



# Nexus REIT

**NEXUS REAL ESTATE INVESTMENT TRUST  
(FORMERLY EDGEFRONT REAL ESTATE INVESTMENT TRUST)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the three and six months ended June 30, 2017**

**August 25, 2017**

## **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 and six months ended June 30, 2017 should be read in conjunction with the REIT's audited financial statements for the year ended December 31, 2016 and the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2017.

The information contained in this MD&A reflects events up to August 25, 2017, 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.

Gross Book Value is defined in the Declaration of Trust and is a measure of the value of the REIT's assets. Management considers this non-IFRS measure to be an important measure of the REIT's asset base and financial position. Indebtedness to Gross Book Value is a compliance measure in the Declaration of Trust and establishes the limit for financial leverage of the REIT. Total Debt to Gross Book Value Ratio is considered to be an important measure of the REIT's financial position.

Normalized FFO and Normalized AFFO are considered important measures which adjust FFO and AFFO, respectively, to exclude the impact of 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, unit-based compensation expense, fair value adjustments, interest income and expense and distributions on Class B LP Units.

The REIT calculates FFO in accordance with the whitepaper issued by the Real Property Association of Canada. 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 non-recurring items.

The Real Property Association of Canada issued a whitepaper on AFFO for IFRS dated February 2017 (the "Whitepaper"). Effective with the current quarter, the REIT calculates AFFO in accordance with the Whitepaper. Comparative AFFO figures have been restated to conform with the definition of AFFO adopted in the current quarter. 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 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. 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 include 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 will seek 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 has 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**

- Completed \$55 million bought deal equity financing and \$15 million private placement on June 30th; proceeds used to complete approximately \$147 million acquisition of 26 properties on July 7th.
- Completed Nobel REIT merger on April 3, 2017; added 16 properties with approximately 875,000 square feet of GLA.
- Portfolio high graded with the addition of quality urban Montreal properties.
- External management contract terminated and management internalized effective April 3, 2017.
- AFFO per unit for the quarter of \$0.048 is 5.4% higher than AFFO per unit of the previous quarter of \$0.045 (restated to conform with the Realpac whitepaper definition of AFFO adopted in the quarter).
- Management of the REIT will host a conference call on Monday August 28th at 1PM EST to review results and operations.

## **ACQUISITIONS**

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 gross leasable area (“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 being made in advance of new tenancies commencing.

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 in the six months ended June 30, 2017. 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.

On August 22, 2016, the REIT acquired an industrial property located in Cambridge, Ontario (the “Cambridge Property”) for a contractual purchase price of \$8,400,000. The purchase price was satisfied through the issuance of 1,000,000 Class B LP Units at a deemed value of \$1.90 per unit, with the balance, net of closing adjustments, satisfied in cash.

A list of the REIT properties is presented on the following pages.

**REIT PROPERTIES AS AT JUNE 30, 2017**

<b>Property Address</b>	<b>Property Use</b>	<b>Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Weighted Average Remaining Lease Term</b>
<b>Northwest Territories</b>				
49 Kam Lake Rd., Yellowknife, NWT	Industrial	7,674	100%	8.4 years
348-352 Old Airport Rd., Yellowknife, NWT	Industrial	53,212	100%	8.4 years
<b>British Columbia</b>				
965 McMaster Way, Kamloops, BC	Industrial	13,706	100%	8.4 years
555 Adams Rd., Kelowna, BC	Multi-tenant Industrial	94,594	100%	1.8 years
988 Great St., Prince George, BC	Multi-Tenant Service, Warehousing, Retail	53,126	100%	6.4 years
<b>Alberta</b>				
4700 & 4750 - 102 Ave., SE, Calgary, AB	Industrial	29,471	100%	7.5 years
3780 & 4020 - 76 <sup>th</sup> Ave., SE, Calgary, AB	Industrial	58,937	100%	8.4 years
8001 - 99 St., Clairmont, AB	Office and Warehouse	26,638	100%	7.0 years
12104 & 12110 - 17 <sup>th</sup> St., NE, Edmonton, AB	Industrial and Headquarters	116,582	100%	8.4 years
14801 - 97 <sup>th</sup> St., Grande Prairie, AB	Industrial	42,120	100%	8.4 years
3501 Giffen Rd. North & 3711 - 36 St. North, Lethbridge, AB	Industrial	229,000	100%	12.1 years
5406 - 59 <sup>th</sup> Ave., Lloydminster, AB	Industrial	12,425	100%	8.4 years
4301 – 45 Ave., Rycroft, AB	Industrial	22,110	100%	12.1 years
<b>Saskatchewan</b>				
110 - 71 <sup>st</sup> St., Saskatoon, SK	Industrial	74,796	100%	8.4 years
15 Peters Ave., Saskatoon, SK	Industrial	38,160	100%	8.4 years
850 Manitoba St. East & 15 - 9 <sup>th</sup> Ave., NE, Moose Jaw, SK	Industrial	18,800	100%	8.4 years
4271 – 5 Ave. East, Prince Albert, SK	Industrial	24,600	100%	8.5 years

