Nexus Real Estate Investment Trust

Consolidated Financial Statements

December 31, 2018 and 2017

Independent auditor's report

To the Unitholders of Nexus Real Estate Investment Trust

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Nexus Real Estate Investment Trust and its subsidiaries (together, the REIT) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Daniel D'Archivio.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 2, 2019

Nexus Real Estate Investment Trust

Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

	2018 $	2017 $
Non-current Assets		
Investment properties (notes 3 and 4)	530,191,912	431,807,144
Equity investment in joint venture (note 5)	4,353,866	4,624,388
Restricted cash	1,958,866	2,175,831
Other non-current assets	146,885	2,177,329
	536,651,529	440,784,692
Current Assets		
Cash	3,354,169	4,253,771
Tenant and other receivables	1,268,266	1,700,559
Deposits (note 22)	300,000	-
Prepaid expenses	478,593	467,029
Other current assets (note 7)	6,328,182	2,225,521
	11,729,210	8,646,880
Total Assets	548,380,739	449,431,572
Non-current Liabilities		
Mortgages payable (notes 3 and 8)	158,343,585	163,420,261
Credit Facility (note 9)	-	61,456,450
Class B LP Units (note 10)	37,320,065	11,048,232
Warrants (note 11)	4,225	24,818
Unit options (note 12)	275,000	259,000
	195,942,875	236,208,761
Current Liabilities		
Mortgages payable (notes 3 and 8)	66,654,908	17,934,023
Credit Facility (note 9)	58,715,338	-
Distributions payable	1,235,681	1,183,702
Accounts payable, accruals and other liabilities (notes 13 and 20)	7,789,734	8,224,907
	134,395,661	27,342,632
Total Liabilities	330,338,536	263,551,393
Equity		
Unitholders' equity (note 14)	178,267,365	170,527,290
Retained earnings	39,774,838	15,352,889
Total Unitholders' Equity	218,042,203	185,880,179
Total Liabilities and Unitholders' Equity	548,380,739	449,431,572

Commitments and contingencies (note 18)

On behalf of the Board:

"Lorne Jacobson" Trustee

"Brad Cutsey" Trustee

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

Nexus Real Estate Investment Trust

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2018 and 2017

	2018 $	2017 $
Net rental income		
Property revenues (note 16)	54,097,493	36,999,083
Property expenses	(20,331,964)	(11,859,515)
Net rental income	33,765,529	25,139,568
General and administrative expense (note 20)	(2,869,087)	(2,866,503)
Transaction costs (notes 3 and 20)	-	(3,520,786)
Fair value adjustment of investment properties (note 4)	19,050,281	4,157,945
Fair value adjustment of Class B LP Units (note 10)	2,067,124	(1,382,816)
Fair value adjustment of warrants (note 11)	20,593	(1,084)
Fair value adjustment of unit options (note 12)	(16,000)	(68,710)
Income (loss) from equity accounted investment in joint venture (note 5)	(770,522)	224,965
Gain from bargain purchase (note 3)	-	1,007,725
Loss on sale of investment property (note 3)	(48,721)	-
Other income	-	441,471
	51,199,197	23,131,775
Finance expense		
Net interest expense (notes 8 and 9)	(9,897,583)	(6,486,369)
Distributions on Class B LP Units (note 10)	(2,467,348)	(956,614)
	(12,364,931)	(7,442,983)
Net income and comprehensive income for the year	38,834,266	15,688,792

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

Nexus Real Estate Investment Trust

Consolidated Statements of Changes in Unitholders' Equity

For the years ended December 31, 2018 and 2017

	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2018	170,527,290	15,352,889	185,880,179
Net income for the year	-	38,834,266	38,834,266
Class B LP Units exchanged for REIT Units	2,171,539	-	2,171,539
Distributions	-	(14,412,317)	(14,412,317)
Units issued as acquisition consideration (note 3)	4,513,334	-	4,513,334
Issue of units under distribution reinvestment plan (note 15)	897,526	-	897,526
Issue of units to Trustees (note 20)	157,676	-	157,676
Balance – December 31, 2018	178,267,365	39,774,838	218,042,203

	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2017	66,076,700	10,751,529	76,828,229
Net income for the year	-	15,688,792	15,688,792
Class B LP Units exchanged for REIT Units	1,240,841	-	1,240,841
Distributions	-	(11,087,432)	(11,087,432)
Units issued as acquisition consideration (note 3)	35,803,085	-	35,803,085
Units issued for cash (note 14)	70,035,000	-	70,035,000
Unit issue costs	(3,864,004)	-	(3,864,004)
Issue of units under distribution reinvestment plan (note 15)	523,068	-	523,068
Issue of units to Manager (note 20)	608,603	-	608,603
Issue of units to Trustees (note 20)	103,997	-	103,997
Balance – December 31, 2017	170,527,290	15,352,889	185,880,179

