

Nexus Real Estate Investment Trust

Condensed Consolidated Interim Financial Statements
(Unaudited)

For the three months ended March 31, 2019

Nexus Real Estate Investment Trust

Condensed Consolidated Interim Statements of Financial Position

As at March 31, 2019 and December 31, 2018

(unaudited)

	2019	2018
	\$	\$
Non-current Assets		
Investment properties (notes 3 and 4)	533,099,855	530,191,912
Equity investment in joint venture (note 5)	4,679,869	4,353,866
Restricted cash	1,983,833	1,958,866
Right-of-use assets (note 2)	1,342,169	-
Other non-current assets	120,073	146,885
	<u>541,225,799</u>	<u>536,651,529</u>
Current Assets		
Cash	4,244,250	3,354,169
Tenant and other receivables	1,522,742	1,268,266
Deposits (note 22)	600,000	300,000
Prepaid expenses	942,722	478,593
Other current assets (note 7)	6,254,553	6,328,182
	<u>13,564,267</u>	<u>11,729,210</u>
Total Assets	<u><u>554,790,066</u></u>	<u><u>548,380,739</u></u>
Non-current Liabilities		
Mortgages payable (notes 3 and 8)	156,623,167	158,343,585
Lease liabilities (notes 2 and 18)	3,840,835	-
Class B LP Units (note 10)	25,761,740	37,320,065
Warrants (note 11)	5,187	4,225
Unit options (note 12)	408,000	275,000
	<u>186,638,929</u>	<u>195,942,875</u>
Current Liabilities		
Mortgages payable (notes 3 and 8)	66,418,747	66,654,908
Credit Facility (note 9)	60,477,707	58,715,338
Distributions payable	1,330,197	1,235,681
Accounts payable, accruals and other liabilities (notes 13 and 20)	6,948,870	7,789,734
	<u>135,175,521</u>	<u>134,395,661</u>
Total Liabilities	<u><u>321,814,450</u></u>	<u><u>330,338,536</u></u>
Equity		
Unitholders' equity (note 14)	192,418,854	178,267,365
Retained earnings	40,556,762	39,774,838
Total Unitholders' Equity	<u><u>232,975,616</u></u>	<u><u>218,042,203</u></u>
Total Liabilities and Unitholders' Equity	<u><u>554,790,066</u></u>	<u><u>548,380,739</u></u>

On behalf of the Board:

"Lorne Jacobson" Trustee

"Brad Cutsey" Trustee

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

Nexus Real Estate Investment Trust

Condensed Consolidated Interim Statements of Income and Comprehensive Income

For the three months ended March 31

(unaudited)

	2019	2018
	\$	\$
Net rental income		
Property revenues (note 16)	14,386,438	13,303,561
Property expenses	<u>(5,449,617)</u>	<u>(5,373,634)</u>
Net rental income	8,936,821	7,929,927
General and administrative expense (note 20)	(710,897)	(751,979)
Fair value adjustment of investment properties (note 4)	(194,182)	1,493,500
Fair value adjustment of Class B LP Units (note 10)	(2,288,919)	109,389
Fair value adjustment of warrants (note 11)	(962)	5,637
Fair value adjustment of unit options (note 12)	(133,000)	(46,000)
Income (loss) from equity accounted investment in joint venture (note 5)	(173,997)	64,802
Other income (note 7)	<u>2,523,625</u>	<u>-</u>
	<u>7,958,489</u>	<u>8,805,276</u>
Finance expense		
Net interest expense (notes 8 and 9)	(2,675,318)	(2,161,600)
Distributions on Class B LP Units (note 10)	<u>(682,194)</u>	<u>(218,722)</u>
	<u>(3,357,512)</u>	<u>(2,380,322)</u>
Net income and comprehensive income for the period	<u><u>4,600,977</u></u>	<u><u>6,424,954</u></u>

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

Nexus Real Estate Investment Trust

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity

For the three months ended March 31

(unaudited)

