



Nexus REIT

NEXUS REAL ESTATE INVESTMENT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2019

March 12, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The information contained in this MD&A reflects events up to March 12, 2020, the date on which this MD&A was approved by the REIT's Board of Trustees. Financial data included in this MD&A is presented in Canadian dollars, which is the functional currency of the REIT, and has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information about the REIT can be accessed at www.sedar.com.

FORWARD LOOKING STATEMENTS

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

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

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

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

BUSINESS OVERVIEW AND STRATEGY

Nexus Real Estate Investment Trust (the “REIT”) was established under the laws of Ontario pursuant to its declaration of trust, as amended and restated effective April 28, 2014 and November 28, 2017. The REIT is an open-ended real estate investment trust which owns and operates commercial real estate properties in Western Canada, Ontario, Quebec and Atlantic Canada.

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

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

HIGHLIGHTS

- Recognized as a top 50 Venture Exchange Company in the 2020 TSX Venture 50.
- Completed a \$31,000,000 acquisition of industrial properties in the year and a \$17,400,000 acquisition of industrial properties on February 3, 2020.
- Net income for the year of \$42,387,970 was up 9.2% as compared to 2018 net income of \$38,834,266.
- Normalized AFFO per unit for the quarter of \$0.052 increased 5.0% as compared to Q4 2018 normalized AFFO per unit of \$0.049. Q4 2019 normalized AFFO per unit of \$0.052 increased 2.4% as compared to Q3 2019 normalized AFFO per unit of \$0.051.
- Normalized AFFO payout ratio for the year of 79.4% is down from 82.9% for the year ended December 31, 2018. Q4 2019 normalized AFFO payout ratio of 77.0% decreased from 78.9% for Q3 2019. Conservative debt to total assets ratio of 49.1%.
- Management of the REIT will host a conference call on Friday March 13th at 1PM EST to review results and operations.

ACQUISITIONS AND DISPOSALS

Acquisitions

On April 2, 2019, the REIT acquired four industrial properties located in Fort St John, British Columbia; Blackfalds, Alberta; Medicine Hat, Alberta and Estevan, Saskatchewan (the "Mastec Properties") for a contractual purchase price of \$31,000,000. The purchase price was partially satisfied through the issuance of 7,030,186 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of \$2.10 per unit and convertible into REIT units on a one to one basis, with the balance, net of closing adjustments, satisfied in cash.

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 Calgary Property 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.

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

On June 27, 2018, the REIT acquired an industrial property located in Regina, Saskatchewan (the "Regina Property") for a contractual purchase price of \$6,300,000. The Regina Property is 100% leased and has a gross leasable area ("GLA") of 38,690 square feet. The purchase price was partially satisfied through the issuance of 1,047,619 REIT units at a deemed value of \$2.10 per unit with the balance, net of closing adjustments, satisfied in cash.

On June 7, 2018, the REIT acquired two industrial properties located in Nisku, Alberta (the "Nisku Properties") for a contractual purchase price of \$12,345,000. The Nisku Properties are 100% leased and have a GLA of 61,155 square feet. The purchase price was partially satisfied through the issuance of 1,533,219 Class B LP Units of a subsidiary limited partnership of the REIT convertible on a 1.67 to one basis to 2,540,476 REIT units at a deemed value of \$2.10 per REIT unit, with the balance, net of closing adjustments, satisfied in cash.

On April 30, 2018, the REIT acquired a property located in Richmond, British Columbia (the “Richmond Property”) for a contractual purchase price of \$57,380,000. The Richmond Property has a GLA of 174,059 square feet. The purchase price was partially satisfied through the issuance of 9,666,667 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of \$2.10 per unit and convertible to REIT units on a one to one basis, with the balance, net of closing adjustments, satisfied in cash. The vendor is obligated to complete, at their cost, certain improvements to the property with an estimated cost of \$2,400,000. These improvements are required to prepare the property for occupancy by certain tenants who are not yet occupying the property. Until the construction is complete and tenants are all occupying and paying rent under the terms of their leases, the vendors will pay to the REIT a rent obligation equal to the rents that will be earned on the spaces that are being built out once the tenants take occupancy and are paying rent in accordance with their leases.