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

Nexus Real Estate Investment Trust

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

	2018 $	2017 $
Operating activities		
Net income for the year	38,834,266	15,688,792
Adjustment for items not involving cash:		
Asset management fees settled in REIT units (note 20)	-	307,521
Trustee fees settled in REIT units (note 20)	171,237	110,242
Share of net income (loss) from equity accounted investment in joint venture (note 5)	770,522	(224,965)
Gain from business combination bargain purchase (note 3)	-	(1,007,725)
Amortization of deferred financing costs (notes 8 and 9)	503,806	310,677
Amortization of mortgage fair value adjustments	(1,106,609)	(705,783)
Amortization of tenant incentives and leasing costs	85,242	-
Straight-line adjustments of ground lease and rent	(358,336)	(583,799)
Fair value adjustment of investment properties (note 4)	(19,050,281)	(4,157,945)
Fair value adjustment of Class B LP Units (note 10)	(2,067,124)	1,382,816
Fair value adjustment of warrants (note 11)	(20,593)	1,084
Fair value adjustment of unit options (note 12)	16,000	68,710
Deferred income taxes	-	14,000
Changes in non-cash working capital		
Tenant and other receivables	1,607,513	(918,060)
Prepaid expenses	(11,564)	55,512
Deposits	(300,000)	50,000
Other current assets	667,811	(278,865)
Accounts payable, accruals and other liabilities	(460,871)	1,584,055
Changes in other non-current assets	30,444	(1,456)
Changes in restricted cash	216,965	(74,903)
Total cash generated by operating activities	19,528,428	11,619,908
Investing activities		
Acquisition of investment properties	(55,905,335)	(72,554,813)
Net proceeds on disposal of investment properties	6,915,894	-
Investment in joint venture	(500,000)	(1,750,000)
Capital expenditures, tenant incentives and leasing costs	(3,365,783)	(1,191,216)
Cash acquired in a business combination financed through the issuance of REIT units	-	275,424
Total cash used in investing activities	(52,855,224)	(75,220,605)
Financing activities		
Proceeds from new financings	55,300,000	13,950,000
Financing costs	(362,470)	(607,436)
Mortgage principal repayments	(6,146,215)	(9,744,938)
Net borrowing on (repayments of) the Credit Facility	(2,901,309)	7,039,413
Issuance of units	-	70,035,000
Unit issuance costs	-	(3,864,004)
Distributions to unitholders	(13,462,812)	(9,857,590)
Total cash generated by financing activities	32,427,194	66,950,445
Change in cash during the year	(899,602)	3,349,748
Cash - beginning of year	4,253,771	904,023
Cash - end of year	3,354,169	4,253,771

Supplemental cash flow information (note 21)

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

1 Organization

Nexus Real Estate Investment Trust is an open-ended real estate investment trust established under the laws of Ontario pursuant to its declaration of trust, as amended and restated effective April 28, 2014 and November 28, 2017. Nexus Real Estate Investment Trust and its subsidiaries, (together, the REIT) own and operate commercial real estate properties in Western Canada, Ontario, Quebec and Atlantic Canada. The registered office of the REIT is located at 855-2nd Street S.W., Suite 3500, Calgary, AB, T2P 4J8.

2 Summary of significant accounting policies

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

The consolidated financial statements of the REIT have been prepared on a going concern basis and under the historical cost convention, except for the revaluation of investment properties, Class B LP Units, unit options and warrants, which are presented at fair value. These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the REIT. The consolidated financial statements were authorized for issue by the board of trustees of the REIT on April 2, 2019.

Principles of consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries. Subsidiaries are all entities over which the REIT has control. The REIT controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All inter-entity transactions between the REIT and its subsidiaries have been eliminated in the consolidated financial statements.

Business combinations

The REIT uses the acquisition method to account for business combinations. The consideration transferred for the acquisition is measured as the aggregate of the fair values of the assets transferred, liabilities incurred or assumed, and any equity instruments of the REIT issued in exchange for control of the acquiree. Acquisition costs are recorded as an expense in earnings as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, Business Combinations (IFRS 3), are recognized at their fair values at the acquisition date.

The excess of the cost of acquisition over the fair value of the REIT's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the REIT's share of the net assets acquired, the difference is recognized directly in net income for the year as an acquisition gain.

Joint arrangements

The REIT enters into joint arrangements via joint operations and joint ventures. Joint arrangements that involve the establishment of a separate entity in which each venture has rights to the net assets of the arrangement are referred to as joint ventures. The REIT reports its interests in joint ventures using the equity method of accounting. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities. In a co-ownership arrangement, the REIT owns jointly one or more investment properties with another party and has direct rights to the investment property, and obligations for the liabilities relating to the co-ownership. For co-ownerships, the REIT's consolidated financial statements reflect only the REIT's proportionate share of the assets, its share of any liabilities incurred directly, its share of any revenues earned, or expenses incurred by the joint operation and any expenses incurred directly.

Segment reporting

The REIT owns and operates investment properties in Canada. In measuring performance, the REIT does not distinguish its operations on a geographic or any other basis and, accordingly, the REIT has a single reportable segment for disclosure purposes.

Revenue recognition

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue and requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes International Accounting Standard (IAS) 18, Revenue, IAS 11, Construction Contracts, and related interpretations. Following the adoption of this new accounting standard, the REIT added a note to its financial statements detailing the main components of the operating revenues according to their nature (note 16). On January 1, 2018, the REIT has applied this standard on a modified retrospective basis. Under this approach, the 2017 comparative period was not restated. The adoption of this new accounting standard had no other impact on the REIT's consolidated financial statements.

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

Revenue from lease components is recognized on a straight-line basis over the lease term and includes the recovery of property taxes and insurance. Revenue related to the service component of the REIT's leases is accounted for in accordance with IFRS 15. These services consist primarily of utilities, cleaning and property maintenance costs for which the revenue is recognized over time, typically as the costs are incurred, which is when the services are provided.

For the year ended December 31, 2017, prior to adopting IFRS 15, the REIT's accounting policy for revenue recognition was based on IAS 18, as follows:

Tenant leases were accounted for as operating leases given that the REIT retains substantially all of the risks and benefits of ownership of its investment properties. Revenue included base rents earned from tenants under lease agreements, realty tax and operating cost recoveries, lease termination fees, parking revenue and other incidental income. Lease related revenue was recognized as revenue over the term of the underlying leases. Recoveries from tenants were recognized as revenue in the period in which the corresponding costs were incurred. Other revenue was recognized at the time the service was provided. The REIT followed the straight-line method of recognizing rental revenue, whereby the total amount of rental revenue to be received from leases is accounted for on a straight-line basis over the term of the lease. Accordingly, an accrued rent receivable was recorded for the difference, if any, between the straight-line rent recorded as rental revenue and the rent that was contractually due from the tenant.

Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) issued its final version of IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement, and modifications to IFRS 7, Financial Instruments: Disclosures, in order to add disclosure requirements regarding the transition to IFRS 9. The new standard includes guidance on recognition and derecognition of financial assets and financial liabilities, impairment and hedge accounting. On January 1, 2018, the REIT has applied the new classification and valuation requirements retrospectively without restating the comparative periods. The adoption of this new accounting standard had no significant impact on the REIT's consolidated financial statements.

The following summarizes the latest amendments contemplated in IFRS 9:

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The REIT's financial liabilities are classified and measured based on two categories: amortized cost or FVTPL.

The following table summarizes the classification impacts on adoption of IFRS 9:

Financial instrument	Classification under IAS 39	Classification under IFRS 9
Restricted cash	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Tenant and other receivables	Loans and receivables	Amortized cost
Interest buy down escrow	Loans and receivables	Amortized cost
Reserves held by mortgage lenders	Loans and receivables	Amortized cost
Other assets	Loans and receivables	Amortized cost
Accounts payable, accruals and other liabilities	Other liabilities	Amortized cost
Class B LP Units	FVTPL	FVTPL
Warrants	FVTPL	FVTPL
Unit options	Other liabilities	Amortized cost
Credit Facility	Other liabilities	Amortized cost
Mortgages payable	Other liabilities	Amortized cost

Financial assets are not reclassified subsequent to their initial recognition, unless the REIT identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

Impairment of financial assets

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

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

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

The adoption had no impact on the valuation of the impairment allowance.

The REIT's financial instruments were initially recognized at fair value. The REIT determined the fair value measurement based on the following hierarchy:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Transaction costs relating to financial instruments measured at amortized cost were included in the carrying value of the financial instrument and amortized over the expected useful life of the instrument using the effective interest method. Financial assets were derecognized when contractual rights to the cash flow from the assets expire. Financial liabilities were derecognized when its contractual obligations are discharged, cancelled or expired.

Restricted cash

Restricted cash includes amounts held in reserve by lenders to fund repairs and capital expenditures and to finance the acquisition of land at a REIT property that is subject to a land lease.

Investment properties

The REIT adopted the amendments to IAS 40, Investment Property, on January 1, 2018. The adoption of the amendments by the REIT resulted in no change to the presentation to the REIT's consolidated financial statements.

The REIT has selected the fair value method to account for its investment properties. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment properties are initially recognized at the purchase price, including directly attributable costs. Subsequent to initial recognition, investment properties are carried at fair value. Fair value is determined with reference to external valuations and internal valuations based on the direct income capitalization method, with gains or losses in the fair value of the investment properties recognized in the consolidated statement of income and comprehensive income in the period in which they arise. Internal valuations are prepared by the REIT's Corporate Controller and are reviewed and approved by the REIT's Chief Financial Officer.

The application of the direct income capitalization method results in these measurements being classified as Level 3 in the fair value hierarchy. In applying the direct income capitalization method, the stabilized net rental income of each property is divided by a capitalization rate appropriate for the property based on the market in which the property is located and the specific details of the property. Investment properties are valued based on the highest and best use for the properties. For all of the REIT's investment properties, the current use is considered to be the highest and best use. The significant unobservable inputs used in the Level 3 valuation of the investment properties are the capitalization rate and the stabilized net rental income used in the calculations.

Current and deferred income taxes

The REIT currently qualifies as a "mutual fund trust" under the Income Tax Act (Canada). The REIT expects to distribute or designate all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, except for certain the REIT's subsidiaries, no provision for income taxes payable is required.

The legislation relating to the federal income taxation of a Specified Investment Flow Through (SIFT) trust or partnership was enacted on June 22, 2007. Under the SIFT rules, certain distributions from a SIFT will not be deductible in computing the SIFT's taxable income and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as a return of capital should generally not be subject to tax. Under the SIFT rules, the taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the REIT Conditions). The REIT has reviewed the SIFT rules and has assessed its interpretation and application to the REIT's assets and revenue. While there are uncertainties in the interpretation and application of the SIFT rules, the REIT believes it meets the REIT Conditions and accordingly, no net current income tax expense or deferred income tax expense has been recorded in the consolidated statement of income and comprehensive income in respect of the REIT.

However, certain of the REIT's subsidiaries are incorporated companies. For these companies, the REIT follows the asset and liability method of accounting for income taxes. Under this method, income tax is recognized in the consolidated statement of income and comprehensive income except to the extent it relates to items recognized in equity, in which case the income tax is also recognized in equity. Current tax assets and liabilities are recognized at the amount expected to be paid or received from tax authorities using rates enacted or substantively enacted at the date of the consolidated statement of financial position. Deferred tax assets and liabilities are recognized at the tax rates enacted or substantively enacted at the date of the consolidated statement of financial position for the years that an asset is expected to be realized or a liability is expected to be settled. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be generated and available for the asset to be utilized against. Income tax expense arising from the taxation of subsidiaries which are incorporated companies is not significant and is recorded within general and administrative expenses in the consolidated statement of income and comprehensive income.

