



Nexus REIT

**NEXUS REAL ESTATE INVESTMENT TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the three months ended March 31, 2020**

**May 14, 2020**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following management's discussion and analysis ("MD&A") of Nexus Real Estate Investment Trust ("the REIT") for the three months ended March 31, 2020 should be read in conjunction with the REIT's audited consolidated financial statements for the years ended December 31, 2019 and 2018 and the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020.

The information contained in this MD&A reflects events up to May 14, 2020, 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](http://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 revenues 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, fair value adjustments, income (loss) 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.

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, unit options and restricted share units, fair value adjustments on derivative financial instruments, 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 costs. 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, warrants and restricted share units, 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.

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 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

- Completed a \$17,400,000 accretive acquisition of industrial properties at a blended cap rate of 7.6% on February 3, 2020.
- Q1 2020 net operating income of \$9,773,635 was up \$836,814 or 9.4% as compared to \$8,936,821 for Q1 2019.
- Q1 2020 normalized AFFO per unit of \$0.049 increased by 0.6% as compared to Q1 2019 normalized AFFO per unit of \$0.049; normalized AFFO payout ratio for Q1 2020 of 81.3% is down from 81.6% for Q1 2019.
- Q1 2020 normalized AFFO per unit of \$0.049 decreased \$0.0026 per unit or 5.0% as compared to Q4 2019 normalized AFFO per unit of \$0.052; normalized AFFO payout ratio increased from 77.0% to 81.3%, primarily driven by timing of general and administrative expenses, the early termination of a lease to pursue value-add opportunities, the acquisition completed in the quarter with all equity and no debt, and seasonality.
- Conservative debt to total assets ratio of 47.6%.
- Management of the REIT will host a conference call on Friday May 15th at 1PM EST to review results and operations.

## COVID-19 Update

While the REIT's first quarter results have not been materially affected, COVID-19 has had a significant impact on the Canadian and global economies, and measures taken to contain the spread of coronavirus, including mandatory closures of businesses, have impacted the REIT and its tenants, resulting 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. While the duration and impact of COVID-19 on the REIT's business cannot be fully determined at this time, the REIT believes it has sufficient liquidity available to see its way through these difficult times. As of today, the REIT has a \$5 million credit facility which is undrawn and has approximately \$25 million of properties which are unencumbered and may be mortgaged to generate additional liquidity. 84% of April rents and 80% of May rents have been collected to date with the balance subject to deferral agreements or ongoing discussions with tenants. The asset class break down of collections is as follows:

	April 2020	May 2020
Industrial	87%	86%
Mixed Use	96%	80%
Office	97%	87%
Retail	66%	61%

## ACQUISITIONS AND DISPOSALS

### 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.

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.

### 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 sale of \$134,313.

**REIT PROPERTIES AS AT MARCH 31, 2020**

<b>Property Address</b>	<b>Property Use</b>	<b>Rentable Area (Square Feet)</b>	<b>Rentable Area (Square Feet) At REIT Ownership Interest</b>	<b>Occupancy</b>	<b>Weighted Average Remaining Lease Term</b>
<b><u>Northwest Territories</u></b>					
348-352 Old Airport Rd., Yellowknife, NWT	Industrial	53,212	53,212	100%	5.6 years
<b><u>British Columbia</u></b>					
965 McMaster Way, Kamloops, BC	Industrial	13,706	13,706	100%	5.6 years
988 Great St., Prince George, BC	Multi-Tenant Service, Warehousing, Retail	53,126	53,126	100%	3.5 years
1751 & 1771 Savage Road, Richmond, BC	Industrial and Retail Mixed Use	174,059	174,059	66%	7.8 years
9929 Swanson St., Fort St. John, BC	Industrial	26,477	26,477	100%	3.1 years
<b><u>Alberta</u></b>					
4700 & 4750 - 102 Ave., SE, Calgary, AB	Industrial	29,471	29,471	100%	4.8 years
3780 & 4020 - 76 <sup>th</sup> Ave., SE, Calgary, AB	Industrial	58,937	58,937	100%	5.6 years
41 Royal Vista Drive, NW, Calgary, AB	Industrial	36,915	36,915	100%	7.4 years
8001 - 99 St., Clairmont, AB	Office and Warehouse	26,638	26,638	100%	4.3 years
12104 & 12110 - 17 <sup>th</sup> St., NE, Edmonton, AB	Industrial and Headquarters	116,582	116,582	100%	5.6 years
14801 - 97 <sup>th</sup> St., Grande Prairie, AB	Industrial	42,120	42,120	100%	5.6 years
3501 Giffen Rd. North & 3711 - 36 St. North, Lethbridge, AB	Industrial	229,000	229,000	100%	9.3 years
5406 - 59 <sup>th</sup> Ave., Lloydminster, AB	Industrial	12,425	12,425	100%	5.6 years
4301 - 45 Ave., Rycroft, AB	Industrial	22,110	22,110	100%	9.3 years
2301 - 8 St., Nisku, AB	Industrial	21,506	21,506	100%	4.6 years
2303A - 8 St., Nisku, AB	Industrial	33,866	33,866	100%	5.5 years
1010 Brier Park Dr., Medicine Hat, AB	Industrial	14,354	14,354	100%	3.1 years
27323 - 144 Township Rd. 394, Blackfalds, AB	Industrial	25,000	25,000	100%	6.5 years
<b><u>Saskatchewan</u></b>					
110 - 71 <sup>st</sup> St., Saskatoon, SK	Industrial	74,796	74,796	100%	5.6 years