Disposals

On December 2, 2019, the REIT sold a property located in Mascouche, Quebec for a selling price of \$3,700,000. Net of selling costs of \$134,313, the REIT received cash proceeds of \$3,565,687. The sale of the property generated a loss on sale of \$134,313.

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.

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

REIT PROPERTIES AS AT DECEMBER 31, 2019

Property Address	Property Use	Rentable Area (Square Feet)	Rentable Area (Square Feet) At REIT Ownership Interest	Occupancy	Weighted Average Remaining Lease Term
<u>Northwest Territories</u>					
348-352 Old Airport Rd., Yellowknife, NWT	Industrial	53,212	53,212	100%	5.9 years
<u>British Columbia</u>					
965 McMaster Way, Kamloops, BC	Industrial	13,706	13,706	100%	5.9 years
988 Great St., Prince George, BC	Multi-Tenant Service, Warehousing, Retail	53,126	53,126	100%	3.7 years
1751 & 1771 Savage Road, Richmond, BC	Industrial and Retail Mixed Use	174,059	174,059	100%	6.3 years
9929 Swanson St., Fort St. John, BC	Industrial	26,477	26,477	100%	3.3 years
<u>Alberta</u>					
4700 & 4750 - 102 Ave., SE, Calgary, AB	Industrial	29,471	29,471	100%	5.0 years
3780 & 4020 - 76 th Ave., SE, Calgary, AB	Industrial	58,937	58,937	100%	5.9 years
41 Royal Vista Drive, NW, Calgary, AB	Industrial	36,915	36,915	100%	7.6 years
8001 - 99 St., Clairmont, AB	Office and Warehouse	26,638	26,638	100%	9.5 years
12104 & 12110 - 17 th St., NE, Edmonton, AB	Industrial and Headquarters	116,582	116,582	100%	5.9 years
14801 - 97 th St., Grande Prairie, AB	Industrial	42,120	42,120	100%	5.9 years
3501 Giffen Rd. North & 3711 - 36 St. North, Lethbridge, AB	Industrial	229,000	229,000	100%	9.5 years
5406 - 59 th Ave., Lloydminster, AB	Industrial	12,425	12,425	100%	5.9 years
4301 - 45 Ave., Rycroft, AB	Industrial	22,110	22,110	100%	9.5 years
2301 - 8 St., Nisku, AB	Industrial	21,506	21,506	100%	4.8 years
2303A - 8 St., Nisku, AB	Industrial	33,866	33,866	100%	5.8 years
1010 Brier Park Dr., Medicine Hat, AB	Industrial	14,354	14,354	100%	3.3 years
27323 - 144 Township Rd. 394, Blackfalds, AB	Industrial	25,000	25,000	100%	6.8 years
<u>Saskatchewan</u>					
110 - 71 st St., Saskatoon, SK	Industrial	74,796	74,796	100%	5.9 years

Property Address	Property Use	Rentable Area (Square Feet)	Rentable Area (Square Feet) At REIT Ownership Interest	Occupancy	Weighted Average Remaining Lease Term
15 Peters Ave., Saskatoon, SK	Industrial	38,160	38,160	100%	5.9 years
850 Manitoba St. East & 15 - 9 th Ave., NE, Moose Jaw, SK	Industrial	18,800	18,800	100%	5.9 years
4271 – 5 Ave. East, Prince Albert, SK	Industrial	24,600	24,600	100%	6.0 years
1117 -1135 Pettigrew Ave., Regina, SK	Industrial	38,690	38,690	100%	1.6 years
101 Jahn St., Estevan, SK	Industrial	11,846	11,846	100%	3.3 years
<u>Ontario</u>					
455 Welham Rd., Barrie, ON	Industrial	109,366	109,366	100%	5.5 years
200 Sheldon Drive, Cambridge, ON	Industrial	150,000	150,000	100%	0.7 years
5005 South Service Road, Beamsville, ON	Retail	8,125	8,125	100%	3.7 years
<u>Quebec</u>					
935-965 rue Reverchon, Saint-Laurent, QC	Multi-tenant Industrial	114,236	114,236	100%	3.6 years
2045 rue Stanley, Montréal, QC ^{(1) (2) (4)}	Office	113,714	56,857	83% ⁽²⁾⁽⁴⁾	14.7 years
1901 Dickson / 5780 Ontario Est, Montréal, QC	Industrial	91,068	91,068	100%	5.4 years
72 rue Laval, Gatineau, QC ⁽¹⁾	Office	68,473	34,237	100%	2.3 years
6810 boul. Des Grandes Prairies, Montréal, QC	Industrial	60,786	60,786	100%	2.5 years
3330 2 ^e rue, Saint-Hubert, QC	Multi-tenant Industrial	60,441	60,441	100%	1.9 years
3600 1 ^{ère} rue, Saint-Hubert, QC	Multi-tenant Industrial	37,554	37,554	100%	1.4 years
3550 1 ^{ère} rue, Saint-Hubert, QC	Industrial	22,428	22,428	100%	2.1 years
1185-1195 Chemin du Tremblay, Longueuil, QC	Commercial Mixed Use	53,913	53,913	89%	3.2 years
41 boulevard Saint-Jean-Baptiste, Châteauguay, QC	Retail	53,151	53,151	100%	5.8 years
10500 avenue Ryan, Dorval, QC	Office	52,372	52,372	100%	9.9 years
3490-3504 rue Griffith, Saint-Laurent, QC	Multi-tenant Industrial	40,665	40,665	100%	3.3 years
955 boulevard Michèle-Bohec, Blainville, QC	Office	33,461	33,461	100%	6.5 years