Unit equity

The REIT is an open-ended real estate investment trust, and units of the REIT are redeemable (puttable) at the option of the REIT's unitholders. IAS 32, Financial Instruments, requires puttable instruments to be accounted for as financial liabilities, except where certain conditions as detailed in IAS 32 are met. This exemption is known as the Puttable Instrument Exemption. The units of the REIT meet the Puttable Instrument Exemption criteria and, accordingly, are classified and presented as equity in the consolidated statement of financial position. In addition to the REIT units, Class B LP Units may be issued. These units do not qualify for the Puttable Instrument Exemption and are classified as liabilities on the consolidated statement of financial position. They are remeasured at each reporting date to fair value.

Unit options are recorded as a liability and compensation expense is recognized over the vesting period (if any) based on the fair value of the unit options.

Distributions

Distributions to unitholders are recognized as a liability in the period in which the distributions are approved by the Board of Trustees and are recorded as a reduction of retained earnings.

Unit-based compensation

The fair value method is used to account for all options issued under the REIT's unit-based plans. Fair value at the date of grant is established through the application of the Black-Scholes option valuation model. The REIT accounts for the options as an expense over the vesting period of the options using the fair value of the underlying units, as determined by the closing price of the REIT's publicly traded units on the reporting date. Changes in the REIT's liability subsequent to the vesting date of the award and prior to the settlement date, resulting from changes in the market value of the REIT's units, are recorded as a charge to income in the period incurred.

Significant accounting judgments, estimates and assumptions

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

Business combinations

Accounting for business combinations under 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.

Valuation of investment properties

The critical assumptions and estimates used by management and external valuations when determining the fair value of investment properties are stabilized net rental income and capitalization rates (see note 4). Management determines fair value internally utilizing financial information, external market data and capitalization rates determined by reference to third party appraisals and reports published by industry experts including commercial real estate brokerages.

Unit options and warrants

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

Standards issued but not yet effective

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

IFRS 16, Leases

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

IFRS 3, Business Combinations

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

IFRIC 23, Uncertainty over Income Tax Treatments

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

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

3 Acquisitions and disposals

1) Acquisitions

On April 30, 2018, the REIT acquired a property located in Richmond, British Columbia (the Richmond Property) for a contractual purchase price of $57,380,000. The purchase price was partially satisfied through the issuance of 9,666,667 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of $2.10 per unit and convertible into REIT units on a 1 to 1 basis, with the balance, net of closing adjustments, satisfied in cash. The Richmond Property was initially recorded at $55,560,645, which is the fair value of the consideration paid less $659,356 of rent obligation received from the vendor at closing. The fair value of the units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on April 30, 2018 of $1.98. The vendor is obligated to complete certain improvements to the property with an estimated cost of $2,400,000. This portion of the purchase price paid has been classified as prepaid development costs. The carrying amount of the Richmond Property was subsequently adjusted to its fair value of $57,380,000, with $54,980,000 recorded as investment properties and $2,400,000 of the prepaid development charges recorded as other current assets.

On June 7, 2018, the REIT acquired two industrial properties located in Nisku, Alberta (the Nisku Properties) for a contractual purchase price of $12,345,000. The purchase price was partially satisfied through the issuance of 1,533,219 Class B LP Units of a subsidiary limited partnership of the REIT convertible on a 1.67 to 1 basis to 2,540,476 REIT units at a deemed value of $2.10 per REIT unit, with the balance, net of closing adjustments, satisfied in cash. The Nisku Properties were initially recorded at $12,088,951, the fair value of the consideration paid. The fair value of the units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on June 7, 2018 of $2.00. The carrying amount of the Nisku Properties was subsequently adjusted to the fair value of $12,345,000.

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

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

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

The impact of acquiring the properties is as follows:

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

Sandalwood Properties

On July 7, 2017, the REIT acquired a 100% interest in two properties located in St. John, New Brunswick and Victoriaville, Quebec, and a 50% interest in 24 properties located in the Province of Quebec (together, the Sandalwood Properties), for a contractual purchase price of $147,048,297 (the Sandalwood Acquisition). The purchase price was satisfied through the assumption of debt with a principal balance of $75,712,788 (at the REIT's proportionate interest) and the issuance of 952,381 REIT units to certain of the vendors at a deemed value of $2.10 per unit, with the balance, net of closing adjustments, satisfied in cash. The Sandalwood Properties were initially recorded at the fair value of consideration paid, with the 952,381 REIT units issued as purchase consideration measured at the closing price of the REIT’s units on July 7, 2017 of $2.04 per unit, and the mortgages assumed measured at their fair value of $77,716,549 (at the REIT’s interest). The carrying amount of the Sandalwood Properties was subsequently adjusted to its fair value of $145,240,950. The acquisition has been accounted for as an asset acquisition.

The impact of acquiring the Sandalwood Properties is as follows:

	$
Investment properties acquired	145,183,807
Transaction costs	3,219,304
Assumed mortgages	(77,716,549)
Capital expenditures escrow	2,000,000
Interest buy down escrow (note 7)	1,109,855
Restricted cash acquired	701,253
Working capital acquired	161,670
Net assets acquired	74,659,340
Consideration:	
Cash	64,642,978
Proceeds of new mortgage financing	8,500,000
Issuance of REIT Units to the vendor	1,942,857
Deferred financing costs	(426,495)
	74,659,340

The capital expenditure escrow of $2,000,000 is held in escrow by the vendors' lawyers pursuant to an escrow agreement and will be used to fund the REIT's proportionate cost of capital expenditures at the 24 properties in which the REIT acquired a 50% interest. The capital expenditure escrow was initially recorded in other non-current assets in the consolidated statement of financial position and is recorded in other current assets at December 31, 2018. As capital expenditures are made and funded from the capital expenditure escrow, the carrying amount of the capital expenditure escrow will be reduced, and the amount of the capital expenditure will be capitalized to the investment property to which it relates.

Restricted cash acquired of $701,253 represents funds held by a lender with respect to a mortgage assumed in the Sandalwood Acquisition, which were to be released on completion of repairs and capital improvements required by the lender.

