

FINANCIAL INSTRUMENTS AND RISKS AND UNCERTAINTIES

Real property ownership and tenant risk

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

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

Outlook

The REIT has geographic and asset diversification of its portfolio and continues to have access to a robust pipeline of potential off-market deals across Canada, and will continue to evaluate and execute on opportunities which provide attractive metrics. Unit deals may be a source of growth for the REIT in the near term.

Competition

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

Fixed costs and increased expenses

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

General uninsured risks

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

Environmental and litigation risk

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

revealed, nor is the REIT aware of, any environmental liability that the company believes will have a material adverse effect on it.

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

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand or borrowing capacity to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at December 31, 2018, the REIT had cash of \$3,354,169 (December 31, 2017 - \$4,253,771), mortgages payable of \$224,313,560 (December 31, 2017 - \$179,543,881), a Credit Facility balance of \$58,808,838 (December 31, 2017 - \$61,710,147) and accounts payable, accruals and other liabilities of \$7,789,734 (December 31, 2017 - \$8,224,907). The REIT had a working capital deficit of \$122,666,451 as at December 31, 2018 (December 31, 2017 - \$18,695,752). The current portion of mortgages payable accounts for \$66,654,908 of the working capital deficit, and the Credit Facility accounts for \$58,808,838. Subsequent to year end, the REIT signed mortgage commitments in respect of new financing to replace \$36,792,890 of current mortgages payable which will mature in April 2019. The REIT expects that it will also be able to refinance the remaining mortgages and the Credit Facility on their maturity. The REIT has access to undrawn funds under the Credit Facility and expects to generate sufficient cash from operations to satisfy its financial liabilities as they come due.

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

	Accounts payable accruals and other liabilities	Credit facility principal repayment	Interest on fixed portion of credit facility	Mortgage payable	Mortgage interest	Total
	\$	\$	\$	\$	\$	\$
2019	7,789,734	58,808,838	1,016,514	66,654,908	7,237,167	141,507,161
2020	-	-	-	43,066,974	5,361,991	48,428,965
2021	-	-	-	20,992,526	4,442,226	25,434,752
2022	-	-	-	19,481,160	3,457,468	22,938,628
2023	-	-	-	51,078,707	2,009,277	53,087,984
Thereafter	-	-	-	23,039,285	1,260,810	24,300,095
Total	7,789,734	58,808,838	1,016,514	224,313,560	23,768,939	315,697,585

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, 2018, there was a total of \$8,458,838 (December 31, 2017 - \$11,360,147) drawn against the Credit Facility, which bears interest at floating bankers' acceptance or Canadian prime rates plus a fixed spread. There is a risk that prevailing interest rates could increase, and those increases could be significant. The REIT mitigates interest rate risk by maintaining reasonable levels of debt to investment property value and aims to structure new debt to stagger the maturities to ensure that the majority of debt does not come due for repayment in any one particular year. The REIT may also convert borrowings under the Credit Facility from floating rate to fixed rate borrowings as part of its interest rate risk management strategy.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss to another party by failing to pay for its obligations. The REIT is subject to credit risk with respect to its cash and tenant and other receivables. The REIT mitigates credit risk by monitoring the credit ratings of the institutions holding the REIT's deposits.

As at December 31, 2018, one tenant accounted for approximately 15% 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.

COMMITMENTS

The REIT has a leasehold interest in a property subject to a 66-year land lease, which commenced on May 1, 2006, and has two ten-year options to renew. The land lease provides for annual base rent and additional rent comprised of the property's proportionate share of common area maintenance and property tax expense. The full annual ground lease payment is due in advance in May of each year.

Following the Nobel Acquisition, the REIT indirectly acquired a leasehold interest in a property subject to a 25-year land lease, which commenced on May 25, 2012, and has two five-year options to renew. The land lease provides for annual base rent. The REIT has the option to purchase the land subject to the land lease, and this option may first be exercised on May 25, 2022.

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

As at December 31, 2018, annual future minimum lease payments on account of base rent are as follows:

	2019	2020	2021	2022	2023	Thereafter
	\$	\$	\$	\$	\$	\$
Minimum annual rent	248,013	248,013	248,013	248,013	248,013	6,268,737

OUTSTANDING UNIT DATA

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

As at April 2, 2018, the REIT has a total of 99,789,912 REIT units issued and outstanding. Additionally, there are Class B LP units of subsidiary limited partnerships of Nexus REIT issued and outstanding, which are convertible into 12,816,785 REIT units.

DISTRIBUTIONS

The REIT currently pays a monthly distribution of \$0.01333 per unit, representing \$0.16 per unit on an annualized basis. Total distributions declared with respect to REIT units in the three months and year ended December 31, 2018 amounted to \$3,676,507 (2017 - \$3,534,619) and 14,412,308 (2017 - \$11,087,432) respectively.