Property Address	Property Use	Rentable Area (Square Feet)	Rentable Area (Square Feet) At REIT Ownership Interest	Occupancy	Weighted Average Remaining Lease Term
1600 rue Montgolfier, Laval, QC	Office	27,097	27,097	100%	4.5 years
10330-10340 Ch. Côte-de-Liesse, Lachine, QC	Office	26,281	26,281	44%	2.3 years
1094-1100 boulevard Des Chutes, Beauport, QC ⁽¹⁾	Retail	32,211	16,106	100%	4.6 years
1700 rue Sherbrooke, Magog, QC ⁽¹⁾	Retail	133,406	66,703	73%	3.8 years
1971 rue Bilodeau, Plessisville, QC ⁽¹⁾	Retail	99,611	49,806	91%	5.1 years
4000 boulevard Du Jardin, Québec City, QC ⁽¹⁾	Retail	44,619	22,310	100%	5.1 years
6700 rue St-Georges, Lévis, QC ⁽¹⁾	Retail	43,203	21,602	90%	5.0 years
10516 boulevard Sainte-Anne, Ste-Anne-de-Beaupré, QC ⁽¹⁾	Retail	88,625	44,313	86%	4.4 years
9550 boulevard L'Ormière, Québec, QC ⁽¹⁾	Retail	114,396	57,198	98%	2.3 years
333 Côte Joyeuse, St-Raymond, QC ⁽¹⁾	Retail	64,468	32,234	80%	3.2 years
161 Route 230 Ouest, La Pocatière, QC ⁽¹⁾	Retail	208,800	104,400	69%	3.5 years
25 Route 138, Forestville, QC ⁽¹⁾	Retail	55,962	27,981	88%	2.9 years
2000 boulevard Louis-Fréchette, Nicolet, QC ⁽¹⁾	Retail	88,383	44,192	93%	6.2 years
3856 boulevard Taschereau, Greenfield Park, QC ⁽¹⁾	Retail	213,982	106,991	97%	4.2 years
250 boulevard Fiset, Sorel, QC ⁽¹⁾	Retail	116,348	58,174	100%	5.7 years
8245 boulevard Taschereau, Brossard, QC ⁽¹⁾	Retail	43,329	21,665	67%	6.4 years
340 rue Belvédère Sud, Sherbrooke, QC ⁽¹⁾	Retail	170,953	85,477	93%	4.3 years
401-571 boulevard Jutras Est, Victoriaville, QC	Retail	381,122	381,122	92%	6.7 years
7500 boulevard Les Galeries d'Anjou, Anjou, QC ⁽¹⁾	Retail	105,398	52,699	93%	3.7 years
353 St-Nicolas, Montréal, QC ⁽¹⁾	Office	34,480	17,740	86%	1.6 years
410 St-Nicolas, Montréal, QC ⁽¹⁾	Office	154,515	77,258	92%	1.6 years
360 Notre-Dame Ouest, Montréal, QC ⁽¹⁾	Office	29,758	14,879	86%	2.9 years