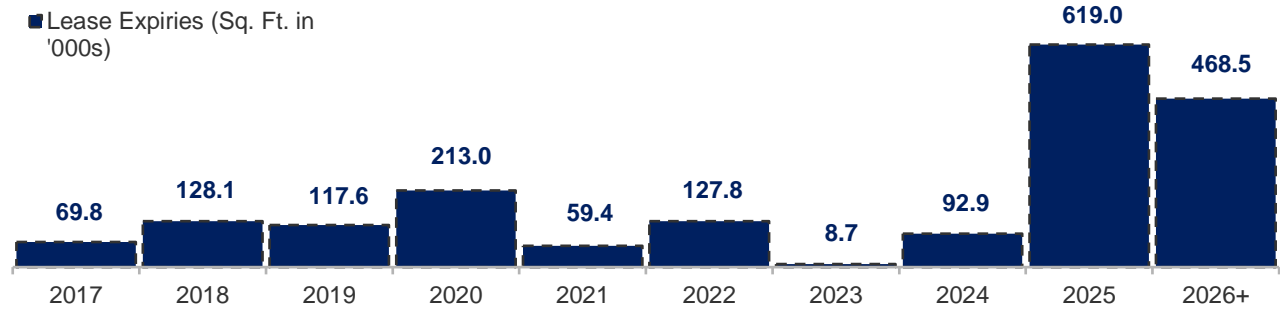
Property Address	Property Use	Rentable Area (Square Feet)	Occupancy	Weighted Average Remaining Lease Term
<b>Ontario</b>				
455 Welham Rd., Barrie, ON	Industrial	109,366	100%	8.0 years
200 Sheldon Drive, Cambridge, ON	Industrial	150,000	100%	3.2 years
<b>Prince Edward Island</b>				
695 University Ave., Charlottetown, PEI	Retail	4,500	100%	4.0 years
<b>Quebec</b>				
935-965 rue Reverchon, Saint-Laurent, QC	Industrial	114,236	88%	1.6 years
2045 rue Stanley, Montréal, QC <sup>(1)</sup>	Office	113,714	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>
1901 Dickson / 5780 Ontario East, Montréal, QC	Industrial	91,068	100%	7.9 years
72 rue Laval, Gatineau, QC <sup>(1)</sup>	Office	70,227	96%	4.6 years
6810 boul. Des Grandes Prairies, Montréal, QC	Industrial	60,786	100%	5.0 years
3330 2 <sup>e</sup> rue, Saint-Hubert, QC	Industrial	60,441	100%	3.0 years
3600 1 <sup>ère</sup> rue, Saint-Hubert, QC	Industrial	37,554	100%	2.9 years
3550 1 <sup>ère</sup> rue, Saint-Hubert, QC	Industrial	22,428	100%	1.6 years
1185-1195 Chemin du Tremblay, Longueuil, QC	Commercial Mixed Use	53,913	93%	3.5 years
41 boulevard Saint-Jean-Baptiste, Châteauguay, QC	Retail	53,151	100%	8.3 years
10500 avenue Ryan, Dorval, QC	Office	52,372	100%	12.4 years
3490-3504 rue Griffith Saint-Laurent, QC	Industrial	39,952	100%	2.6 years
955 boulevard Michèle-Bohec, Blainville, QC	Office	33,461	100%	9.0 years
1600 rue Montgolfier, Laval, QC	Office	27,097	100%	7.0 years
10330-10340 Ch. Côte-de-Liesse, Lachine, QC	Office	26,281	64%	1.7 years
2301 rue Versailles, Mascouche, QC	Commercial Mixed Use	18,435	69%	1.6 years
<b>Total</b>		<b>2,054,933</b>	<b>98%</b> <sup>(3)</sup>	<b>8.0 years</b>

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

(2) Property is under redevelopment.

(3) Excluding 2045 rue Stanley, which is under redevelopment.

## LEASE EXPIRIES



### Expiring Annual Base Revenues (\$Ms)

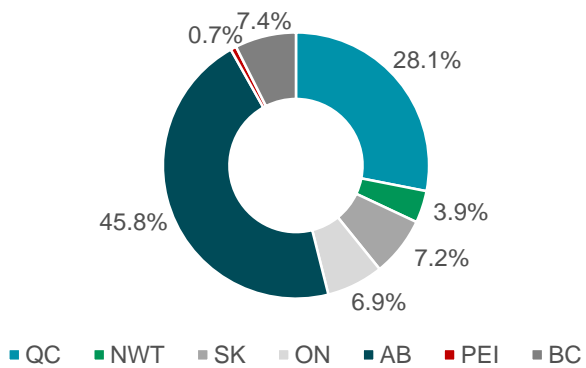


### % of Total Leased GLA Expiring

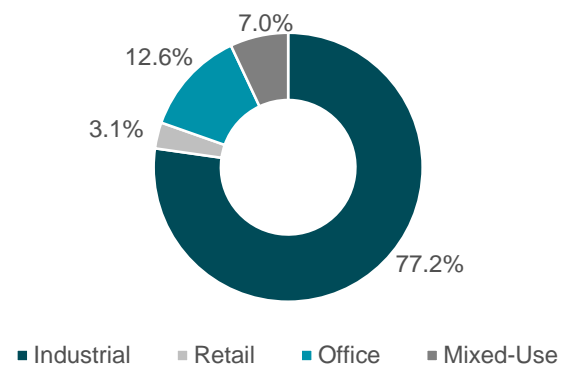


## PROPERTY COMPOSITION DIVERSITY

### GEOGRAPHIC MIX (BY BASE RENT)



### ASSET CLASS MIX (BY BASE RENT)



## SUMMARY OF RESULTS

Comparative period AFFO has been restated in the table below :

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
<b>Financial highlights</b>				
Funds from operations (FFO) <sup>(1)</sup>	3,059,159	1,958,865	5,079,932	4,091,185
Normalized FFO <sup>(1) (4)</sup>	3,059,159	1,958,865	5,079,932	3,834,657
Adjusted funds from operations (AFFO) <sup>(1)</sup>	2,842,217	1,876,809	4,734,471	3,927,074
Normalized AFFO <sup>(1) (4)</sup>	2,842,217	1,876,809	4,734,471	3,670,546
Distributions declared <sup>(2)</sup>	2,833,890	1,609,305	4,511,535	3,208,882
Distributions declared on units issued June 30, 2017 on the closing of the bought deal and private placement <sup>(5)</sup>	444,556	-	444,556	-
Normalized distributions declared <sup>(5)</sup>	2,389,335	1,609,305	4,066,980	3,208,882
Weighted average units outstanding – basic <sup>(3)</sup>	59,670,062	40,193,668	50,826,902	40,074,261
Weighted average units outstanding – diluted <sup>(3)</sup>	59,851,912	40,193,668	50,925,074	40,074,261
Distributions per unit, basic and diluted <sup>(2) (3)</sup>	0.047	0.040	0.089	0.080
FFO per unit, basic <sup>(1) (3)</sup>	0.051	0.049	0.100	0.102
FFO per unit, diluted <sup>(1) (3)</sup>	0.051	0.049	0.100	0.102
Normalized FFO per unit, basic <sup>(1) (3) (4)</sup>	0.051	0.049	0.100	0.096
Normalized FFO per unit, diluted <sup>(1) (3) (4)</sup>	0.051	0.049	0.100	0.096
AFFO per unit, basic and diluted <sup>(1) (3)</sup>	0.048	0.047	0.093	0.098
Normalized AFFO per unit, basic <sup>(1) (3) (4)</sup>	0.048	0.047	0.093	0.092
Normalized AFFO per unit, diluted <sup>(1) (3) (4)</sup>	0.047	0.047	0.093	0.092
AFFO payout ratio, basic <sup>(1) (2)</sup>	99.7%	85.7%	95.3%	81.7%
Normalized AFFO payout ratio, basic <sup>(1) (2) (4)</sup>	99.7%	85.7%	95.3%	87.4%
Normalized AFFO payout ratio, basic, calculated with normalized distributions declared <sup>(1) (2) (4) (5) (6)</sup>	84.1%	85.7%	85.9%	87.4%
Debt to total assets ratio <sup>(7)</sup>	44.8%	49.2%	44.8%	49.2%