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15 Peters Ave., Saskatoon, SK	Industrial	38,160	38,160	100%	5.6 years
1414 Fletcher Road, Saskatoon, SK	Industrial	86,000	86,000	100%	3.1 years
850 Manitoba St. East & 15 - 9 <sup>th</sup> Ave., NE, Moose Jaw, SK	Industrial	18,800	18,800	100%	5.6 years
4271 – 5 Ave. East, Prince Albert, SK	Industrial	24,600	24,600	100%	5.8 years
1117 -1135 Pettigrew Ave., Regina, SK	Industrial	38,690	38,690	93%	1.4 years
320 Industrial Drive, Regina, SK	Industrial	60,000	60,000	100%	3.1 years
332 Industrial Drive, Regina, SK	Industrial	85,700	85,700	100%	3.1 years
101 Jahn St., Estevan, SK	Industrial	11,846	11,846	100%	3.1 years
<b><u>Ontario</u></b>					
455 Welham Rd., Barrie, ON	Industrial	109,366	109,366	100%	5.2 years
200 Sheldon Drive, Cambridge, ON	Industrial	150,000	150,000	100%	0.4 years
5005 South Service Road, Beamsville, ON	Retail	8,125	8,125	100%	3.4 years
<b><u>Quebec</u></b>					
935-965 rue Reverchon, Saint-Laurent, QC	Multi-tenant Industrial	114,236	114,236	100%	3.3 years
2045 rue Stanley, Montréal, QC <sup>(1) (2) (4)</sup>	Office	113,714	56,857	83% <sup>(2) (4)</sup>	14.5 years
1901 Dickson / 5780 Ontario Est, Montréal, QC	Industrial	91,068	91,068	100%	5.2 years
72 rue Laval, Gatineau, QC <sup>(1)</sup>	Office	68,473	34,237	100%	2.1 years
6810 boul. Des Grandes Prairies, Montréal, QC	Industrial	60,786	60,786	100%	2.2 years
3330 2 <sup>e</sup> rue, Saint-Hubert, QC	Multi-tenant Industrial	60,441	60,441	100%	1.7 years
3600 1 <sup>ère</sup> rue, Saint-Hubert, QC	Multi-tenant Industrial	37,554	37,554	100%	2.2 years
3550 1 <sup>ère</sup> rue, Saint-Hubert, QC	Industrial	22,428	22,428	100%	1.8 years
1185-1195 Chemin du Tremblay, Longueuil, QC	Commercial Mixed Use	53,913	53,913	97%	3.8 years
41 boulevard Saint-Jean-Baptiste, Châteauguay, QC	Retail	53,151	53,151	100%	5.6 years