Property Address	Property Use	Rentable Area (Square Feet)	Rentable Area (Square Feet) At REIT Ownership Interest	Occupancy	Weighted Average Remaining Lease Term
321 de la Commune, Montréal, QC ⁽¹⁾	Office	11,502	5,751	100%	3.2 years
329 de la Commune, Montréal, QC ⁽¹⁾	Office	21,022	10,511	97%	2.7 years
127, 137 & 145 St-Pierre, Montréal, QC ⁽¹⁾	Office	36,620	18,310	100%	5.5 years
63 rue des Brésosles, Montréal, QC ⁽¹⁾	Office	39,020	19,510	100%	3.8 years
425 rue Guy, Montréal, QC ⁽¹⁾	Multi-tenant Industrial	37,196	18,598	86%	2.2 years
<u>New Brunswick</u>					
400 Main Street, St. John, NB	Office	159,533	159,533	85%	3.2 years
<u>Prince Edward Island</u>					
695 University Ave., Charlottetown, PEI	Retail	4,500	4,500	100%	1.5 years
Total		4,852,489	3,767,997	95% ⁽³⁾	5.1 years ⁽³⁾

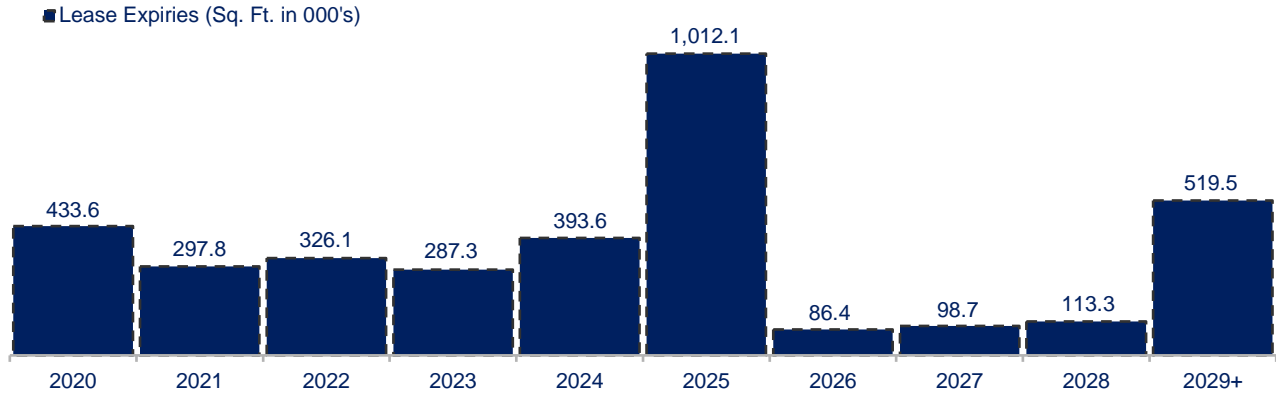
(1) Nexus owns a 50% interest in these properties.

(2) Property is under redevelopment.

(3) Excluding 2045 rue Stanley, which is under redevelopment, the occupancy rate is 95% and the weighted average remaining lease term is 4.9 years.

(4) 2045 rue Stanley has a total committed occupancy of 95% as at December 31, 2019.

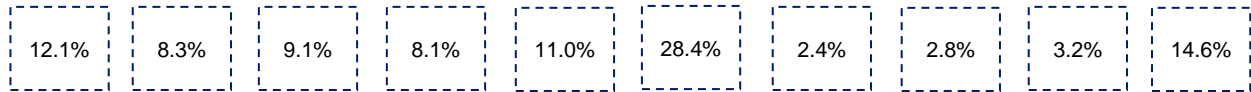
LEASE EXPIRIES



Expiring Annual Base Revenue (\$Ms)