	Unitholders' Equity \$	Retained Earnings \$	Total \$
Balance – January 1, 2019	178,267,365	39,774,838	218,042,203
Net income for the period	-	4,600,977	4,600,977
Class B LP Units exchanged for REIT Units	13,847,244	-	13,847,244
Distributions	-	(3,819,053)	(3,819,053)
Issue of units under distribution reinvestment plan (note 15)	261,376	-	261,376
Issue of units to Trustees (note 20)	42,869	-	42,869
Balance – March 31, 2019	<u>192,418,854</u>	<u>40,556,762</u>	<u>232,975,616</u>

	Unitholders' Equity \$	Retained Earnings \$	Total \$
Balance – January 1, 2018	170,527,290	15,352,889	185,880,179
Net income for the period	-	6,424,954	6,424,954
Distributions	-	(3,554,391)	(3,554,391)
Issue of units under distribution reinvestment plan (note 15)	198,076	-	198,076
Issue of units to Trustees (note 20)	29,182	-	29,182
Balance – March 31, 2018	<u>170,754,548</u>	<u>18,223,452</u>	<u>188,978,000</u>

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

Nexus Real Estate Investment Trust

Condensed Consolidated Interim Statements of Cash Flows

For the three months ended March 31

(unaudited)

	2019	2018
	\$	\$
Operating activities		
Net income for the period	4,600,977	6,424,954
Adjustment for items not involving cash:		
Trustee fees settled in REIT units (note 20)	-	42,810
Share of net income (loss) from equity accounted investment in joint venture (note 5)	173,997	(64,802)
Amortization of deferred financing costs (notes 8 and 9)	132,341	127,378
Amortization of mortgage fair value adjustments (note 8)	(268,289)	(288,334)
Amortization of right-of-use assets	23,273	-
Amortization of tenant incentives and leasing costs	35,080	3,882
Straight-line adjustments of rent	(115,124)	(58,360)
Fair value adjustment of investment properties (note 4)	194,182	(1,493,500)
Fair value adjustment of Class B LP Units (note 10)	2,288,919	(109,389)
Fair value adjustment of warrants (note 11)	962	(5,637)
Fair value adjustment of unit options (note 12)	133,000	46,000
Changes in non-cash working capital		
Tenant and other receivables	(254,476)	(155,925)
Prepaid expenses	(464,129)	(654,123)
Deposits	(300,000)	(100,000)
Other current assets (note 7)	(223,497)	127,608
Accounts payable, accruals and other liabilities	(523,465)	(899,345)
Changes in other non-current assets	26,812	17,924
Changes in restricted cash	(24,967)	(24,967)
Total cash generated by operating activities	<u>5,435,596</u>	<u>2,936,174</u>
Investing activities		
Investment in joint venture	(500,000)	-
Capital expenditures, tenant incentives and leasing costs	(491,288)	(434,414)
Total cash used in investing activities	<u>(991,288)</u>	<u>(434,414)</u>
Financing activities		
Financing costs	-	(47,393)
Lease principal repayments	(32,799)	-
Mortgage principal repayments	(1,773,883)	(1,380,077)
Net borrowing on the Credit Facility	1,715,621	1,083,324
Distributions to unitholders	(3,463,166)	(3,354,759)
Total cash used in financing activities	<u>(3,554,227)</u>	<u>(3,698,905)</u>
Change in cash during the period	890,081	(1,197,145)
Cash - beginning of period	3,354,169	4,253,771
Cash - end of period	<u>4,244,250</u>	<u>3,056,626</u>

Supplemental cash flow information (note 21)

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

Nexus Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019

(unaudited)

1 Organization

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

2 Summary of significant accounting policies

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2018.

The condensed consolidated interim financial statements have been prepared on a going concern basis and under the historical cost convention, except for the revaluation of investment properties, Class B LP Units, warrants and unit options, which are presented at fair value. These condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the REIT. The condensed consolidated interim financial statements were authorized for issue by the board of trustees of the REIT on May 29, 2019.

The accounting policies applied by the REIT in the preparation of these condensed consolidated interim financial statements are consistent with those applied for the year ended December 31, 2018, except for the following accounting policies adopted by the REIT on January 1, 2019:

IFRS 16, Leases

The REIT adopted IFRS 16 on January 1, 2019, using the modified retrospective approach and, therefore, the comparative information has not been restated and continues to be reported under the previously applicable standards as disclosed in the 2018 annual consolidated financial statements.