(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) Normalized FFO and Normalized AFFO exclude other income relating to the release in the first quarter of 2016 of funds previously held in an environmental escrow in connection with the acquisition of ten industrial properties on January 14, 2014.

(5) 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.

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

(7) Net proceeds from the closing of the bought deal financing and private placement of approximately \$66,225,000 increased total assets temporarily at quarter end. Net of this amount, debt to total assets would have been approximately 55.1%.



	Three months ended		Six months ended	
	June 30, 2017 \$	June 30, 2016 \$	June 30, 2017 \$	June 30, 2016 \$
<b>Financial results</b>				
Property revenue	6,856,900	3,810,928	10,867,036	7,535,469
Property expenses	<u>(1,623,658)</u>	<u>(672,481)</u>	<u>(2,314,808)</u>	<u>(1,246,667)</u>
Net operating income	5,233,242	3,138,447	8,552,228	6,288,802
General and administrative expense	(653,664)	(437,979)	(1,151,590)	(925,805)
Transaction costs	(2,742,631)	-	(3,520,786)	-
Fair value adjustment of investment properties	(14,566)	(6,073)	(14,566)	(155,897)
Fair value adjustment of Class B LP Units	(609,334)	(1,066,066)	(1,503,720)	(513,231)
Fair value adjustment of warrants	(9,176)	-	(9,176)	-
Fair value adjustment of unit options	(108,710)	(72,500)	(201,710)	(52,500)
Income from equity accounted investment in joint venture	39,313	-	39,313	-
Gain from bargain purchase	548,907	-	548,907	-
Other income	-	-	-	256,528
	<u>1,683,381</u>	<u>1,555,829</u>	<u>2,738,900</u>	<u>4,897,897</u>
Net interest expense	(1,421,674)	(770,756)	(2,218,961)	(1,554,881)
Distributions on Class B LP Units	(241,648)	(205,995)	(480,091)	(427,074)
Income taxes	<u>(6,500)</u>	<u>13,728</u>	<u>(13,000)</u>	<u>3,616</u>
Net income	<u>13,559</u>	<u>592,806</u>	<u>26,843</u>	<u>2,919,558</u>

For the three months ended June 30, 2017, net operating income of \$5,233,242 was \$2,094,795 higher than NOI in the same period of 2016 of \$3,138,447 primarily due to the impact of the Nobel transaction, which accounted for approximately \$1,871,000 of net operating income in the quarter, as compared to \$nil in the same quarter of 2016. The Cambridge Property, acquired August 22, 2016, contributed approximately \$158,000 of NOI. Concurrent with the Nobel transaction, the contract with Edgefront REIT's external manager, Edgefront Realty Advisors (the "Manager"), was terminated, and the property management fees totalling approximately \$16,000 which were earned by the Manager in past quarters were earned by the REIT in the quarter. Contractual rent increases based on CPI generated approximately \$32,000 of additional NOI in the quarter as compared to the same period of 2016.

For the six months ended June 30, 2017, net operating income of \$8,552,228 was \$2,263,426 higher than NOI in the same period of 2016 of \$6,288,802 primarily due to the impact of the Nobel Transaction, which accounted for approximately \$1,871,000 of net operating income in the quarter, as compared to \$nil in the same quarter of 2016. The Cambridge Property, acquired August 22, 2016, contributed approximately \$316,000 of NOI. Property management fees totalling approximately \$16,000 which were earned by in the quarter as compared to \$nil in the same quarter of the prior year. Contractual rent increases based on CPI generated approximately \$64,000 of additional NOI in the quarter as compared to the same period of 2016.

For the three months ended June 30, 2017, general and administrative expense of \$653,664 was \$216,685 higher than general and administrative expense of \$437,979 in the same period of the prior year. With the completion of the Nobel transaction and internalization of management of the REIT, payroll and other employment related and overhead costs became expenses of the REIT, and no further fees were paid to the Manager. Salaries, benefits and other employment costs in the quarter exceeded asset manager fees paid in the same quarter of the prior year by approximately \$140,000. Rent, information technology and telecommunications charges and other office expenses of approximately \$52,000 were incurred by the REIT in the quarter, as compared to \$nil in same period of the prior year (in the prior year these were expenses of

the REIT's external manager). Trustee fees increased approximately \$15,000 as a result of the number of independent directors increasing by two. Meeting and travel costs increased as compared to the same quarter of the prior year in connection with investor presentations and internal meetings in respect of the equity financing completed in the quarter and the acquisition completed subsequent to the quarter.

For the six months ended June 30, 2017, general and administrative expense of \$1,151,590 was \$225,785 higher than general and administrative expense of \$925,805 in the same period of the prior year primarily due to the same items impacting the quarter as described above. Salaries and benefits and associated costs and asset management fees for the six months ended June 30, 2017 exceeded asset management fees for the same period of the prior period by approximately \$167,000.

For the three months ended June 30, 2017, transaction costs of \$2,742,631 were primarily related to termination of the management contract with the REIT's external manager, as required by the Arrangement, in the amount of \$1,515,000, and costs relating to the Arrangement, including financial advisor and legal and other professional fees, of \$1,227,631.