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10500 avenue Ryan, Dorval, QC	Office	52,372	52,372	100%	9.7 years
3490-3504 rue Griffith, Saint-Laurent, QC	Multi-tenant Industrial	40,665	40,665	100%	3.1 years
955 boulevard Michèle-Bohec, Blainville, QC	Office	33,461	33,461	100%	6.2 years
1600 rue Montgolfier, Laval, QC	Office	27,097	27,097	100%	3.8 years
10330-10340 Ch. Côte-de-Liesse, Lachine, QC	Office	26,281	26,281	44%	2.0 years
1094-1100 boulevard Des Chutes, Beauport, QC <sup>(1)</sup>	Retail	32,211	16,106	100%	4.4 years
1700 rue Sherbrooke, Magog, QC <sup>(1)</sup>	Retail	133,406	66,703	83%	3.5 years
1971 rue Bilodeau, Plessisville, QC <sup>(1)</sup>	Retail	99,611	49,806	92%	4.8 years
4000 boulevard Du Jardin, Québec City, QC <sup>(1)</sup>	Retail	44,619	22,310	100%	4.9 years
6700 rue St-Georges, Lévis, QC <sup>(1)</sup>	Retail	43,203	21,602	84%	4.8 years
10516 boulevard Sainte-Anne, Ste-Anne-de-Beaupré, QC <sup>(1)</sup>	Retail	88,625	44,313	86%	4.2 years
9550 boulevard L'Ormière, Québec, QC <sup>(1)</sup>	Retail	114,396	57,198	98%	2.5 years
333 Côte Joyeuse, St-Raymond, QC <sup>(1)</sup>	Retail	64,468	32,234	80%	3.0 years
161 Route 230 Ouest, La Pocatière, QC <sup>(1)</sup>	Retail	208,800	104,400	69%	3.3 years
25 Route 138, Forestville, QC <sup>(1)</sup>	Retail	55,962	27,981	88%	2.7 years
2000 boulevard Louis-Fréchette, Nicolet, QC <sup>(1)</sup>	Retail	88,383	44,192	93%	5.9 years
3856 boulevard Taschereau, Greenfield Park, QC <sup>(1)</sup>	Retail	213,982	106,991	97%	3.9 years
250 boulevard Fiset, Sorel, QC <sup>(1)</sup>	Retail	116,348	58,174	100%	5.5 years
8245 boulevard Taschereau, Brossard, QC <sup>(1)</sup>	Retail	43,329	21,665	70%	6.3 years
340 rue Belvédère Sud, Sherbrooke, QC <sup>(1)</sup>	Retail	170,953	85,477	91%	4.2 years
401-571 boulevard Jutras Est, Victoriaville, QC	Retail	381,122	381,122	92%	6.7 years
7500 boulevard Les Galeries d'Anjou, Anjou, QC <sup>(1)</sup>	Retail	105,398	52,699	94%	3.5 years

<b>Property Address</b>	<b>Property Use</b>	<b>Rentable Area (Square Feet)</b>	<b>Rentable Area (Square Feet) At REIT Ownership Interest</b>	<b>Occupancy</b>	<b>Weighted Average Remaining Lease Term</b>
353 St-Nicolas, Montréal, QC <sup>(1)</sup>	Office	34,425	17,213	87%	2.5 years
410 St-Nicolas, Montréal, QC <sup>(1)</sup>	Office	154,515	77,258	90%	5.3 years
360 Notre-Dame Ouest, Montréal, QC <sup>(1)</sup>	Office	29,758	14,879	93%	2.9 years
321 de la Commune, Montréal, QC <sup>(1)</sup>	Office	11,502	5,751	100%	2.8 years
329 de la Commune, Montréal, QC <sup>(1)</sup>	Office	21,022	10,511	97%	3.1 years
127, 137 & 145 St-Pierre, Montréal, QC <sup>(1)</sup>	Office	36,620	18,310	77%	5.3 years
63 rue des Brésoles, Montréal, QC <sup>(1)</sup>	Office	38,253	19,127	100%	3.6 years
425 rue Guy, Montréal, QC <sup>(1)</sup>	Multi-tenant Industrial	37,196	18,598	86%	1.9 years
<b><u>New Brunswick</u></b>					
400 Main Street, St. John, NB	Office	159,533	159,533	91%	3.9 years
<b><u>Prince Edward Island</u></b>					
695 University Ave., Charlottetown, PEI	Retail	4,500	4,500	100%	1.2 years
<b>Total</b>		<b>5,083,367</b>	<b>3,998,787</b>	<b>94% <sup>(3)</sup></b>	<b>4.9 years <sup>(3)</sup></b>