Nobel Real Estate Investment Trust

On February 14, 2017, the REIT entered into an arrangement agreement (the Arrangement Agreement) with Nobel Real Estate Investment Trust (Nobel), pursuant to which the REIT acquired all of the assets and liabilities of Nobel in exchange for the issuance of units of the REIT to Nobel (the Arrangement). The Arrangement closed on April 3, 2017. The REIT issued 1.67 Nexus REIT units for each of the 10,451,333 outstanding units of Nobel, or 17,453,726 Nexus REIT units. The unit consideration issued was measured at $1.94 per unit, the trading price of the REIT units at the close of business on March 31, 2017, the last trading day prior to the completion of the Arrangement.

Holders of 72,000 Class B LP Units of a subsidiary limited partnership of Nobel were granted the right to convert these Class B LP Units for 1.67 REIT Units for each such Class B LP Unit converted, and to receive distribution payments equivalent to 1.67 times the distribution per REIT unit. The Class B LP Unit liability assumed was measured at $1.94 per unit, the trading price of the REIT units at the close of business on March 31, 2017, the last trading day prior to the completion of the Arrangement, multiplied by 1.67.

Holders of 633,333 warrants and 290,200 options to purchase Nobel units received 1.67 equivalent securities of the REIT for each warrant or option held. The weighted average exercise prices of the warrants and options issued are $2.99 and $2.77, respectively. The fair values of these warrants and options as at the acquisition were determined through the application of the Black-Scholes method.

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

The purchase price equation for the Nobel Acquisition is as follows:

	$
Investment properties	104,280,000
Equity investment in joint venture	2,649,423
Restricted cash	1,399,675
Other non-current assets	84,947
Cash	275,424
Tenant and other receivables	431,845
Deposits	50,000
Prepaid expenses	385,132
Total assets acquired	109,556,446
Class B LP Units	233,265
Mortgages	69,160,145
Line of credit	185,000
Accounts payable, accruals and other liabilities	5,059,059
Total liabilities assumed	74,637,469
Net assets acquired	34,918,977
Consideration:	
Issuance of REIT units	33,860,228
Issuance of replacement warrants	23,734
Issuance of replacement options	27,290
	33,911,252
Excess of net assets acquired over consideration paid – bargain purchase	1,007,725

The number of Nexus units issued to the former Nobel unitholders was derived by reference to the net asset values per unit of each REIT at a point in time. 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 Nobel Transaction closed, which was less than the net asset value per Edgefront unit arrived at during negotiations with Nobel, resulting in the bargain purchase.

The purchase price equation was adjusted as compared to the amount initially reported in previous interim periods of the year ended December 31, 2017. Accounts payable, accruals and other liabilities was revised from $5,517,877 to $5,059,059 and bargain purchase was revised from $548,907 to $1,007,725.

Restricted cash relates to a mortgage holdback in the original principal amount of $1,150,000, which funds are being held to be used to finance the acquisition of land at a REIT property that is subject to a land lease. The REIT has an option to purchase the land which becomes exercisable in 2022. The restricted cash also relates to funds withheld by lenders with respect to the mortgages assumed in the Nobel Acquisition in an amount of $249,675. The funds will be released on completion of repairs and capital improvements required by the lender.

2) Disposals

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

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

4 Investment properties

	December 31, 2018 $	December 31, 2017 $
Balance, beginning of year	431,807,144	173,774,872
Investment properties acquired in a business combination (note 3)	-	104,280,000
Acquisition of investment properties, including acquisition costs of $2,466,691 (2017 - $3,219,304) (note 3)	87,353,946	148,403,111
Additions - capital expenditures	2,230,870	853,010
Additions - tenant incentives and leasing costs, net of amortization	1,049,671	338,206
Disposal of investment properties (note 3)	(11,300,000)	-
Fair value adjustment	19,050,281	4,157,945
Balance, end of year	530,191,912	431,807,144

The REIT obtains third party appraisals to supplement internal management valuations in support of the determination of the fair market value of investment properties. Investment properties with an aggregate fair value of $185,550,000 were valued by qualified external valuation professionals during the year ended December 31, 2018.

The fair value of the investment properties as at December 31, 2018 was determined primarily through the application of the direct capitalization method, with certain adjustments for the present value of rents determined to be above or below market rents.

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

	December 31, 2018	December 31, 2017
Weighted average capitalization rate	6.77%	6.98%
Range of capitalization rates	5.75% - 9.50%	5.75% - 10.00%
Stabilized net operating income	$36,100,000	$30,416,000

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at December 31, 2018, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately $18,962,000 in the determination of the fair value of the investment properties. A 0.25% decrease in the weighted average capitalization rate would result in an increase of approximately $20,415,000 in the determination of the fair value of the investment properties.

The calculation of the fair value of investment properties using the direct income capitalization method results in the measurement being classified as Level 3 in the fair value hierarchy. Significant unobservable inputs used in the Level 3 valuation of the investment properties are the capitalization rate and the stabilized net operating income applied in the valuations. Generally, an increase in stabilized net operating income or a decrease in capitalization rates will result in an increase in the fair value of investment properties. Conversely, a decrease in stabilized net operating income or an increase in capitalization rates will generally result in a decrease in the fair value of investment properties.

5 Equity investment in joint venture

On completion of the Arrangement, the REIT indirectly acquired 50% of the units of Société en Commandite 2045 Stanley, the limited partnership that owns the office building located at 2039-2047 rue Stanley (2045 rue Stanley) in Montreal, as well as 50% of the shares of 9301-6897 Québec Inc., the general partner of Société en Commandite 2045 Stanley.