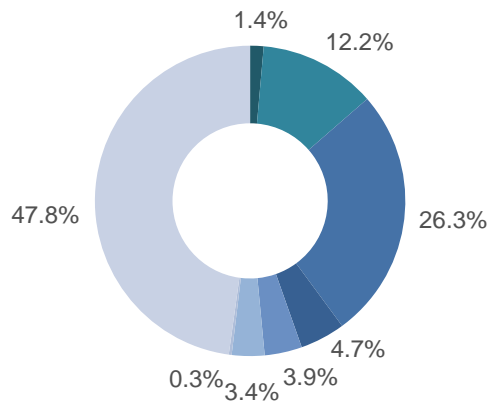


% of Total Leased GLA Expiring



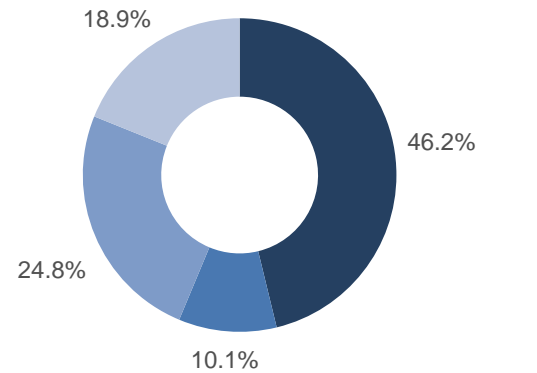
PROPERTY COMPOSITION DIVERSITY

GEOGRAPHIC MIX (BY BASE RENT)



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

ASSET CLASS MIX (BY BASE RENT)



■ Industrial
 ■ Mixed-use
 ■ Retail
 ■ Office

SUMMARY OF RESULTS

	Three months ended		Year ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Financial highlights				
Property revenues	15,583,030	14,221,166	60,010,310	54,097,493
Net rental income	9,657,274	9,004,890	37,928,100	33,765,529
Funds from operations (FFO) ^{(1) (7)}	7,892,732	5,609,093	28,230,409	20,994,342
Normalized FFO ^{(1) (2) (7)}	6,993,921	6,279,593	26,568,084	22,788,447
Adjusted funds from operations (AFFO) ^{(1) (7)}	7,141,757	4,875,406	25,451,219	18,403,914
Normalized AFFO ^{(1) (2) (7)}	6,242,946	5,545,906	23,788,894	20,198,019
Distributions declared ⁽³⁾	4,808,507	4,494,971	18,897,262	16,879,656
Distributions declared on units issued April 30, 2018 on the closing of an acquisition ^{(3) (4)}	-	-	-	128,857
Normalized distributions declared ^{(3) (4)}	4,808,507	4,494,971	18,897,262	16,750,799
Weighted average units outstanding – basic ⁽⁵⁾	120,205,902	112,169,870	118,131,076	104,620,008
Weighted average units outstanding – diluted ⁽⁵⁾	120,317,048	112,216,160	118,202,305	104,677,571
Distributions per unit, basic and diluted ^{(3) (5)}	0.040	0.040	0.160	0.161
Adjusted distributions per unit, basic and diluted ^{(3) (4) (5) (6)}	0.040	0.040	0.160	0.160
FFO per unit, basic and diluted ^{(1) (5) (7)}	0.066	0.050	0.239	0.201
Normalized FFO per unit, basic and diluted ^{(1) (2) (5) (7)}	0.058	0.056	0.225	0.218
AFFO per unit, basic and diluted ^{(1) (5) (7)}	0.059	0.043	0.215	0.176
Normalized AFFO per unit, basic and diluted ^{(1) (2) (5) (7)}	0.052	0.049	0.201	0.193
AFFO payout ratio, basic ^{(1) (3) (7)}	67.3%	92.2%	74.2%	91.7%
Normalized AFFO payout ratio, basic ^{(1) (2) (3) (7)}	77.0%	81.1%	79.4%	83.6%
Normalized AFFO payout ratio, basic, calculated with normalized distributions declared ^{(1) (2) (3) (4) (6) (7)}	77.0%	81.1%	79.4%	82.9%
Debt to total assets ratio	49.1%	51.7%	49.1%	51.7%

(1) See Non-IFRS Measures.

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

Normalized FFO and Normalized AFFO also include adjustments for debt repayment fees included in interest expense in the year ended December 31, 2019 of \$578,399 which were due on repayment of debt assumed in acquisitions completed in July 2017.

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

(4) 9,666,667 REIT units were issued on April 30, 2018 on the closing of an acquisition. These units were eligible to receive distributions for the month of April. Normalized distributions declared and Normalized AFFO payout ratio, basic, calculated with normalized distributions declared each exclude distributions declared on these units for the month of April 2018.

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

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

(7) 2018 comparative period FFO, AFFO, Normalized FFO and Normalized AFFO have been restated to include an adjustment for amortization of tenant incentives and leasing costs, not adjusted in 2018.