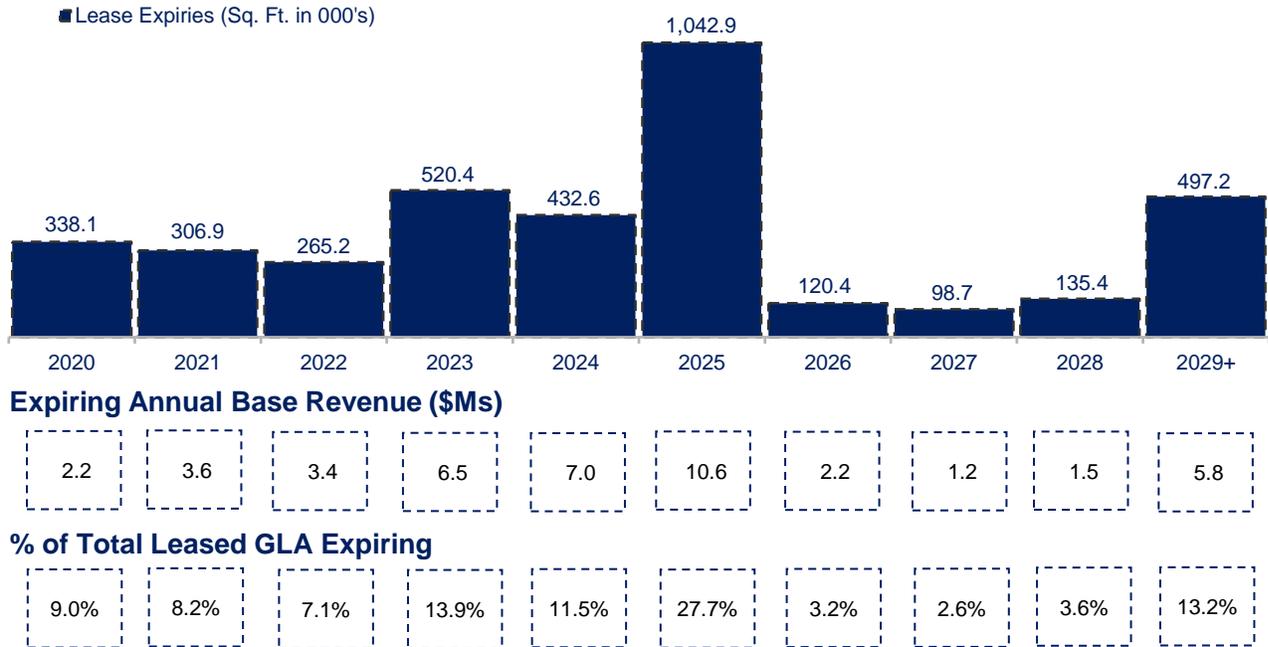
(1) Nexus owns a 50% interest in these properties.

(2) Property is under redevelopment.

(3) Excluding 2045 rue Stanley, which is under redevelopment, the occupancy rate is 94% and the weighted average remaining lease term is 4.8 years.

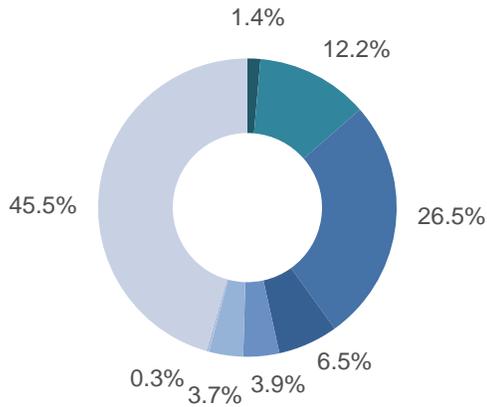
(4) 2045 rue Stanley has a total committed occupancy of 95% as at March 31, 2020.

## LEASE EXPIRIES

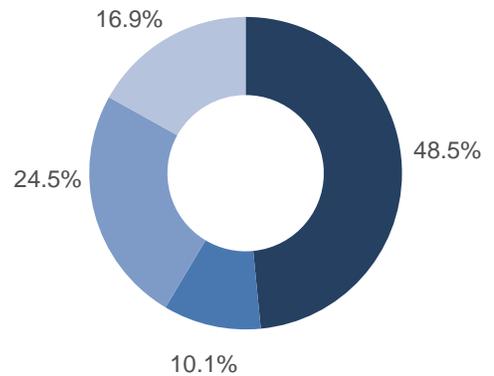


## PROPERTY COMPOSITION DIVERSITY

### GEOGRAPHIC MIX (BY BASE RENT)



### ASSET CLASS MIX (BY BASE RENT)



■ NWT   ■ BC   ■ AB   ■ SK  
 ■ ON   ■ NB   ■ PEI   ■ QC

■ Industrial   ■ Mixed-use   ■ Retail   ■ Office

## SUMMARY OF RESULTS

	Three months ended	
	March 31, 2020	March 31, 2019
	\$	\$
<b>Financial highlights</b>		
Property revenues	15,592,759	14,386,438
Net rental income	9,773,635	8,936,821
Funds from operations (FFO) <sup>(1)</sup>	6,283,632	8,087,087
Normalized FFO <sup>(1) (2)</sup>	6,893,562	6,193,532
Adjusted funds from operations (AFFO) <sup>(1)</sup>	5,590,259	7,410,404
Normalized AFFO <sup>(1) (2)</sup>	6,200,189	5,516,849
Distributions declared <sup>(3)</sup>	5,040,412	4,494,971
Weighted average units outstanding – basic <sup>(4)</sup>	125,743,611	112,532,148
Weighted average units outstanding – diluted <sup>(4)</sup>	125,861,519	112,557,675
Distributions per unit, basic and diluted <sup>(3) (4)</sup>	0.040	0.040
FFO per unit, basic and diluted <sup>(1) (4)</sup>	0.050	0.072
Normalized FFO per unit, basic and diluted <sup>(1) (2) (4)</sup>	0.055	0.055
AFFO per unit, basic and diluted <sup>(1) (4)</sup>	0.044	0.066
Normalized AFFO per unit, basic and diluted <sup>(1) (2) (4)</sup>	0.049	0.049
AFFO payout ratio, basic <sup>(1) (3)</sup>	90.2%	60.7%
Normalized AFFO payout ratio, basic <sup>(1) (2) (3)</sup>	81.3%	81.5%
Debt to total assets ratio	47.6%	51.8%

(1) See Non-IFRS Measures section.