For the six months ended June 30, 2017, transaction costs of \$3,520,786 were primarily related to termination of the management contract with the REIT's external manager, as required by the Arrangement, in the amount of \$1,515,000 and costs relating to the Arrangement, including financial advisor and legal and other professional fees, of \$2,005,786.

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 June 30, 2017, 6,018,065 Class B LP Units were outstanding, including 55,500 Class B LP Units of Nobel REIT Limited Partnership, which are exchangeable for REIT units on a 1.67 to 1 basis. The trading price of the REIT Units was 2.04 as compared to \$1.94 per unit as at March 31, 2017 and \$1.79 per unit as at December 31, 2016.

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 increased from \$1.79 at December 31, 2016 (December 31, 2015 - \$1.70) to \$1.94 at March 31, 2017 (March 31, 2016 - \$1.60), and \$2.04 at June 30, 2017 (June 30, 2016 - \$1.80), accounting for the majority of the change in fair value. The number of unit options outstanding increased by 484,634 in connection with the Nobel transaction. However, the impact of these additional unit options outstanding was limited due to an average strike price of \$2.77 as compared to the closing price of the REIT units of \$2.04.

Income from equity accounted investment in joint venture of \$39,313 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 other 50% interest is owned by Fiducie Notariale Immobilière. The property was vacant and under redevelopment as at April 3, 2017, when the Nobel Transaction was completed, and as at June 30, 2017. As at June 30, 2017, approximately 50,000 square feet of the building has been leased for a 20-year term to Chambre des notaires du Québec, an entity associated with or related to Fiducie Notariale Immobilière. The lease will commence in January 2018. Included in the income from equity accounted investment in joint venture in the quarter is an amount of approximately \$135,000 which relates to a fair value adjustment for mark to market to a swap in place at the JV to swap floating rate bankers' acceptance rates to a fixed rate of 3.09%.

Gain from bargain purchase is calculated as the difference between the fair value of the net assets acquired and the consideration issued in the Nobel Transaction. The number of Edgefront units issued to the former Nobel unitholders was derived by reference to the net asset values per unit of each REIT. The fair value of the Edgefront units issued to the former Nobel unitholders was determined by reference to the trading price of the Edgefront units at the time the transaction closed, which was less than the net asset value per Edgefront unit arrived at during negotiations with Nobel, resulting in the bargain purchase.

In connection with an acquisition completed on January 14, 2014, \$300,000 was placed into escrow by the vendors to fund anticipated environmental monitoring costs. Over a two-year escrow period, the REIT incurred monitoring costs, net of tenant reimbursements, amounting to \$43,472, and on release of the \$300,000 escrow

on January 29, 2016, \$256,528 of other income was recognized as other income in the period ended March 31, 2016.

For the three months ended June 30, 2017, net interest expense of \$1,421,674 was \$650,918 higher than net interest expense of \$770,756 during the three months ended June 30, 2016 primarily due to the impact of the Nobel transaction. Nobel mortgage debt accounted for interest expense of \$588,893 in the quarter. Interest expense on the mortgage against the Cambridge Acquisition property totalled approximately \$39,000. The balance drawn on the Credit Facility also increased as a result of funding working capital requirements and transaction costs related to the Nobel Transaction.

For the six months ended June 30, 2017, net interest expense of \$2,218,961 was \$664,080 higher than net interest expense of \$1,554,881 during the three months ended June 30, 2016 primarily due to the impact the same items which increased interest expense for the quarter, with the mortgage on the Cambridge property accounting for interest expense of approximately \$78,000 in the period as compared to \$nil in the same period of 2016.

For the three months ended June 30, 2017, distributions on Class B LP Units were \$35,653 higher than the same period of 2016 due to the issuance of 1,000,000 Class B LP Units in August 2016, and 72,000 Class B LP Units being issued in the Nobel Transaction, net of the impact of 565,789 Class B LP Units exchanged for REIT units in the second quarter of 2016, and 16,500 Class B LP Units of Nobel REIT Limited Partnership being exchanged for REIT units in the three months ended June 30, 2017.

For the six months ended June 30, 2017, distributions on Class B LP Units were \$53,017 higher than the same period of 2016 due to the same factors impacting the expense for the quarter.

	<b>As at June 30, 2017</b>	<b>As at December 31, 2016</b>
	<b>\$</b>	<b>\$</b>
<b>Select balance sheet data</b>		
Investment properties	278,054,872	173,774,872
Cash	66,087,259	904,023
Total Assets	351,505,862	175,512,750
Current Liabilities	24,419,046	3,877,213
Non-current portion of mortgages payable	81,610,448	29,777,179
Credit Facility	58,921,757	54,194,137
Class B LP units	12,352,713	10,672,992
Warrants	32,910	-
Unit options	392,000	163,000
Total non-current liabilities	153,309,828	94,807,308
Total Unitholders' Equity	173,776,988	76,828,229
Debt to total assets ratio	44.8%	48.7%

#### **Debt to Total Assets**

The REIT's debt to total assets as at June 30, 2017 was 44.8%, as compared to 48.7% as at December 31, 2016. In connection with the closing of an equity offering and private placement on June 30, 2017, cash proceeds in the approximate amount of \$66,225,000 were received on the last day of the quarter. This cash was used to finance an acquisition which closed on July 7, 2017. Debt to total assets excluding this cash receipt would have been 55.1%, an increase from 48.7% at December 31, 2016 due to the Nobel Acquisition. Debt to total assets in the Nobel Transaction purchase equation was 63.3%. The REIT's calculation of debt includes mortgages payable and Credit Facility balances at the amounts carried on the REIT's consolidated statement of financial position.