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

	December 31, 2018 $	December 31, 2017 $
Balance, beginning of year	4,624,388	-
Equity investment in joint venture acquired in a business combination (note 3)	-	2,649,423
Capital contribution	500,000	1,750,000
Share of net income (loss) from investment in joint venture	(770,522)	224,965
Balance, end of year	4,353,866	4,624,388

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

	December 31, 2018 $	December 31, 2017 $
Property under development	26,200,000	25,000,000
Other non-current assets	393,641	117,457
Cash	393,949	2,309,404
Tenant and other receivables	380,611	175,968
Other current assets	245,732	238,259
Bank facility	(18,000,000)	(17,981,808)
Accounts payable, accruals and other liabilities	(906,201)	(610,504)
Net assets	8,707,732	9,248,776
50% investment in joint venture	4,353,866	4,624,388

	For the year ended December 31, 2018 $	Period from April 3, 2017 to December 31, 2017 $
Property revenues	2,090,535	202,133
Property expenses	(1,328,615)	(281,716)
Net rental income (loss)	761,920	(79,583)
General and administrative expense	(228,170)	(271,686)
Interest expense	(342,268)	-
Fair value adjustment of property under development	(1,783,113)	168,890
Fair value adjustment of financial instruments	50,587	632,309
Net income and comprehensive income for the year	(1,541,044)	449,930
Share of net income (loss) from 50% investment in joint venture	(770,522)	224,965

6 Tenant and other receivables

The REIT leases industrial, office and retail properties to tenants under operating leases. Minimum rental commitments on non-cancellable tenant operating leases over their remaining terms are as follows:

	December 31, 2018 $
2019	37,718,733
2020 - 2023	118,198,639
2024 - Thereafter	72,222,479
	228,139,851

7 Other current assets

Other current assets are comprised as follows:

	December 31, 2018 $	December 31, 2017 $
Prepaid development charges (note 3)	2,400,000	-
Capital expenditures escrow (note 3)	2,000,000	-
Interest buy down escrow (note 3)	-	848,802
Reserves held by mortgage lenders with respect to property taxes and capital expenditures	610,871	541,778
Cumulative straight-line rent adjustments	1,214,338	834,941
Other	102,973	-
Total other current assets	6,328,182	2,225,521

The interest buy down escrow was held by the lawyers of the Sandalwood Properties' vendor pursuant to an escrow agreement and was released to the REIT on June 20, 2018.

8 Mortgages payable

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

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

The following table summarizes the changes in mortgages payable for the years ended December 31, 2018 and 2017:

	December 31, 2018 $	December 31, 2017 $
Mortgages payable, beginning of year	179,543,881	31,522,584
New mortgage financing, net of mortgages assumed on disposal (note 3)	50,915,894	13,950,000
Mortgages assumed in the Nobel Acquisition (note 3)	-	68,103,447
Mortgages assumed in the Sandalwood Acquisition (note 3)	-	75,712,788
Principal repayments	(6,146,215)	(9,744,938)
Mortgages payable, end of year	224,313,560	179,543,881
Less: Deferred financing, beginning of year	(544,273)	(209,612)
Less: Additions to deferred financing	(335,675)	(522,318)
Plus: Amortization of deferred financing	316,814	187,657
Plus: Fair value adjustment of mortgages, beginning of year	2,354,676	-
Plus: Fair value adjustment of mortgages assumed (note 3)	-	3,060,459
Less: Amortization of fair value adjustments	(1,106,609)	(705,783)
Balance, end of year	224,998,493	181,354,284
Less: Current portion	(66,654,908)	(17,934,023)
	158,343,585	163,420,261

9 Credit Facility

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

As part of the Nobel Acquisition, the REIT assumed a $500,000 revolving line of credit bearing interest at 100 basis points per annum over the Canadian prime borrowing rate. The line of credit is secured against six of the REIT's investment properties and allows the REIT to draw down a yearly average maximum of 75% of the $500,000 credit limit. As at December 31, 2018, this line of credit was undrawn (December 31, 2017 - undrawn).

Funds drawn against the Credit Facility are as follows:

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

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

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

The following table summarizes the changes in the Credit Facility for the years ended December 31, 2018 and 2017:

	December 31, 2018 $	December 31, 2017 $
Drawn against credit facility, beginning of year	61,710,147	54,485,734
Net borrowings (repayments) during the year	(2,901,309)	7,039,413
Balance assumed in the Nobel Acquisition	-	185,000
Drawn against credit facility, end of year	58,808,838	61,710,147
Less: Deferred financing costs, beginning of year	(253,697)	(291,597)
Less: Deferred financing costs incurred	(26,795)	(85,120)
Plus: Amortization of deferred financing costs	186,992	123,020
Balance, end of year	58,715,338	61,456,450

10 Class B LP Units

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

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

The following table summarizes the changes in Class B LP Units for the year ended December 31, 2017:

	Class B LP Units	Amount $
Balance as at December 31, 2016	5,962,565	10,672,992
Class B LP Units assumed in business combination	72,000	233,265
Class B LP Units exchanged for REIT units	(594,290)	(1,240,841)
Fair value adjustment during the year	-	1,382,816
Balance as at December 31, 2017	5,440,275	11,048,232

On August 31, 2018, 2,312,334 Class B LP Units were issued to holders of 3,451,245 Class B LP Units of Nobel REIT Limited Partnership, which were previously exchangeable for REIT units on a 1.67 to 1 basis. Following the subdivision of these units, each Class B LP Unit of Nobel REIT Limited Partnership is exchangeable on a 1 to 1 basis for REIT units.