(2) Normalized FFO and Normalized AFFO include adjustments for a vendor rent obligation amount related to the REIT's Richmond, BC property, which are payable from the vendor of the property until the buildout of the property is complete and all tenants are occupying and paying rent. The vendor rent obligation amount is not included in NOI for IFRS accounting purposes. Normalized FFO and Normalized AFFO exclude amounts recorded in other income related to estimated future vendor rent obligation amounts.

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

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

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

Q1 2020 net operating income of \$9,773,635 was \$836,814 higher than Q1 2019 NOI of \$8,936,821. Properties acquired in 2019 and 2020 contributed approximately \$961,000 of NOI in the quarter, compared to nil in Q1 2019. CPI increases generated incremental NOI of approximately \$60,000 in Q1 2020 as compared to Q1 2019. Partially offsetting was the impact of disposing of a property in Q4 2019, which reduced Q1 2020 NOI by approximately \$50,000 as compared to Q1 2019, and the early termination of a tenant at the REIT's Richmond, BC property, which reduced Q1 2020 NOI by \$195,000 as compared to Q1 2019. The tenancy was early terminated to allow the REIT to proceed with a value-add project for this property.

Q1 2020 general and administrative expense of \$992,662 was \$281,765 higher than general and administrative expense of \$710,897 in Q1 2019, primarily due to timing of expenses related to equity-settled RSU plans, which increased Q1 2020 general and administrative expense by approximately \$145,000 as compared to Q1 2019, higher professional fees of approximately \$95,000, and the impact of annual salary increases.

Fair value adjustments of Class B LP Units are driven by changes in the trading price of units of the REIT, 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. On February 3, 2020, 4,809,524 Class B LP Units were issued as purchase consideration for the acquisition of the Access Properties and were initially recorded at \$2.21 per unit. As at March 31, 2020, 23,025,343 Class B LP Units were outstanding. The trading price of the REIT's Units as at March 31, 2020 was \$1.52 as compared to \$2.17 as at December 31, 2019 and \$2.01 per unit as at March 31, 2019.

Fair value adjustments of unit options are impacted primarily by changes in the trading price of the REIT 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 the expected remaining life of unit options. The trading price of the REIT's Units accounted for the majority of the change in fair value during the quarter.

A fair value loss with respect to derivative financial instruments of \$5,438,412 was recognized during the quarter. This unrealized loss is due to significant drops in forward bankers' acceptance rates caused by the COVID-19 pandemic, which reduced the fair value of interest rate swaps totalling \$101,167,676 that the REIT is a party to. The interest rate swaps fix interest rates on \$65,000,000 of the REIT's Credit Facility and \$36,167,676 of floating rate mortgages.

The loss from equity accounted investment in joint venture for the three months ended March 31, 2020 of \$402,875 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 has a 50% joint venture interest. Of this loss, \$496,636 relates to a downward fair value adjustment to mark to market of an interest rate swap in place at the joint venture, \$68,424 relates to interest expense and \$27,134 relates to general and administrative expense, partially offset by the joint venture NOI of \$189,319 for the period.

Net interest expense for Q1 2020 of \$2,709,018 was \$33,700 higher than net interest expense of \$2,675,318 for Q1 2019 due to mortgages refinanced during Q4 2019.

For the three months ended March 31, 2020, distributions on Class B LP Units of \$856,672 were \$174,478 higher than distributions on Class B LP Units of \$682,194 for the same period of the prior year due to a greater number of Class B LP Units outstanding in the period, resulting from the issuance of 7,030,186 units in connection with the acquisition of the Mastec Properties in April, 2019 and 4,809,524 units issued in connection with the acquisition of the Access Properties in February 2020, net of 8,560,432 Class B LP Units exchanged for REIT Units between January and October 2019.