	Three months ended		Year ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Financial results				
Property revenues	15,583,030	14,221,166	60,010,310	54,097,493
Property expenses	<u>(5,925,756)</u>	<u>(5,216,276)</u>	<u>(22,082,210)</u>	<u>(20,331,964)</u>
Net operating income	9,657,274	9,004,890	37,928,100	33,765,529
General and administrative expense	(742,429)	(719,027)	(3,187,095)	(2,869,087)
Fair value adjustment of investment properties	19,779,867	17,533,027	20,169,991	19,050,281
Fair value adjustment of Class B LP Units	(3,097,390)	2,391,146	(5,165,873)	2,067,124
Fair value adjustment of warrants	70	8,000	3,015	20,593
Fair value adjustment of unit options	(147,000)	116,000	(247,000)	(16,000)
Fair value adjustment of restricted share units	(15,841)	-	(15,841)	-
Fair value adjustment of derivative financial instruments	1,743,383	-	781,269	-
Income (loss) from equity accounted investment in joint venture	2,333,538	(1,063,727)	2,142,091	(770,522)
Loss on disposal of investment properties	(134,313)	-	(134,313)	(48,721)
Other income	1,416,625	-	4,624,419	-
	<u>30,793,784</u>	<u>27,270,309</u>	<u>56,898,763</u>	<u>51,199,197</u>
Net interest expense	(2,732,394)	(2,698,438)	(11,620,169)	(9,897,583)
Distributions on Class B LP Units	<u>(728,450)</u>	<u>(818,464)</u>	<u>(2,890,624)</u>	<u>(2,467,348)</u>
Net income	<u>27,332,940</u>	<u>23,753,407</u>	<u>42,387,970</u>	<u>38,834,266</u>

For the three months ended December 31, 2019, net operating income of \$9,657,274 was \$652,384 higher than NOI in the same period of 2018 of \$9,004,890. Properties acquired in 2018 and in Q2 2019 contributed approximately \$1,816,000 of NOI in the quarter, compared to \$956,000 in Q4 2018.

For the year ended December 31, 2019, net operating income of \$37,928,100 was \$4,162,571 higher than NOI in the same period of 2018 of \$33,765,529. Properties acquired in 2018 and in Q2 2019 contributed approximately \$6,252,000 of NOI in the period, compared to \$1,915,000 in the same period of 2018. CPI increases generated incremental NOI of approximately \$180,000 in the period as compared in the same period of 2018.

For the three months ended December 31, 2019, general and administrative expense of \$742,429 was \$23,402 higher than general and administrative expense of \$719,027 in the same period of 2018 primarily due to higher professional fees.

For the year ended December 31, 2019, general and administrative expense of \$3,187,095 was \$318,008 higher than general and administrative expense of \$2,869,087 in the same period of the prior year primarily due to higher salaries and professional fees, and recruiting costs in the year ended December 31, 2019.

Fair value adjustments of Class B LP Units are driven by changes in the trading price of the REIT units, multiplied by the number of Class B LP Units outstanding at a quarter end, as well as fair value adjustments to the date that Class B LP Units are exchanged for REIT units. As at December 31, 2019, 18,215,819 Class B LP Units were outstanding, which are exchangeable for REIT units on a one to one basis. The trading price of the REIT's units as at December 31, 2019 was \$2.17 as compared to \$2.00 as at September 30, 2019 and \$1.89 per unit as at December 31, 2018.

Fair value adjustments of unit options are impacted primarily by changes in the trading price of the REIT units relative to the strike price of the unit options and by the number of unit options outstanding, as well as by changes in interest rates and the expected remaining life of unit options. The trading price of the REIT's units accounted for the majority of the change in fair value.

Income from equity accounted investment in joint venture for the three months ended December 31, 2019 of \$2,333,538 relates to a joint venture which owns 2045 rue Stanley, a downtown Montreal office building with 113,714 square feet of GLA, in which the REIT has a 50% joint venture interest. Of this income, \$1,977,467 relates to a fair value adjustment of property under development, \$175,487 relates to a fair value adjustment to mark to market an interest rate swap in place at the joint venture, and \$250,544 relates to the NOI, partially offset by interest expense of \$62,053 and general and administrative expense of \$7,907.