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

	<b>Q2 2017</b>	<b>Q1 2017</b>	<b>Q4 2016</b>	<b>Q3 2016</b>
Property revenue	\$ 6,856,900	\$ 4,010,136	\$ 3,989,359	\$ 3,882,500
Property expenses	\$ (1,623,658)	\$ (691,150)	\$ (647,439)	\$ (690,531)
Net operating income (NOI)	\$ 5,233,242	\$ 3,318,986	\$ 3,341,290	\$ 3,191,969
Net income	\$ 13,559	\$ 13,289	\$ 5,694,279	\$ 1,864,454
Weighted average number of units, basic	59,670,062	41,886,354	41,668,244	40,333,633
Weighted average number of units, diluted	59,851,912	41,901,070	41,668,244	40,333,633
	<b>Q2 2016</b>	<b>Q1 2016</b>	<b>Q4 2015</b>	<b>Q3 2015</b>
Property income	\$ 3,810,928	\$ 3,724,541	\$ 3,585,247	\$ 2,987,548
Property expenses	\$ (672,481)	\$ (574,186)	\$ (649,792)	\$ (417,029)
Net operating income (NOI)	\$ 3,138,447	\$ 3,150,355	\$ 2,935,455	\$ 2,570,519
Net income	\$ 592,806	\$ 2,326,752	\$ 1,797,324	\$ 1,930,614
Weighted average number of units, basic	40,193,668	39,954,855	36,788,732	34,690,473
Weighted average number of units, diluted	40,193,668	39,954,855	36,788,732	34,690,473

(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, NORMALIZED FUNDS FROM OPERATIONS, ADJUSTED FUNDS FROM OPERATIONS AND NORMALIZED ADJUSTED FUNDS FROM OPERATIONS**

	Three months ended		Six months ended	
	June 30, 2017 \$	June 30, 2016 \$	June 30, 2017 \$	June 30, 2016 \$
<b>FFO and Normalized FFO</b>				
Net income	13,559	592,806	26,843	2,919,558
Adjustments:				
Transaction costs expensed for acquisitions accounted for as business combinations	2,742,631	-	3,520,786	-
Gain from business combination bargain purchase	(548,907)	-	(548,907)	-
Fair value adjustment of investment properties	14,566	6,073	14,566	155,897
Fair value adjustment of Class B LP Units	609,334	1,066,066	1,503,720	513,231
Fair value adjustment of unit options	108,710	72,500	201,710	52,500
Fair value adjustment of warrants	9,176	-	9,176	-
Adjustments for equity accounted joint venture <sup>(1)</sup>	(135,058)	-	(135,058)	-
Distributions on Class B LP Units expensed	241,648	205,995	480,091	427,074
Deferred income taxes	3,500	15,425	7,000	22,925
Funds from operations (FFO)	<u>3,059,159</u>	<u>1,958,865</u>	<u>5,079,932</u>	<u>4,091,185</u>
Deduct: Other income – settlement of environmental escrow <sup>(2)</sup>	-	-	-	(256,528)
Normalized FFO	<u>3,059,159</u>	<u>1,958,865</u>	<u>5,079,932</u>	<u>3,834,657</u>

**AFFO and Normalized AFFO <sup>(3)</sup>**

FFO	3,059,159	1,958,865	5,079,932	4,091,185
Adjustments:				
Straight-line adjustments ground lease and rent	(49,942)	(33,056)	(74,461)	(66,111)
Capital reserve <sup>(4)</sup>	<u>(167,000)</u>	<u>(49,000)</u>	<u>(271,000)</u>	<u>(98,000)</u>
Adjusted funds from operations (AFFO)	<u>2,842,217</u>	<u>1,876,809</u>	<u>4,734,471</u>	<u>3,927,074</u>
Deduct: Other income – settlement of environmental escrow <sup>(2)</sup>	-	-	-	(256,528)
Normalized AFFO <sup>(3)</sup>	<u>2,842,217</u>	<u>1,876,809</u>	<u>4,734,471</u>	<u>3,670,546</u>

(1) Adjustment for equity accounted joint venture relates to a fair value adjustment of a swap in place at the JV to swap floating rate bankers' acceptance rates to a fixed rate of 3.09%.

(2) In connection with an acquisition completed on January 14, 2014, \$300,000 was placed into escrow by the vendors to fund anticipated environmental monitoring costs. Over a two-year escrow period, the REIT incurred monitoring costs, net of tenant reimbursements, amounting to \$43,472, and on release of the \$300,000 escrow on January 29, 2016, \$256,528 of other income was recognized in the consolidated statement of income and comprehensive income.

(3) 2016 comparative period and year-to-date 2017 (Q1) AFFO have been restated to conform with the Realpac Whitepaper definition of AFFO adopted in the current period. Adjustments relate to non-cash asset management and trustee fees settled in units and deferred financing amortization, which are not added back to FFO in accordance with the Realpac Whitepaper definition of AFFO.

(4) For the three months ended June 30, 2017, based on an estimate of \$0.35 per square foot of gross leasable area per year. Capital reserve includes capital expenditures, tenant inducements 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. Actual leasing costs and tenant incentives for the three and six months ended June 30, 2017 were \$14,566. Maintenance capital expenditures for the same period were \$nil.

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

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
Cash flows from operating activities	(3,064,103)	2,182,671	(907,738)	4,988,288
Adjustments:				
Changes in non-cash working capital	3,191,655	(105,286)	2,388,527	(688,965)
Changes in other non-current assets	(7,341)	-	(7,341)	15,886
Distributions on Class B LP Units expensed	241,648	205,995	480,091	427,074
Transaction costs expensed for acquisitions				
accounted as business combinations	2,742,631	-	3,520,786	-
Adjustments for equity accounted joint venture	(135,057)	-	(135,057)	-
Share of net income from 50% investment in joint				
venture	39,313	-	39,313	-
Non-cash asset management fees settled in units	-	(291,362)	(307,521)	(582,691)
Non-cash trustee fees settled in units	(29,122)	(27,105)	(51,995)	(54,210)
Amortization of deferred financing fees	(47,692)	(39,104)	(90,879)	(80,308)
Amortization of mortgage fair value adjustments	77,286	-	77,286	-
Capital reserve	(167,000)	(49,000)	(271,000)	(98,000)
AFFO	<u>2,842,218</u>	<u>1,876,809</u>	<u>4,734,472</u>	<u>3,927,074</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 June 30, 2017, the REIT had cash of \$66,087,259 (December 31, 2016 - \$904,023) and working capital of \$45,017,676 (December 31, 2016 – deficit of \$2,244,261). Included in current liabilities at June 30, 2017 are two mortgages with a combined principal amount of approximately \$2,739,000 which mature in September 2017 and a mortgage with a principal amount of approximately \$6,017,000 which matures in May 2018. The REIT anticipates that, if desired, it will be able to refinance the properties on which the mortgages are maturing. 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.