	As at March 31, 2020	As at December 31, 2019
	\$	\$
<b>Select balance sheet data</b>		
Investment properties	604,445,158	584,772,861
Cash	4,924,643	7,875,818
<b>Total Assets</b>	<b>628,661,302</b>	<b>613,379,467</b>
Current portion of mortgages payable	44,742,153	45,132,631
<b>Total Current Liabilities</b>	<b>53,779,927</b>	<b>54,292,590</b>
Non-current portion of mortgages payable	185,435,717	186,971,943
Non-current portion of Credit Facility	65,020,886	65,009,228
Class B LP Units	34,998,525	39,528,332
<b>Total Non-current Liabilities</b>	<b>293,867,401</b>	<b>295,857,626</b>
<b>Total Unitholders' Equity</b>	<b>281,013,974</b>	<b>263,229,251</b>
Debt to total assets ratio	47.6%	49.1%

#### Debt to total assets

The REIT's debt to total assets as at March 31, 2020 was 47.6% as compared to 49.1% as at December 31, 2019. The ratio was lower as a result of a \$17,400,000 acquisition completed in the quarter with 100% of the purchase price settled in Class B LP Units. The REIT's calculation of debt includes mortgages payable, Credit Facility and lease liabilities balances at the amounts carried in the REIT's condensed consolidated interim statements of financial position.

**SUMMARY OF QUARTERLY RESULTS <sup>(1)</sup>**

	<b>Q1 2020</b>	<b>Q4 2019</b>	<b>Q3 2019</b>	<b>Q2 2019</b>
Property revenues	\$ 15,592,759	\$ 15,583,030	\$ 14,929,417	\$ 15,057,425
Property expenses	<u>\$ (5,819,124)</u>	<u>\$ (5,925,756)</u>	<u>\$ (5,340,871)</u>	<u>\$ (5,311,966)</u>
Net operating income (NOI)	\$ 9,773,635	\$ 9,657,274	\$ 9,588,546	\$ 9,745,459
Net income	\$ 13,671,000	\$ 27,332,940	\$ 6,412,316	\$ 4,041,737
Weighted average number of units, basic	125,743,611	120,205,902	119,951,933	119,729,985
Weighted average number of units, diluted	125,861,519	120,317,048	120,009,354	119,798,205
	<b>Q1 2019</b>	<b>Q4 2018</b>	<b>Q3 2018</b>	<b>Q2 2018</b>
Property revenues	\$ 14,440,438	\$ 14,221,166	\$ 13,450,841	\$ 13,121,925
Property expenses	<u>\$ (5,503,617)</u>	<u>\$ (5,216,276)</u>	<u>\$ (4,855,799)</u>	<u>\$ (4,886,255)</u>
Net operating income (NOI)	\$ 8,936,821	\$ 9,004,890	\$ 8,595,042	\$ 8,235,670
Net income	\$ 4,600,977	\$ 23,753,407	\$ 4,157,032	\$ 4,498,873
Weighted average number of units, basic	112,532,148	112,169,870	109,956,419	101,829,119
Weighted average number of units, diluted	112,557,675	112,216,160	110,015,122	101,888,051

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

## FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

	<b>Three months ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>FFO</b>		
Net income	13,671,000	4,600,977
Adjustments:		
Fair value adjustment of investment properties	1,381,065	194,182
Fair value adjustment of Class B LP Units	(15,158,855)	2,288,919
Fair value adjustment of warrants	(1,210)	962
Fair value adjustment of unit options	(492,000)	133,000
Fair value adjustment of RSU	(26,004)	-
Fair value adjustment of derivative financial instruments	5,438,412	-
Adjustments for equity accounted joint venture <sup>(1)</sup>	496,636	206,424
Attribution of grant date fair value of unit options	(31,224)	(45,125)
Distributions on Class B LP Units expensed	856,672	682,194
Amortization of tenant incentives and leasing costs	140,786	35,080
Lease principal payments	(14,919)	(32,799)
Amortization of right-of-use assets	23,273	23,273
Funds from operations (FFO)	<u>6,283,632</u>	<u>8,087,087</u>
Add: Vendor rent obligation <sup>(2)</sup>	609,930	630,070
Less: Other income <sup>(2)</sup>	-	(2,523,625)
Normalized FFO	<u>6,893,562</u>	<u>6,193,532</u>
<b>AFFO</b>		
FFO	6,283,632	8,087,087
Adjustments:		
Straight-line adjustments ground lease and rent	(118,373)	(133,683)
Capital reserve <sup>(3)</sup>	(575,000)	(543,000)
Adjusted funds from operations (AFFO)	<u>5,590,259</u>	<u>7,410,404</u>
Add: Vendor rent obligation <sup>(2)</sup>	609,930	630,070
Add: Other income <sup>(2)</sup>	-	(2,523,625)
Normalized AFFO	<u>6,200,189</u>	<u>5,516,849</u>

(1) 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.