On April 3, 2017, on the completion of the Nobel Acquisition, the REIT acquired Nobel REIT Limited Partnership which had 72,000 Class B LP Units outstanding. Holders of these Class B LP Units were granted the right to convert the units for 1.67 REIT units for each such Class B LP Unit converted, and to receive distribution payments equivalent to 1.67 times the distribution per REIT unit. As at December 31, 2018, 34,500 of these units had been exchanged for REIT units and 37,500 of these Class B LP Units remained outstanding.

Distributions in the amount of $2,467,348 (2017 - $956,614) were declared payable to holders of Class B LP Units for the year ended December 31, 2018. These amounts have been recognized as finance expense in the consolidated statement of income and comprehensive income. Distributions payable in the amount of $263,215 were accrued as at December 31, 2018 (December 31, 2017 - $72,907).

11 Warrants

Pursuant to the Arrangement Agreement, 1,057,666 warrants were issued to replace Nobel REIT warrants which were outstanding on the date of the Nobel Acquisition.

The following table presents the changes in warrants for the year ended December 31, 2018:

	Number of warrants	Weighted average exercise price $	Weighted average remaining contract life
Outstanding as at December 31, 2017	1,057,666	2.99	1.95
Outstanding as at December 31, 2018	1,057,666	2.99	0.95

Awards of warrants are fair valued by applying the Black-Scholes valuation method. The average expected volatility rate used in the valuation is estimated based on the historical volatility of comparable companies over a period of time approximating the average expected warrant holding period. The average risk-free interest rate used is based on Government of Canada bonds with terms consistent with the average expected warrant holding period.

The fair value of the warrants as at December 31, 2018 was determined through the application of the Black-Scholes method. The key assumptions used in determining the fair value of the warrants are detailed below:

	December, 2018	December 31, 2017
Weighted average expected warrant life (in years)	0.95	1.95
Weighted average volatility rate	25.00%	25.00%
Weighted average risk-free interest rate	1.87%	1.56%
Distribution yield	8.47%	7.92%

12 Unit options

The REIT has adopted a unit-based compensation plan (the Plan) effective January 13, 2014. Under the terms of the Plan, the Board of Trustees may from time to time, at its discretion, grant options to purchase units of the REIT to trustees, officers and employees of the REIT and its affiliates, agents in connection with equity offerings and other consultants. The maximum number of options that may be reserved under the Plan is 10% of the outstanding units of the REIT.

Pursuant to the Arrangement Agreement, 484,636 unit options were issued to replace Nobel REIT unit options which were outstanding on the date of the Nobel Acquisition. On the date of completion of the Nobel Acquisition, several trustees of Nobel REIT and Nexus REIT resigned. Any unvested options these former trustees held expired upon their resignation, and vested options expire 90 days from the date these individuals ceased to be trustees of the REIT.

On December 27, 2017, 2,515,000 unit options were issued to trustees, officers and employees of the REIT at an exercise price of $2.10 per unit. These options vest one-third on the first anniversary of the grant date, and one-third on each of the second and third anniversaries of the grant date and expire on the fifth anniversary of the grant date. Each option allows its holder to subscribe to one unit of the REIT.

The following table presents the changes in unit options for the year ended December 31, 2018:

	Number of unit options	Weighted average exercise price $	Weighted average remaining contract life	Number of vested unit options
Outstanding as at December 31, 2017	4,535,744	2.07	3.97	1,370,744
Unit options cancelled	(808,924)	2.27		
Unit options expired	(20,000)	2.00		
Outstanding as at December 31, 2018	3,706,820	2.03	2.93	2,085,153

The following table presents the details of unit options outstanding as at December 31, 2018:

Exercise price $	Number of unit options	Weighted average remaining contract life	Number of vested unit options
1.88	975,000	2.65	650,000
2.00	710,000	0.54	710,000
2.10	1,945,000	3.99	648,333
2.25	1,670	0.67	1,670
2.54	75,150	1.66	75,150
	3,706,820	2.93	2,085,153

Awards of options are fair valued applying the Black-Scholes method. The average expected volatility rate used in the valuation is estimated based on the historical volatility of comparable companies over a period of time approximating the average expected unit option holding period. The average risk-free interest rate used is based on Government of Canada bonds with terms consistent with the average expected unit option holding period. For vested options, the average expected unit option holding period used is estimated to be half of the life of the option. For unvested options, the average expected unit option holding period is estimated to be the period until the options vest plus half of the period from vesting to expiry.

The fair value of the unit options as at December 31, 2018 was determined through the application of the Black-Scholes method. The key assumptions used in determining the fair value of the unit options are as detailed below:

	December 31, 2018	December 31, 2017
Weighted average expected unit option life (in years)	1.75	2.71
Weighted average volatility rate	25.00%	25.00%
Weighted average risk-free interest rate	1.82%	1.73%
Distribution yield	8.47%	7.92%

13 Accounts payable, accruals and other liabilities

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

	December 31, 2018 $	December 31, 2017 $
Prepaid rent	1,246,147	1,150,653
Security deposits	1,665,202	1,289,221
Accrued interest expense	968,674	601,489
Transaction costs related to acquisitions (note 3)	42,067	833,639
Sales and other taxes payable	625,378	562,913
Trade accounts payable and other	3,242,266	3,786,992
	7,789,734	8,224,907

14 Unitholders' equity

The REIT is authorized to issue an unlimited number of units and special voting units. Each unit entitles the holder to a single vote at any meeting of unitholders and entitles the holder to receive a pro rata share of all distributions and in the event of termination or winding up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. The units are redeemable at any time at the demand of the holders to receive a price per unit as determined by the REIT's declaration of trust. Among other conditions for redemption, the total amount payable by the REIT in respect of units surrendered for redemption shall not exceed $50,000 in any one calendar month.