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

	Three months ended December 31, 2018 \$	Year ended December 31, 2018 \$	Year ended December 31, 2017 \$	Year ended December 31, 2016 \$
Cash generated from operating activities	7,946,394	19,528,428	11,619,908	9,164,081
Net income	23,753,407	38,834,266	15,688,792	10,478,291
Actual cash distributions paid or payable during the period	3,676,507	14,412,308	11,087,432	5,631,762
Excess (shortfall) of cash flows from operating activities over cash distributions paid	4,269,887	5,116,120	532,476	3,532,319
Excess of net income over cash distributions paid	20,076,900	24,421,958	4,601,360	4,846,529

Actual cash distributions paid or payable includes all distributions declared payable to holders of REIT units and excludes distributions declared payable to holders of Class B LP Units during the period. Actual cash distributions paid or payable is unadjusted for distributions settled through the issuance of REIT units under the distribution reinvestment program. Of distributions declared in the three months and year ended December 31, 2018, \$ 244,450 and \$897,526, respectively, was settled through the issuance of REIT units under the distribution reinvestment program.

Net income for the three months ended December 31, 2018 of \$23,753,407 was \$20,076,900 higher than actual cash distributions paid or payable for the three months ended December 31, 2018 of \$3,676,507. Net income excluding non-cash fair value adjustments of investment properties, Class B LP units, unit options and warrants totalling \$20,048,172 was \$3,705,235 for the three months ended December 31, 2018, which exceeded actual cash distributions paid or payable by \$28,728. Loss from equity accounted investment in joint venture of \$1,063,727 for the three months ended December 31, 2018 includes a fair value adjustment of an interest rate swap of \$203,884 and a fair value adjustment of a property under development of \$891,557. Net income further adjusted for these amounts exceeded cash distributions paid or payable by \$1,124,169.

Actual cash distributions paid or payable for the year ended December 31, 2018 of \$14,412,308 was \$24,421,958 lower than net income of \$38,834,266. Net income excluding non-cash fair value adjustments of investment properties, Class B LP units, unit options and warrants totaling \$21,121,998 was \$17,712,268 for the year ended December 31, 2018, which exceeded actual cash distributions paid or payable by \$3,299,960. Loss from equity accounted investment in joint venture of \$770,522 for the year ended December 31, 2018 includes a fair value adjustment of an interest rate swap of \$25,294 and a fair value adjustment of a property under development of \$891,557. Net income further adjusted for these amounts exceeded cash distributions paid or payable by \$4,166,223.

For the three months ended December 31, 2018, cash generated from operating activities exceeded actual cash distributions paid or payable by \$4,269,887. For the year ended December 31, 2018, cash generated from operating activities of \$19,528,428 exceeded actual cash distributions paid or payable of \$5,116,120.

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, 2018, 467,482 units (2017 – 270,690 units) were issued under the DRIP for a stated value of \$897,526 (2017 - \$523,068).

RELATED PARTY TRANSACTIONS

Pursuant to an asset management agreement (the “Management Agreement”) dated January 14, 2014 entered into between the REIT and Edgefront Realty Advisors (the “Manager”), the REIT engaged the Manager to provide management services to the REIT, including providing the services of a chief executive officer and a chief financial officer to the REIT. The Manager is owned by a group including the chief executive officer and chief financial officer of the REIT, who collectively own 50% of the Manager, as well as a group including TriWest Capital Partners (“TriWest”), which owns 50% of the Manager. TriWest controls RTL-Westcan LP, which holds an approximately 10% economic and voting interest in the REIT as at December 31, 2018. A member of TriWest is a trustee of the REIT. On April 3, 2017, the Management Agreement was terminated and the Manager received a termination fee of \$1,500,000 plus applicable sales taxes. Other than the termination fee, no fees were paid to the Manager in connection with the Nobel Acquisition.

During the year ended December 31, 2018, asset management fees in the amount of \$nil were expensed (2017 - \$330,800). During the year ended December 31, 2018, no units were issued to the Manager in respect of asset management fees (2017 - 327,684 units at an average price per unit of \$1.86).

During the year ended December 31, 2018, property management fees in the amount of \$nil (2017 - \$15,644) were recovered from tenants and expensed as property management fees to the Manager.

For the year ended December 31, 2018, trustee retainer fees in the amount of \$212,500 were expensed (2017 - \$130,000), and 79,040 units (2017 - 53,349 units) at an average price per unit of \$1.99 (2017 - \$1.95) were issued to trustees as payment of retainer fees. Trustee retainer fees in the amount of \$55,538 were accrued as at December 31, 2018 (December 31, 2017 - \$34,375).

Trustee meeting fees in the amount of \$37,500 were expensed for the year ended December 31, 2018 (2017 - \$30,000). Trustee meeting fees in the amount of \$6,500 were accrued as at December 31, 2018 (December 31, 2017 - \$11,000).

For the year ended December 31, 2018, key management earned salaries and other short-term employee benefits in the amount of \$1,050,308 (2017 - \$940,914).

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

The REIT received lease payments from companies controlled by funds associated with TriWest totalling \$3,530,199 for the year ended December 31, 2018 (2017 - \$3,480,600).

SUBSEQUENT EVENTS

On April 2, 2019, the REIT purchased four industrial properties located in Fort St John, British Columbia; Blackfalds, Alberta; Medicine Hat, Alberta and Estevan, Saskatchewan for a contractual purchase price of \$31,000,000. \$14,763,390 of the contractual purchase price was satisfied through the issuance of 7,030,186 Class B LP Units of a subsidiary limited partnership of the REIT at deemed value of \$2.10 per unit and convertible to REIT Units on a one to one basis, with the balance, net of closing adjustments, satisfied in cash. As at December 31, 2018, the REIT had a deposit of \$300,000 with respect to this purchase.