(2) Normalized FFO and Normalized AFFO include adjustments for vendor rent obligation amounts related to the REIT's Richmond, BC property, which are payable from the vendor of the property until the buildout of the property is complete and tenants are occupying and paying rent. The vendor rent obligation amount is not included in NOI for accounting, but the estimated total amount of vendor rent obligation is recorded in other income. Normalized FFO and Normalized AFFO exclude amounts related to estimated future vendor rent obligation amounts included in other income in the statements of income and comprehensive income and include the scheduled quarterly rents receivable in the form of vendor rent obligation.

(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.

## AFFO Capital Reserve

	<b>Three months ended</b>	
	<b>March 31, 2020</b>	<b>March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Capital reserve <sup>(5)</sup>	575,000	543,000
Average square feet of GLA	3,915,452	3,711,206
Annualized capital reserve per square foot of GLA	\$0.59	\$0.59

	<b>Three months ended</b>	
	<b>March 31, 2020</b>	<b>March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Actual tenant incentives and leasing costs <sup>(1)</sup>	209,759	297,106
Actual maintenance capital expenditures <sup>(2)</sup>	303,955	194,182
Total spending funded by the REIT	<u>513,714</u>	<u>491,288</u>
Average square feet of GLA	3,915,452	3,711,206
Annualized capital spent per square foot of GLA unadjusted for capital reserve	\$0.52	\$0.53

(1) Excludes tenant incentives and leasing costs in the amount of \$907,182 incurred for incremental revenue generation relating to the construction of a new pad site and repurposing a previous industrial space into significantly higher yielding uses.

(2) Excludes capital expenditures in the amount of \$1,096,143 incurred for incremental revenue generation relating to the repurposing of a previous industrial space into significantly higher yielding uses.

Actual capital spending and tenant incentive and leasing costs for the period ended March 31, 2020 of \$513,714 is lower than the amount of the capital reserve included in AFFO of \$575,000 by \$61,286.

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

	<b>Three months ended</b>	
	<b>March 31, 2020</b>	<b>March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Cash flows generated by operating activities	5,277,821	5,435,596
Adjustments:		
Changes in non-cash working capital	152,133	1,756,567
Changes in other non-current assets	(265)	(26,812)
Changes in restricted cash	8,344	24,967
Distributions on Class B LP Units expensed	856,672	682,194
Adjustments for equity accounted joint venture	496,636	206,424
Share of net loss from 50% investment in joint venture	(402,875)	(173,997)
Straight-line rent adjustments of equity accounted joint venture	(21,139)	(18,559)
Restricted share unit expense	(148,261)	-
Attribution of grant date fair value of unit options	(31,224)	(45,125)
Amortization of deferred financing fees	(77,725)	(132,341)
Amortization of mortgage fair value adjustments	70,061	268,289
Lease principal repayments	(14,919)	(32,799)
Capital reserve	<u>(575,000)</u>	<u>(543,000)</u>
AFFO	<u>5,590,259</u>	<u>7,410,404</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 March 31, 2020, the REIT had cash of \$4,924,643 (December 31, 2019 - \$7,875,818) and 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 \$44,742,153, 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. 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

	<b>Three months ended</b>	
	<b>March 31, 2020</b>	<b>March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Cash generated by (used in)</b>		
Operating activities	5,277,821	5,435,596
Investing activities	(2,682,720)	(991,288)
Financing activities	<u>(5,546,276)</u>	<u>(3,554,227)</u>
Change in cash	(2,951,175)	890,081
Cash – beginning of period	<u>7,875,818</u>	<u>3,354,169</u>
Cash – end of period	<u>4,924,643</u>	<u>4,244,250</u>

Cash generated by operating activities for the three months ended March 31, 2020 of \$5,277,821 is comprised of net income of \$13,671,000, cash from changes in non-cash working capital, other non-current assets and restricted cash of \$160,212, and non-cash items of \$8,232,967. Prepaid expenses increased by \$795,436 in the quarter, primarily related to property tax payments made in the quarter. Other current assets decreased by \$793,099 in the quarter, mainly due to \$601,469 of vendor rent obligation amounts accrued in Q4 2019 becoming due and being settled in Q1 2020.

Cash used in investing activities for the three months ended March 31, 2020 of \$2,682,720 is related to tenant incentives, leasing costs and capital spending in the amount of \$2,517,038, including \$2,003,325 of capital expenditures, leasing costs and tenant incentives relating to the construction of a new pad site and repurposing a previous industrial space into significantly higher yielding uses.

Cash used in financing activities for three months ended March 31, 2020 of \$5,546,276 is primarily related to cash distributions to unitholders of \$3,608,647 and mortgage principal repayments \$1,927,560.