The REIT leases mainly land and buildings. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants.

Policy applicable from January 1, 2019:

At inception of a contract, the REIT assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The REIT has chosen to account for each lease component. The REIT recognizes a right-of-use asset and a lease liability at the commencement date, which is the date the leased asset is available for use. Each lease payment is allocated between lease liabilities and financing costs. Financing costs are charged to the statement of income and comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of lease liabilities for each period. The right-of-use asset is initially measured at cost comprised of the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

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The right-of-use asset is subsequently depreciated over the shorter of the underlying asset's useful life and the lease term on a straight-line basis. The lease term includes periods covered by an option to extend if the REIT is reasonably certain to exercise that option. Also, the lease term includes periods covered by an option to terminate if the REIT is reasonably certain not to exercise that option. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined at the REIT's incremental borrowing rate. Generally, the REIT uses its incremental borrowing rate as the discount rate.

The lease liability includes the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or rate, initially measured using the index or the effective rate at the commencement date;
- amounts expected to be payable by the REIT under residual value guarantees;
- the exercise price of a purchase option if the REIT is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of that option by the REIT.

Remeasurement

The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the REIT's estimate of the amount expected to be payable under a residual value guarantee, or if the REIT changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Exceptions to the application of IFRS 16

The REIT has elected to apply exemptions related to the recognition of short-term or low-value leases at the transition date. Under this exemption, the REIT is not required to recognize right-of-use assets and lease liabilities.

Policy applicable before January 1, 2019:

Leases were classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the REIT. Leases were classified as operating leases when the lease arrangement does not transfer substantially all the risks and rewards of ownership to the REIT. Payments made under operating leases were charged to the statement of income on a straight-line basis over the lease term. Finance leases were capitalized at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment was allocated between the liability and financing costs so as to achieve a constant rate on the balance outstanding. Such lease liabilities, net of financing costs, were included under non-current liabilities. The interest component of the financing costs was charged to income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases were amortized over the shorter of the useful life of the underlying asset and the lease term.

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Impact of transition to IFRS 16

IFRS 16 was applied using the modified retrospective approach effective January 1, 2019, under which approach the cumulative effect of initial application was recognized as at January 1, 2019. The information presented for 2018 has not been restated and remains as previously reported under IAS 17. On initial application, the REIT elected to record the right-of-use assets based on the corresponding lease liability. The lease liability is measured at the present value of the remaining lease payments, discounted using the REIT's incremental borrowing rate as of January 1, 2019.

The REIT has classified the right-of-use-assets in respect of land leases as investment property at fair value. Land lease related expense previously recorded in property expenses is now recorded as net interest expense in the consolidated statements of income and comprehensive income and as lease principal repayments in the consolidated statements of cash flows.

The REIT has classified the right-of-use-assets in respect of office leases as non-current assets at amortized cost. Office lease related expense previously recorded in general and administrative expense is now recorded with a portion as general and administrative expense, resulting from the amortization of right-of-use assets, and the other portion is recorded as net interest expense in the consolidated statements of income and comprehensive income and as lease principal repayments in the consolidated statements of cash flows.

The adoption of IFRS 16 resulted in the recognition of lease liabilities amounting to \$3,873,634, and right-of-use assets amounting to \$3,599,109 relating to office and land leases. Right-of-use assets in the amount of \$1,365,442 are recorded in non-current assets and \$2,233,667 is recorded in investment properties in the consolidated statement of financial position. These liabilities were measured at the present value of the remaining lease payments, applying a discount rate of 6%.

IFRIC 23, Uncertainty over Income Tax Treatments

On January 1, 2019, the REIT adopted IFRIC 23, Uncertainty Over Income Tax Treatments, using the retrospective approach. IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12, Income taxes, are applied where there is uncertainty over income tax treatments. The adoption of IFRIC 23 had no impact to the REIT's condensed consolidated interim financial statements.

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 condensed consolidated interim financial statements:

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. These amendments will have no impact on the REIT's consolidated financial statements.