The following table details the changes in cash for the three and six months ended June 30, 2017 and 2016.

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
<b>Cash generated by (used in)</b>				
Operating activities	(3,064,103)	2,182,671	(907,738)	4,988,288
Investing activities	510,533	(6,073)	510,533	(155,897)
Financing activities	67,847,410	(2,008,135)	65,580,441	(4,837,169)
Change in cash	65,293,840	168,463	65,183,236	(4,778)
Cash – beginning of period	793,419	978,927	904,023	1,152,168
Cash – end of period	<u>66,087,259</u>	<u>1,147,390</u>	<u>66,087,259</u>	<u>1,147,390</u>

Cash used in operating activities for the three months ended June 30, 2017 of \$3,064,103 is primarily comprised of changes in working capital of \$3,261,938, non-cash items of \$106,651 and net income of \$43,284. Changes in prepaid property taxes accounted for a \$663,290 use of cash, with full year property tax payments due by June 30<sup>th</sup> for many municipalities. Property taxes in the amount of \$552,382 were paid to a

municipality on June 30, 2017 and collected from the tenant on July 4, 2017, using cash in the quarter, partially offset by receivables collected. Nobel asset management agreement termination fees of \$1,485,874 and accrued property taxes and other accounts payable and accrued liabilities of Nobel were settled subsequent to completion of the acquisition. Nobel payables decreased approximately \$1,900,000 in the quarter, net of new accruals. Accrued property taxes and other accounts payable of Nobel that were assumed in the Nobel Acquisition were also paid in the quarter. Net income for the period was reduced by transaction costs in the amount of \$2,742,631.

Cash generated from investing activities primarily relates to \$525,099 of cash acquired in the Nobel Transaction. All consideration paid by the REIT was non-cash, and the net assets of Nobel acquired included \$525,099 of cash.

Cash generated from financing activities for the three months ended June 30, 2017 of \$65,580, 441 was primarily related to an equity offering and private placement pursuant to which the REIT issued 33,350,000 units for net proceeds of \$66,193,118. These proceeds were received on June 30, 2017 and were deployed in the third quarter as partial consideration for an acquisition. \$7,039,408 of mortgage principal payments included \$6,300,000 paid to settle a second mortgage assumed as part of the Nobel transaction with funds generated through \$5,450,000 of new lower interest rate financing. Net borrowing on the Credit Facility of \$5,120,036 were used to fund working capital requirements assumed in the Nobel Acquisition and transaction costs. Cash distributions to unitholders totalled \$1,806,626.

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 June 30, 2017, the mortgages payable are secured by charges against 21 of the REIT's investment properties. The weighted average interest rate, including deferred financing costs, on the mortgages payable is 3.65% and the weighted average term to maturity is 4.41 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 2017	1,425,472	2,739,040	4,164,512
2018	8,208,215	5,895,170	14,103,385
2019	2,586,982	11,282,100	13,869,082
2020	2,034,983	24,107,630	26,142,613
2021	1,452,373	4,692,037	6,144,410
Thereafter	<u>3,646,378</u>	<u>29,687,863</u>	<u>33,334,241</u>
Total	19,354,403	78,403,840	97,758,243

### **Credit Facility**

The REIT has a revolving credit facility of \$52,500,000 and a \$7,500,000 term facility (together "the Credit Facility"). The Credit Facility matures on July 15, 2019, is secured against thirteen 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, and 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.

	June 30, 2017 \$	December 31, 2016 \$
Fixed rate and term borrowing	50,350,000	50,350,000
Bankers' acceptance borrowings	8,000,000	-
Prime rate advances	805,036	4,135,734
Total drawn against the Credit Facility	<u>59,155,036</u>	<u>54,485,734</u>
Less: deferred financing	<u>(233,279)</u>	<u>(291,597)</u>
	<u>58,921,757</u>	<u>54,194,137</u>

Amounts drawn on the Credit Facility at June 30, 2017 are as follows:

	Principal Amount \$	Interest Rate	Repricing Date
Fixed rate and term borrowing	30,000,000	3.90%	January 10, 2019
Fixed rate and term borrowing	20,350,000	3.63%	July 15, 2019
Bankers' acceptance borrowings	8,000,000	3.09%	July 10, 2017
Prime rate borrowings	805,036	3.95%	Variable
	<u>59,155,036</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 June 30, 2017, 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:

#### 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 June 30, 2017, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$9,520,000 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 \$10,219,000 in the determination of the fair value of the investment properties.

#### 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.

#### 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.

## 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 increased the geographic and asset diversification of its portfolio through the acquisition of the 16 Nobel properties located in Quebec, and subsequent to quarter end, an additional 26 properties in Quebec. The REIT 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 June 30, 2017, the REIT had cash of \$66,087,259 (December 31, 2016 - \$904,023), mortgages payable of \$97,758,243 (December 31, 2016 - \$31,522,584), a Credit Facility balance of \$59,155,036 (December 31, 2016 - \$54,485,734) and accounts payable and accrued liabilities of \$6,742,821 (December 31, 2016 - \$1,864,490). 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 is not subject to significant liquidity risk.