The declaration of trust provides for the issuance of special voting units which have no economic entitlement in the REIT or in the distribution of assets of the REIT, but are used to provide voting rights proportionate to the votes of the units to holders of securities exchangeable into units, including Class B LP Units.

On June 30, 2017, 33,350,000 REIT units were issued at $2.10 per unit in a prospectus offering and private placement. Gross proceeds of the offering and private placement were $70,035,000, and net proceeds were $66,202,496.

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

	Units	Amount $
Unitholders' equity as at December 31, 2017	88,799,851	170,527,290
Class B LP Units exchanged for REIT units (note 10)	1,090,974	2,171,539
Units issued as purchase price consideration (note 3)	2,261,905	4,513,334
Units issued under distribution reinvestment plan (note 15)	467,482	897,526
Units issued as consideration for trustee services (note 20)	79,040	157,676
Unitholders' equity as at December 31, 2018	92,699,252	178,267,365

The following table presents the changes in unitholders' equity for the year ended December 31, 2017:

	Units	Amount $
Unitholders' equity as at December 31, 2016	35,778,636	66,076,700
Class B LP Units exchanged for REIT Units (note 10)	613,385	1,240,841
Units issued for cash, net of $3,832,504 of issuance costs	33,350,000	66,202,496
Units issued in completion of the Arrangement, net of $31,500 of issuance costs	17,453,726	33,828,728
Units issued as purchase price consideration	952,381	1,942,857
Units issued under distribution reinvestment plan (note 15)	270,690	523,068
Units issued as consideration for management services (note 20)	327,684	608,603
Units issued as consideration for trustee services (note 20)	53,349	103,997
Unitholders' equity as at December 31, 2017	88,799,851	170,527,290

15 Distribution reinvestment plan

The REIT adopted a distribution reinvestment plan (DRIP) on February 20, 2014, pursuant to which resident Canadian holders of not less than 1,000 units are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional units at a price per unit calculated by reference to the weighted average of the trading price for the units for the five trading days immediately preceding the relevant distribution date. Eligible unitholders who so elect will receive a bonus distribution of units equal to 4% of each distribution that was reinvested by them under the DRIP. During the year ended December 31, 2018, 467,482 units (2017 – 270,690 units) were issued under the DRIP for a stated value of $897,526 (2017 - $523,068).

16 Property revenues

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

	For the year ended	
	December 31, 2018 $	December 31, 2017 $
Rental income	45,945,447	32,950,256
Revenue from services	7,167,275	3,645,512
Other revenue	984,771	403,315
	54,097,493	36,999,083

17 Financial instruments

Fair value

The fair value of cash, restricted cash, tenant and other receivables, other receivables (included in other current assets), and accounts payable, accrued and other liabilities approximates carrying values due to the short-term nature of these instruments. The fair value of the mortgages payable as at December 31, 2018 is approximately $214,940,000 (2017 - $174,620,000).

The fair value of prime rate and bankers' acceptance advances under the Credit Facility approximates carrying value due to the short-term nature of these instruments. The fair value of the fixed rate and term borrowings under the Credit Facility as at December 31, 2018 is approximately $50,600,000 (2017 - $52,580,000).

The fair value of the mortgages payable and the fixed rate and term borrowings under the Credit Facility has been calculated using Level 3 inputs by discounting the expected cash flows of each debt using a discount rate based on the Government of Canada benchmark bond yield for instruments of similar maturity, adjusted for the risk profile specific to the REIT and the investment properties. Changes in benchmark bond yields for instruments of similar maturity are applied to the interest rates of the mortgages to maintain an appropriate risk adjustment factor when selecting a discount rate.

Liquidity risk

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

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

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

Interest rate risk

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

Credit risk

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

As at December 31, 2018, one tenant accounted for approximately 15% of the REIT's base rental income, resulting in a concentration of credit risk. The REIT monitors the creditworthiness of its tenants on an ongoing basis.

18 Commitments and contingencies

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

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

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

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

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

19 Capital management

The REIT defines its capital as its total unitholders' equity net of retained earnings or deficit, mortgages payable, Class B LP Units and the Credit Facility. The REIT manages its capital to ensure that sufficient funds are available to fund operations, including the identification and acquisition of businesses or assets. The REIT ensures that it has sufficient capital to fund its operations as a going concern, and to identify, analyze and finance further potential acquisitions. As part of the REIT's strategy for managing its capital, it may adjust the amount of distributions paid to unitholders, issue new units or debt, borrow against the Credit Facility, or repay debt.

The REIT's Credit Facility contains interest coverage, distribution and loan to value covenants, for which non-compliance would result in an event of default, allowing the lender to demand repayment of amounts outstanding under the Credit Facility. As at December 31, 2018, the REIT was in compliance with all of the financial covenants contained within the Credit Facility.

20 Related party transactions

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

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

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

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

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

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

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

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

21 Supplemental cash flow information

Cash interest and income taxes paid and received are as follows:

	For the year ended	
	December 31, 2018 $	**December 31, 2017 $**
Cash interest paid	12,622,299	7,531,851
Cash income taxes paid	14,443	1,019

22 Subsequent events

On April 2, 2019, the REIT purchased four industrial properties located in Fort St John, British Columbia; Blackfalds, Alberta; Medicine Hat, Alberta and Estevan, Saskatchewan for a contractual purchase price of $31,000,000. $14,763,390 of the contractual purchase price was satisfied through the issuance of 7,030,186 Class B LP Units of a subsidiary limited partnership of the REIT at deemed value of $2.10 per unit and convertible to REIT Units on a 1 to 1 basis, with the balance, net of closing adjustments, satisfied in cash. As at December 31, 2018, the REIT had a deposit of $300,000 with respect to this purchase.