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(unaudited)

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 units issued as purchase consideration were 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. The REIT received a credit of \$659,356 from the vendor at closing, and an additional \$1,175,220 was recorded as an estimate of the amount that would be payable by the vendor to the REIT during the completion of the property improvements and commencement of tenant leases. The Richmond Property was initially recorded at the fair value of the net consideration payable of \$54,385,425, with \$2,400,000 of this amount classified as prepaid development costs.

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.

Nexus Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

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(unaudited)

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	<u>57,342,200</u>	<u>12,125,857</u>	<u>6,201,185</u>	<u>6,473,255</u>	<u>8,455,703</u>	<u>90,598,200</u>
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
	<u>57,342,200</u>	<u>12,125,857</u>	<u>6,201,185</u>	<u>6,473,255</u>	<u>8,455,703</u>	<u>90,598,200</u>

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

	March 31, 2019 \$	December 31, 2018 \$
Balance, beginning of period	530,191,912	431,807,144
IFRS 16 transition - recognition of right-of-use assets (note 2)	2,233,667	-
Acquisition of investment properties, including acquisition costs of \$nil (2018 - \$2,466,691) (note 3)	-	87,353,946
Additions - capital expenditures	194,182	2,230,870
Additions - tenant incentives and leasing costs	297,106	1,134,913
Amortization of tenant incentives and leasing costs	(35,080)	(85,242)
Reclassified from prepaid development charges (note 7)	412,250	-
Disposal of investment properties (note 3)	-	(11,300,000)
Fair value adjustment	(194,182)	19,050,281
Balance, end of period	<u>533,099,855</u>	<u>530,191,912</u>

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The fair value of the investment properties as at March 31, 2019 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:

	March 31, 2019	December 31, 2018
Weighted average capitalization rate	6.73%	6.77%
Range of capitalization rates	5.75% - 9.50%	5.75% - 9.50%
Stabilized net operating income	\$36,160,000	\$36,100,000

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at March 31, 2019, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$19,227,000 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 \$20,710,000 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

The REIT has a 50% interest in Société en Commandite 2045 Stanley, the limited partnership that owns the office building located at 2039-2047 rue Stanley in Montreal, 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:

	March 31, 2019	December 31, 2018
	\$	\$
Balance, beginning of period	4,353,866	4,624,388
Capital contribution	500,000	500,000
Share of net loss from investment in joint venture	(173,997)	(770,522)
Balance, end of period	<u>4,679,869</u>	<u>4,353,866</u>

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

	March 31, 2019	December 31, 2018
	\$	\$
Property under development	26,504,126	26,200,000
Other non-current assets	430,759	393,641
Cash	470,069	393,949
Tenant and other receivables	288,536	380,611
Other current assets	243,627	245,732
Bank facility	(17,787,670)	(18,000,000)
Accounts payable, accruals and other liabilities	(789,709)	(906,201)
Net assets	<u>9,359,738</u>	<u>8,707,732</u>
50% investment in joint venture	<u>4,679,869</u>	<u>4,353,866</u>
	For the three months ended March 31, 2019	March 31, 2018
	\$	\$
Property revenues	646,322	477,421
Property expenses	(422,824)	(329,109)
Net rental income	<u>223,498</u>	<u>148,312</u>
General and administrative expense	(60,265)	(81,527)
Interest expense	(98,378)	(78,725)
Fair value adjustment of financial instruments	(412,849)	141,544
Net income and comprehensive income (loss) for the period	<u>(347,994)</u>	<u>129,604</u>
Share of net income and comprehensive income (loss) from 50% investment in joint venture	<u>(173,997)</u>	<u>64,802</u>

6 Tenant and other receivables

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

	March 31, 2019
	\$
Remainder of 2019	31,359,660
2020 – 2023	118,365,754
2024 – Thereafter	72,030,027
	<u>221,755,441</u>

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Notes to Condensed Consolidated Interim Financial Statements

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7 Other current assets

Other current assets are comprised as follows:

	March 31, 2019 \$	December 31, 2018 \$
Prepaid development charges (note 3)	1,987,750	2,400,000
Vendor rent obligation (note 3)	2,115,820	-
Capital expenditures escrow	-	2,000,000
Reserves held by mortgage lenders with respect to property taxes and capital expenditures	390,034	610,871
Cumulative straight-line rent adjustments	1,331,072	1,214,338
Other	429,877	102,973
Total other current assets	<u>6,254,553</u>	<u>6,328,182</u>

In the three months ended March 31, 2019, the vendor rent obligation was reassessed in the context of anticipated delays in the completion of property improvements required before the commencement of certain leases and the total amount of additional vendor rent obligation expected to be collected from the Richmond Property vendor was estimated to be \$2,523,625. This amount was recorded in other income and other current assets.