For the year ended December 31, 2019, income from equity accounted investment in joint venture of \$2,142,091 relates to a fair value adjustment of property under development of \$1,977,467 and a NOI of \$624,503. The income is partially offset by a fair value adjustment of \$147,317 to mark to market the interest rate swap, interest expense of \$232,087, and general and administrative expense of \$80,475.

During the year ended December 31, 2019, the estimated vendor rent obligation related to the Richmond Property was reassessed in the context of anticipated delays in the completion of property improvements required before the commencement of certain leases. This reassessed amount has been recorded in other income, reflecting an increase in the total amount expected to be collected from the vendor through to completion of the property improvements. The work is still progressing and expected to be completed in the fourth quarter of 2020.

Net interest expense for the three months ended December 31, 2019 of \$2,732,394 was \$33,956 higher than net interest expense of \$2,698,438 for Q4 2018.

For the year ended December 31, 2019, the net interest expense of \$11,620,169 was \$1,722,586 higher than net interest expense of \$9,897,583 for the same period of the prior year due to the impact of acquisitions in 2018 and in 2019, which accounted for \$2,584,392 of interest expense during the current year as compared to \$1,249,277 for the same period of the prior year. Also included in the current year ended is a debt repayment fee in the amount of \$578,339 which was due in April 2019 on repayment of debt assumed in acquisitions completed in July 2017. Partially offsetting are the impact of lower interest rates and principal in the year ended December 31, 2019.

For the three months ended December 31, 2019, distributions on Class B LP Units of \$728,450 were \$90,014 lower than distributions on Class B LP Units of \$818,464 for the same period of the prior year due to a smaller number of Class B LP Units outstanding in the period.

For the year ended December 31, 2019, distributions on Class B LP Units were \$423,276 higher than the same period of 2018 due to a greater number of Class B LP Units outstanding in the period, which were issued in connection with the acquisitions of the Mastec Properties in 2019 and the Richmond, Nisku and Beamsville Properties in 2018.

	As at December 31, 2019 \$	As at December 31, 2018 \$
Select balance sheet data		
Investment properties	584,772,861	530,191,912
Cash	7,875,818	3,354,169
Total Assets	613,379,467	548,380,739
Current portion of mortgages payable	45,132,631	66,654,908
Current portion of Credit Facility	-	58,715,338
Total Current Liabilities	54,292,590	134,395,661
Non-current portion of mortgages payable	186,971,943	158,343,585
Non-current portion of Credit Facility	65,009,228	-
Class B LP units	39,528,332	37,320,065
Total Non-current Liabilities	295,857,626	195,942,875
Total Unitholders' Equity	263,229,251	218,042,203
Debt to total assets ratio	49.1%	51.7%

Debt to total assets

The REIT's debt to total assets as at December 31, 2019 was 49.1% as compared to 51.7% as at December 31, 2018. The REIT's calculation of debt includes mortgages payable, Credit Facility and lease liabilities balances at the amounts carried on the REIT's consolidated statements of financial position.

SUMMARY OF QUARTERLY RESULTS ⁽¹⁾

	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Property revenues	\$ 15,583,030	\$ 14,929,417	\$ 15,057,425	\$ 14,440,438
Property expenses	<u>\$ (5,925,756)</u>	<u>\$ (5,340,871)</u>	<u>\$ (5,311,966)</u>	<u>\$ (5,503,617)</u>
Net operating income (NOI)	\$ 9,657,274	\$ 9,588,546	\$ 9,745,459	\$ 8,936,821
Net income	\$ 27,332,940	\$ 6,412,316	\$ 4,041,737	\$ 4,600,977
Weighted average number of units, basic	120,205,902	119,951,933	119,729,985	112,532,148
Weighted average number of units, diluted	120,317,048	120,009,354	119,798,205	112,557,675
	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Property revenues	\$ 14,221,166	\$ 13,450,841	\$ 13,121,925	\$ 13,303,561
Property expenses	<u>\$ (5,216,276)</u>	<u>\$ (4,855,799)</u>	<u>\$ (4,886,255)</u>	<u>\$ (5,373,634)</u>
Net operating income (NOI)	\$ 9,004,890	\$ 8,595,042	\$ 8,235,670	\$ 7,929,927
Net income	\$ 23,753,407	\$ 4,157,032	\$ 4,498,873	\$ 6,424,954
Weighted average number of units, basic	112,169,870	109,956,419	101,829,119	94,331,914
Weighted average number of units, diluted	112,216,160	110,015,122	101,888,051	94,400,403