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

## Mortgages Payable

As at March 31, 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:

	<b>Scheduled Repayments</b>	<b>Principal Maturities</b>	<b>Total</b>
	\$	\$	\$
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>

## 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.

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:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	\$	\$
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>65,020,886</u>	<u>65,009,228</u>

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

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

<sup>(1)</sup> 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.

The Credit Facility includes, inter alia, covenants that RW Real Estate Holdings Limited Partnership (“RW LP”), a subsidiary of the REIT which is party to the Credit Facility: (i) will not allow the Total Funded Debt to Real Property Ratio to exceed 60% at any time; and (ii) the Interest Coverage Ratio shall not be less than 2.25:1.00. As at March 31, 2020, 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 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 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 estimates and judgments used in determining the recorded amount for asset, liabilities and equity in the financial statements include the following:

### *Valuation of investment properties*

The assumptions and estimates used when determining the fair value of investment properties are stabilized income and capitalization rates. Management determines fair value internally utilizing financial information, external market data and capitalization rates determined by reference to third party appraisals and reports published by industry experts including commercial real estate brokerages. The REIT also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations.

The 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 potential 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.

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.

#### *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.

#### **Changes in accounting policies**

The REIT's accounting policies are described in note 2 of the audited consolidated financial statements for the year ended December 31, 2019 and note 2 of the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020. The REIT implemented the following accounting policy in 2020:

On January 1, 2020, the REIT adopted IFRS 3, Business Combinations ("IFRS 3"). 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.

#### **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.

### *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 REIT 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.

### *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.

### 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 \$44,742,153, 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. The REIT owned unencumbered properties, including the Access Properties acquired on February 3, 2020, with a carrying value of \$26,535,000 that can be mortgaged to provide additional liquidity.

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

	<b>Accounts payable accruals and other liabilities</b>	<b>Lease liabilities</b>	<b>Credit Facility principal repayment</b>	<b>Interest on fixed portion of Credit Facility</b>	<b>Mortgages payable</b>	<b>Mortgage interest</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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
<b>Total</b>	<b>7,562,000</b>	<b>7,633,153</b>	<b>65,144,123</b>	<b>9,213,750</b>	<b>230,154,439</b>	<b>28,404,179</b>	<b>348,111,644</b>

### 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
			<u>102,000,000</u>	<u>101,167,676</u>	<u>4,657,143</u>

## 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 offer to lease 1,760 square feet of office space. The lease commenced on November 1, 2018.

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 two 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.

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.

## OUTSTANDING UNIT DATA

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	3,476,190	7,682,380
Units issued under distribution reinvestment plan	260,759	524,523
Units issued under restricted share unit plan	55,347	91,931
Unitholders' equity as at March 31, 2020	<u>105,904,215</u>	<u>205,371,908</u>

As at May 14, 2020, a total of 107,224,319 REIT Units and 24,457,119 Class B LP Units were issued and outstanding.

## DISTRIBUTIONS

The REIT currently pays a monthly distribution of \$0.01333 per unit, representing \$0.16 per unit on an annualized basis. Total distributions declared with respect to REIT Units in the three months ended March 31, 2020 amounted to \$4,185,111 (2019 - \$3,819,053).

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

	Three months ended March 31, 2020 \$	Year ended December 31, 2019 \$	Year ended December 31, 2018 \$	Year ended December 31, 2017 \$
Cash generated from operating activities	5,277,821	23,347,175	19,528,428	11,619,908
Net income	13,671,000	42,387,970	38,834,266	15,688,792
Actual cash distributions paid or payable during the period <sup>(1)</sup>	4,185,111	16,006,631	14,412,308	11,087,432
Excess of cash flows from operating activities over cash distributions paid	1,092,710	7,340,544	5,116,120	532,476
Excess of net income over cash distributions paid	9,485,889	26,381,339	24,421,958	4,601,360

(1) 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 ended March 31, 2020, \$524,523 was settled through the issuance of REIT Units under the distribution reinvestment program.

Net income for the three months ended March 31, 2020, of \$13,671,000 was \$9,485,889 higher than actual cash distributions paid or payable for the three months ended March 31, 2020 of \$4,185,111. Net income excluding non-cash fair value adjustments of investment properties, Class B LP Units, unit options, warrants, restricted share units and derivative financial instruments totalling \$8,858,592 was \$4,812,408 for the three months ended March 31, 2020, which exceeded actual cash distributions paid or payable by \$627,297.

For the three months ended March 31, 2020, cash generated from operating activities exceeded actual cash distributions paid or payable by \$1,092,710. Excluding changes in non-cash working capital, other non-current assets and restricted cash of \$160,212, cash generated from operating activities exceeded actual cash distributions paid or payable by \$1,252,922.

## **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).

## **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. 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).

## **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.