8 Mortgages payable

As at March 31, 2019, 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 4.18% and the weighted average term to maturity is 2.59 years (2018 - 2.76 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled Repayments \$	Principal Maturities \$	Total \$
Remainder of 2019	4,602,738	60,435,010	65,037,748
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	21,538,657	22,882,562
Total	<u>20,511,877</u>	<u>202,027,800</u>	<u>222,539,677</u>

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The following table summarizes the changes in mortgages payable for the three months ended March 31, 2019 and year ended December 31, 2018:

	March 31, 2019	December 31, 2018
	\$	\$
Mortgages payable, beginning of period	224,313,560	179,543,881
New mortgage financing, net of mortgages assumed on disposal (note 3)	-	50,915,894
Principal repayments	(1,773,883)	(6,146,215)
Mortgages payable, end of period	<u>222,539,677</u>	<u>224,313,560</u>
Less: Deferred financing costs, beginning of period	(563,134)	(544,273)
Less: Additions to deferred financing costs	-	(335,675)
Plus: Amortization of deferred financing costs	85,593	316,814
Plus: Fair value adjustment of mortgages, beginning of period	1,248,067	2,354,676
Less: Amortization of fair value adjustments	(268,289)	(1,106,609)
Balance, end of period	<u>223,041,914</u>	<u>224,998,493</u>
Less: Current portion	(66,418,747)	(66,654,908)
	<u>156,623,167</u>	<u>158,343,585</u>

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.

The REIT has a \$500,000 revolving line of credit bearing interest at 100 basis points per annum over the Canadian prime borrowing rate. The line of credit is secured against six of the REIT's investment properties and allows the REIT to draw down a yearly average maximum of 75% of the \$500,000 credit limit. As at March 31, 2019, \$174,459 was drawn against this line of credit (December 31, 2018 - undrawn).

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

	March 31, 2019	December 31, 2018
	\$	\$
Fixed rate and term borrowing	50,350,000	50,350,000
Bankers' acceptance borrowings	10,000,000	6,000,000
Prime rate borrowings	174,459	2,458,838
Total drawn against the Credit Facility	<u>60,524,459</u>	<u>58,808,838</u>
Less: deferred financing costs	(46,752)	(93,500)
	<u>60,477,707</u>	<u>58,715,338</u>

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Amounts drawn on the Credit Facility as at March 31, 2019 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	10,000,000	4.27%	Variable
Prime rate borrowings	174,459	4.95%	Variable
	<u>60,524,459</u>		

The following table summarizes the changes in the Credit Facility for the three months ended March 31, 2019 and year ended December 31, 2018:

	March 31, 2019 \$	December 31, 2018 \$
Drawn against credit facility, beginning of period	58,808,838	61,710,147
Net borrowings (repayments) during the period	1,715,621	(2,901,309)
Drawn against credit facility, end of period	<u>60,524,459</u>	<u>58,808,838</u>
Less: Deferred financing costs, beginning of period	(93,500)	(253,697)
Less: Deferred financing costs incurred	-	(26,795)
Plus: Amortization of deferred financing costs	46,748	186,992
Balance, end of period	<u>60,477,707</u>	<u>58,715,338</u>

10 Class B LP Units

The following table summarizes the changes in Class B LP Units for the period ended March 31, 2019:

	Class B LP Units	Amount \$
Balance as at December 31, 2018	19,746,065	37,320,065
Class B LP Units exchanged for REIT units	(6,929,280)	(13,847,244)
Fair value adjustment during the period	-	2,288,919
Balance as at March 31, 2019	<u>12,816,785</u>	<u>25,761,740</u>

Distributions in the amount of \$682,194 (2018 - \$218,722) were declared payable to holders of Class B LP Units for the period ended March 31, 2019. These amounts have been recognized as finance expense in the consolidated statement of income and comprehensive income. Distributions payable in the amount of \$170,845 were accrued as at March 31, 2019 (December 31, 2018 - \$263,215).