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

	<b>Accounts payable and accrued liabilities</b>	<b>Credit facility principal repayment</b>	<b>Interest on fixed portion of credit facility</b>	<b>Mortgage payable</b>	<b>Mortgage interest</b>	<b>Total</b>
	\$	\$	\$	\$	\$	\$
Remainder of 2017	6,378,102	-	962,196	4,164,512	1,606,529	13,111,339
2018	-	-	1,908,705	14,103,385	2,956,638	18,968,728
2019	-	59,155,036	423,500	13,869,082	2,625,383	76,073,001
2020	-	-	-	26,142,613	1,913,855	28,056,468
2021	-	-	-	6,144,410	1,402,968	7,547,378
Thereafter	-	-	-	33,334,241	3,486,190	36,820,431
<b>Total</b>	<b>6,378,102</b>	<b>59,155,036</b>	<b>3,294,401</b>	<b>97,758,243</b>	<b>13,991,563</b>	<b>180,577,345</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 June 30, 2017, there was a total of \$8,805,036 (December 31, 2016 - \$4,135,734) drawn against the Credit Facility, which bears interest at floating bankers' acceptance or Canadian prime rates plus a fixed spread. There is a risk that prevailing interest rates could increase, and those increases could be significant. The REIT mitigates interest rate risk by maintaining reasonable levels of debt to investment property value and aims to structure new debt to stagger the maturities to ensure that the majority of debt does not come due for repayment in any one particular year. The REIT may also convert borrowings under the Credit Facility from floating rate to fixed rate borrowings as part of its interest rate risk management strategy.

#### *Credit risk*

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

As at June 30, 2017, one tenant accounted for approximately 21% of the REIT's rental income, resulting in 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 each May 1st.

As at June 30, 2017, annual future minimum ground lease payments on account of base rent are as follows:

	<b>Remainder of 2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>
	\$	\$	\$	\$	\$	\$
Minimum annual rent	-	52,800	52,800	52,800	52,800	3,370,514

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

As at June 30, 2017, annual future minimum ground lease payments on account of base rent are as follows:

	<b>Remainder of 2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>
	\$	\$	\$	\$	\$	\$
Minimum annual rent	43,832	87,663	87,663	87,663	87,663	1,314,949

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

As at June 30, 2017, annual future minimum lease payments on account of base rent are as follows:

	<b>Remainder of 2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>
	\$	\$	\$	\$	\$	\$
Minimum annual rent	-	107,550	107,550	107,550	107,550	2,079,300

## OUTSTANDING UNIT DATA

	Units	Amount \$
Unitholders' equity as at December 31, 2016	35,778,636	66,076,700
Class B LP Units exchanged for REIT Units	27,555	57,264
Units issued for cash, net of \$3,810,382 of issuance costs	33,350,000	66,224,618
Units issued in completion of the Arrangement, net of \$31,500 of issuance costs	17,453,726	33,828,728
Units issued as consideration for management services	327,684	608,603
Units issued as consideration for trustee services	24,581	45,748
Units issued under distribution reinvestment plan	96,905	187,158
Unitholders' equity as at June 30, 2017	<u>87,059,087</u>	<u>167,028,819</u>

As at August 25, 2017, a total of 88,090,146 REIT units and 6,006,065 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 and six months ended June 30, 2017 amounted to \$2,591,006 (2016 - \$1,403,310) and \$4,030,208 (2016 - \$2,781,809) respectively.

Cash distributions paid or payable for the three and six months ended June 30, 2017 includes \$444,556 of distributions on 33,350,000 units issued on June 30, 2017. This unit issuance funded an acquisition which was completed on July 7, 2017. Cash distributions paid or payable, adjusted for the distribution on these units, ("Adjusted Distributions") was \$2,146,450 and \$3,585,652 for the three and six-month periods ended June 30, 2016, 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 June 30, 2017 \$	Six months ended June 30, 2017 \$	Year ended December 31, 2016 \$	Year ended December 31, 2015 \$
Cash generated from (used in) operating activities	(3,064,103)	(907,738)	9,164,081	6,651,639
Net income	13,559	26,848	10,478,291	5,803,962
Actual cash distributions paid or payable during the period	2,591,006	4,030,208	5,631,762	4,909,156
Excess (shortfall) of cash flows from operating activities over cash distributions aid	(5,655,109)	(4,937,946)	3,532,319	1,742,483
Excess (shortfall) of net income over cash distributions paid	(2,577,447)	(4,003,360)	4,846,529	894,806

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 and six months ended June 30, 2017, \$103,840 and \$187,858, respectively, was settled through the issuance of REIT units under the distribution reinvestment program.

Actual cash distributions paid or payable for the three months ended June 30, 2017 of \$2,591,006 exceeded net income of \$13,559 by \$2,577,447. Net income excluding transaction costs of \$2,742,631, non-cash fair value adjustments of investment properties of \$14,566, non-cash fair value adjustments of Class B LP Units of \$609,334, non-cash fair value adjustments of warrants of \$9,176, non-cash fair value adjustments of unit options of \$108,710, and gain from business combination bargain purchase of \$548,907 was \$2,949,069 for the three months ended June 30, 2017, which exceeded actual cash distributions paid or payable by \$358,063. The income from equity accounted investment in joint venture of \$26,848 for the three months ended June 30, 2017 includes a fair value adjustment on an interest rate swap of \$135,058. Net income further adjusted for this amount exceeded cash distributions paid or payable by \$223,005, and exceeded Adjusted Distributions by \$667,561.

Actual cash distributions paid or payable for the six months ended June 30, 2017 of \$4,030,208 exceeded net income of \$26,848 by \$4,003,360. Net income excluding transaction costs of \$3,520,786, non-cash fair value adjustments of investment properties of \$14,566, non-cash fair value adjustments of Class B LP Units of \$1,503,720, non-cash fair value adjustments of warrants of \$9,176, non-cash fair value adjustments of unit options of \$201,710, and gain from business combination bargain purchase of \$548,907 was \$4,727,899, which exceeded actual cash distributions paid or payable by \$697,691, and Adjusted Distributions by \$1,142,247.

For the three months ended June 30, 2017, actual cash distributions paid or payable of \$2,591,006 exceeded cash used in operating activities of \$3,064,103 by \$5,655,109. Cash used in operating activities included \$2,742,631 of transaction costs related to the Nobel Transaction, non-cash items of \$106,651, and cash used in changes in non-cash working capital of \$3,191,655. Changes in non-cash working capital were primarily related to accounts payable and accrued liabilities assumed in the Nobel Transaction and paid in the second quarter and timing differences with respect to the payment of property taxes and recovery and expensing of the same. The REIT funded the excess of distributions over cash from operating activities through borrowings against the Credit Facility in the second quarter. Due to the non-recurring, transactional nature of these cash outflows, the REIT does not expect that cash distributions will continue to exceed cash from operating activities in the foreseeable future.