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11 Warrants

The following table presents the changes in warrants for the period ended March 31, 2019:

	Number of warrants	Weighted average exercise price \$	Weighted average remaining contract life
Outstanding as at December 31, 2018	1,057,666	2.99	0.95
Outstanding as at March 31, 2019	<u>1,057,666</u>	2.99	0.70

The following table presents the details of warrants outstanding as at March 31, 2019:

Exercise price \$	Number of warrants	Expiration date	Number of vested warrants
2.99	556,666	July 10, 2019	556,666
2.99	<u>501,000</u>	June 2, 2020	<u>501,000</u>
	<u>1,057,666</u>		<u>1,057,666</u>

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 March 31, 2019 was determined through the application of the Black-Scholes method. The key assumptions used in determining the fair value of the warrants are detailed below:

	March 31, 2019	December 31, 2018
Weighted average expected warrant life (in years)	0.70	0.95
Weighted average volatility rate	25.00%	25.00%
Weighted average risk-free interest rate	1.67%	1.87%
Distribution yield	7.96%	8.47%

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.

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The following table presents the changes in unit options for the period ended March 31, 2019:

	Number of unit options	Weighted average exercise price \$	Weighted average remaining contract life	Number of vested unit options
Outstanding as at December 31, 2018	3,706,820	2.03	2.93	2,085,153
Unit options forfeited	<u>(10,020)</u>	4.17		
Outstanding as at March 31, 2019	<u>3,696,800</u>	2.03	2.69	2,075,133

The following table presents the details of unit options outstanding as at March 31, 2019:

Exercise price \$	Number of unit options	Weighted average remaining contract life	Number of vested unit options
1.88	975,000	2.40	650,000
2.00	710,000	0.29	710,000
2.10	1,945,000	3.75	648,333
2.54	66,800	1.41	66,800
	<u>3,696,800</u>	2.69	<u>2,075,133</u>

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 March 31, 2019 was determined through the application of the Black-Scholes method. The key assumptions used in determining the fair value of the unit options are as detailed below:

	March 31, 2019	December 31, 2018
Weighted average expected unit option life (in years)	1.58	1.75
Weighted average volatility rate	25.00%	25.00%
Weighted average risk-free interest rate	1.57%	1.82%
Distribution yield	7.96%	8.47%

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13 Accounts payable, accruals and other liabilities

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

	March 31, 2019	December 31, 2018
	\$	\$
Prepaid rent	1,245,466	1,246,147
Security deposits	1,688,321	1,665,202
Accrued interest expense	865,346	968,674
Transaction costs related to acquisitions (note 3)	-	42,067
Sales and other taxes payable	520,698	625,378
Trade accounts payable and other	2,629,039	3,242,266
	<u>6,948,870</u>	<u>7,789,734</u>

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.

The following table presents the changes in unitholders' equity for the period ended March 31, 2019:

	Units	Amount
		\$
Unitholders' equity as at December 31, 2018	92,699,252	178,267,365
Class B LP Units exchanged for REIT units (note 10)	6,929,280	13,847,244
Units issued under distribution reinvestment plan (note 15)	138,536	261,376
Units issued as consideration for trustee services (note 20)	22,844	42,869
Unitholders' equity as at March 31, 2019	<u>99,789,912</u>	<u>192,418,854</u>

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 period ended March 31, 2019, 138,536 units (2018 - 102,440 units) were issued under the DRIP for a stated value of \$261,376 (2018 - \$198,076).

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16 Property revenues

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

	For the three months ended	
	March 31, 2019 \$	March 31, 2018 \$
Rental income	12,096,125	11,027,618
Revenue from services	2,070,249	2,063,803
Other revenue	220,064	212,140
	14,386,438	13,303,561

17 Financial instruments

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand or borrowing capacity to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at March 31, 2019, the REIT had cash of \$4,244,250 (December 31, 2018 - \$3,354,169), mortgages payable of \$222,539,677 (December 31, 2018 - \$224,313,560), a Credit Facility balance of \$60,524,459 (December 31, 2018 - \$58,808,838) and accounts payable, accruals and other liabilities of \$6,948,870 (December 31, 2018 - \$7,789,734). The REIT had a working capital deficit of \$121,611,254 as at March 31, 2019 (December 31, 2018 - \$122,666,451). The current portion of mortgages payable accounts for \$66,418,747 of the working capital deficit, and the Credit Facility accounts for \$60,477,707. Subsequent to quarter end, \$36,642,964 of maturing debt was refinanced and this refinanced debt is maturing in April 2029. 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 \$	Lease liabilities \$	Credit Facility principal repayment \$	Interest on fixed portion of Credit Facility \$	Mortgages payable \$	Mortgage interest \$	Total \$
Remainder of 2019	6,948,870	226,658	60,524,459	543,850	65,037,748	5,762,755	139,044,340
2020	-	286,273	-	-	43,066,974	5,334,586	48,687,833
2021	-	287,739	-	-	20,992,526	4,442,226	25,722,491
2022	-	287,739	-	-	19,481,160	3,457,468	23,226,367
2023	-	297,039	-	-	51,078,707	2,009,277	53,385,023
Thereafter	-	6,443,986	-	-	22,882,562	1,260,810	30,587,358
Total	6,948,870	7,829,434	60,524,459	543,850	222,539,677	22,267,122	320,653,412

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Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. There is a risk that the REIT may not be able to renegotiate its mortgages and Credit Facility at maturity on terms as favourable as the existing mortgages payable and Credit Facility. As at March 31, 2019, there was a total of \$10,174,459 (December 31, 2018 - \$8,458,838) 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 March 31, 2019, one tenant accounted for approximately 13% of the REIT's base rental income, resulting in a concentration of credit risk. The REIT monitors the creditworthiness of its tenants on an ongoing basis.

18 Lease liabilities

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

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

The REIT has the rights and obligations of a 20-year term lease of 7,170 square feet of office space in a property owned at 50% by the REIT through investments in a joint venture. The lease commenced on January 1, 2018. The REIT has the rights and obligations of a 5-year term lease of 1,760 square feet of office space. The lease commenced on November 1, 2018.

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 March 31, 2019, the REIT was in compliance with all of the financial covenants contained within the Credit Facility.

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20 Related party transactions

For the period ended March 31, 2019, trustee retainer fees in the amount of \$53,125 were expensed (2018 - \$53,125), and 22,844 units (2018 - 14,439 units) at an average price per unit of \$1.88 (2018 - \$2.02) were issued to trustees as payment of retainer fees for the fourth quarter of 2018. Trustee retainer fees in the amount of \$53,125 were accrued as at March 31, 2019 (December 31, 2018 - \$55,538).

Trustee meeting fees in the amount of \$17,200 were expensed for the period ended March 31, 2019 (2018 - \$19,000). Trustee meeting fees in the amount of \$5,500 were accrued as at March 31, 2019 (December 31, 2018 - \$6,500).

For the period ended March 31, 2019, key management earned salaries and other short-term employee benefits in the amount of \$159,250 (2018 - \$224,750).

The REIT received lease payments from companies controlled by funds associated with TriWest, a related party to a trustee of the REIT, totalling \$900,793 for the period ended March 31, 2019 (2018 - \$886,683).

21 Supplemental cash flow information

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

	For the three months ended	
	March 31, 2019 \$	March 31, 2018 \$
Cash interest paid	3,560,080	2,101,581
Cash income taxes paid	5,361	-

22 Subsequent event

On April 2, 2019, the REIT completed the acquisition of 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. Of the contractual purchase price, \$14,763,390 was satisfied through the issuance of 7,030,186 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of \$2.10 per unit and convertible to REIT Units on a 1 to 1 basis, with the balance, net of closing adjustments. As at March 31, 2019, the REIT had a deposit of \$500,000 with respect to this purchase.