For the six months ended June 30, 2017, cash used in operating activities of \$907,738 included \$3,520,786 of transaction costs related to the Nobel Transaction, non-cash items of \$1,525,226 and changes in non-cash working capital of \$2,388,527, which, as discussed above, are primarily related to transactions. Cash from operating activities net of transaction costs and non-cash items was \$4,138,274, which exceeded actual distributions paid or payable of \$4,030,208 by \$108,066 and Adjusted Distributions of \$3,585,652 by \$552,622.

## **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 three-month period ended June 30, 2017, 51,201 units (2016 - 47,616 units) were issued under the DRIP for a stated value of \$103,840 (2016 - \$78,493) and for the six-month period then ended, 96,905 units (2016 - 88,028 units) with a stated value of \$187,158 (2016 - \$139,923) were issued under the DRIP.

## **RELATED PARTY TRANSACTIONS**

Pursuant to an asset management agreement (the "Management Agreement") dated January 14, 2014 entered into between the REIT and Edgefront Realty Advisors (the "Manager"), the REIT engaged the Manager to provide management services to the REIT, including providing the services of a chief executive officer and a chief financial officer to the REIT. The Manager is owned by a group including the chief executive officer and chief financial officer of the REIT, who collectively own 50% of the Manager, as well as a group including TriWest Capital Partners ("TriWest"), which owns 50% of the manager. TriWest controls RTL-Westcan LP, which holds an approximately 12% economic and voting interest in the REIT as at June 30, 2017. A member of TriWest is a trustee of the REIT.

In performing its obligations under the Management Agreement, the Manager was entitled to receive the following fees from the REIT or its subsidiaries:

i) An annual asset management fee in the amount of:

0.75% of the gross book value, as defined in the Management Agreement, up to \$150 million, to be paid in units;

0.65% of the gross book value, as defined in the Management Agreement, between \$150 million and \$300 million, to be paid 50% in units and 50% in cash; and

0.50% of the gross book value, as defined in the Management Agreement, over \$300 million, to be paid 50% in units and 50% in cash.

ii) An acquisition fee in the amount of 0.50% of the purchase price of any property acquired by the REIT payable in cash on completion of each acquisition.

iii) A construction management fee payable on capital projects in an amount equal to 5% of all hard construction costs incurred on a project, excluding any maintenance capital expenditures. The construction management fee will be paid in cash upon substantial completion of each capital project.

iv) A property management fee, being the fee payable in respect of such services provided by the Manager that is deemed recoverable and recovered from the tenants, payable in cash on a cost recovery basis.

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

During the three-month period ended June 30, 2017, asset management fees in the amount of \$nil were expensed (2016 - \$302,244) and for the six-month period then ended \$330,800 was expensed (2016 - \$604,422).

During the six months ended June 30, 2017, 327,684 units (2016 - 349,420 units) at an average price per unit of \$1.86 (2016 - \$1.64) were issued to the Manager in respect of asset management fees.

During the three-month and six-month periods ended June 30, 2017, acquisition fees in the amount of \$nil (2016 - \$nil) were paid to the manager. During the three-month period ended June 30, 2017, property management fees in the amount of \$nil (2016 - \$15,482) were recovered from tenants and expensed as property management fees to the Manager, and for the six-month period then ended, property management fees in the amount of \$15,644 (2016 - \$30,964) were expensed as property management fees payable to the Manager.

During the three-month period ended June 30, 2017, trustee retainer fees in the amount of \$34,375 were expensed (2016 - \$33,125), and 11,742 units (2016 - 17,032 units) at an average price per unit of \$1.95 (2016 - \$1.59) were issued to trustees as payment of retainer fees, net of associated withholding taxes. For the six-month period then ended, trustee retainer fees in the amount of \$61,250 were expensed (2016 - \$66,250) and 24,581 units (2016 - 33,392) at an average price per unit of \$1.86 (2016 - \$1.62) were issued to trustees as payment of retainer fees.

Trustee retainer fees in the amount of \$34,375 were accrued as at June 30, 2017 (December 31, 2016 - \$48,032).

Trustee meeting fees in the amount of \$11,500 (2016 - \$5,500) were expensed for the three-month period ended June 30, 2017 and for the six-month period then ended, meeting fees in the amount of \$12,500 (2016 - \$11,000) were expensed.

Trustee meeting fees in the amount of \$50,900 were accrued as at June 30, 2017 (December 31, 2016 - \$41,400).

The REIT received lease payments from companies controlled by funds associated with TriWest Capital Partners totalling \$1,740,300 during the six months ended June 30, 2017 (2016 - \$1,717,301).

For the three-month and six-month periods ended June 30, 2017, salaries and other short-term employee benefits of key management in the amount of \$187,250 (2016 - \$nil) were expensed.

Included in the net assets acquired in the Nobel Acquisition is an amount of \$1,485,874, plus applicable taxes, payable to Nobel's former external manager (the "Nobel Manager"). The amount is payable in respect of a fee for termination, effective April 3, 2017, of the management contract between Nobel and the Nobel Manager. This amount was paid during the three months ended June 30, 2017. The beneficiaries of this termination fee were two entities, one of which a trustee of the REIT has an ownership in, and another of which two other trustees have ownership interests in, control over, or are senior officers of.

### **SUBSEQUENT EVENT**

On July 7, 2017, the REIT completed the acquisition of a 100% interest in two properties and a 50% interest in 24 properties located throughout the Greater Montreal Area, the Greater Quebec City Area and New Brunswick, for a purchase price of approximately \$147 million. The purchase price was satisfied through the assumption of approximately \$75.7 million of mortgage debt (at the REIT's proportionate interest) and the issuance of 952,381 units to certain of the vendors at an ascribed rate of \$2.10 per unit, representing an aggregate of approximately \$2 million worth of units, with the remainder, net of closing adjustments, settled in cash from the \$55 million equity financing and \$15 million private placement which closed on June 30, 2017 and from a new first mortgage secured against the acquisition property located in New Brunswick with a principal amount of \$8.5 million.