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

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

	Three months ended		Year ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
FFO				
Net income	27,332,940	23,753,407	42,387,970	38,834,266
Adjustments:				
Loss on disposals	134,313	-	134,313	48,721
Fair value adjustment of investment properties	(19,779,867)	(17,533,027)	(20,169,991)	(19,050,281)
Fair value adjustment of Class B LP Units	3,097,390	(2,391,146)	5,165,873	(2,067,124)
Fair value adjustment of warrants	(70)	(8,000)	(3,015)	(20,593)
Fair value adjustment of unit options	147,000	(116,000)	247,000	16,000
Fair value adjustment of RSU	15,841	-	15,841	-
Fair value adjustment of derivative financial instruments	(1,743,383)	-	(781,269)	-
Adjustments for equity accounted joint venture ⁽¹⁾	(2,152,954)	1,095,441	(1,830,150)	866,263
Attribution of grant date fair value of unit options	(31,224)	(45,125)	(161,965)	(185,500)
Distributions on Class B LP Units expensed	728,450	818,464	2,890,624	2,467,348
Amortization of tenant incentives and leasing costs ⁽²⁾	135,575	35,079	317,326	85,242
Lease principal payments	(14,553)	-	(75,242)	-
Amortization of right-of-use assets	23,274	-	93,094	-
Funds from operations (FFO)	<u>7,892,732</u>	<u>5,609,093</u>	<u>28,230,409</u>	<u>20,994,342</u>
Add: Vendor rent obligation ⁽³⁾	517,814	670,500	2,383,695	1,794,105
Less: Other income ⁽³⁾	(1,416,625)	-	(4,624,419)	-
Add: Repayment fees ⁽⁴⁾	-	-	578,399	-
Normalized FFO	<u>6,993,921</u>	<u>6,279,593</u>	<u>26,568,084</u>	<u>22,788,447</u>
AFFO				
FFO	7,892,732	5,609,093	28,230,409	20,994,342
Adjustments:				
Straight-line adjustments ground lease and rent	(197,294)	(194,687)	(575,147)	(496,428)
Capital reserve ⁽⁵⁾	(553,681)	(539,000)	(2,204,043)	(2,094,000)
Adjusted funds from operations (AFFO)	<u>7,141,757</u>	<u>4,875,406</u>	<u>25,451,219</u>	<u>18,403,914</u>
Add: Vendor rent obligation ⁽³⁾	517,814	670,500	2,383,695	1,794,105
Add: Other income ⁽³⁾	(1,416,625)	-	(4,624,419)	-
Add: Repayment fees ⁽⁴⁾	-	-	578,399	-
Normalized AFFO	<u>6,242,946</u>	<u>5,545,906</u>	<u>23,788,894</u>	<u>20,198,019</u>

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

(2) 2018 comparative period FFO has been restated to include an adjustment for amortization of tenant incentives and leasing costs, not adjusted in 2018.

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

(4) Normalized FFO and Normalized AFFO include adjustments for debt repayment fees included in interest expense in the year ended December 31, 2019 of \$578,399 which were due on repayment of debt assumed in acquisitions completed in July 2017.

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

AFFO Capital Reserve

	Three months ended		Year ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Capital reserve ⁽⁵⁾	553,681	539,000	2,204,043	2,094,000
Average square feet of GLA	3,783,145	3,704,392	3,767,763	3,607,743
Annualized capital reserve per square foot of GLA	\$0.59	\$0.58	\$0.58	\$0.58

	Three months ended		Year ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Actual tenant incentives and leasing costs	904,456	300,929	1,875,963	1,134,913
Actual maintenance capital expenditures	555,133	791,431	1,169,658	2,230,870
Total	1,459,589	1,092,360	3,045,621	3,365,783
Less expenditures funded from mortgage escrow	-	-	-	(316,828)
Total spending funded by the REIT	1,459,589	1,092,360	3,045,621	3,048,955
Average square feet of GLA	3,783,145	3,704,392	3,767,763	3,607,743
Annualized capital spent per square foot of GLA unadjusted for capital reserve	\$1.54	\$1.18	\$0.81	\$0.85

Actual capital spending and tenant incentive and leasing costs for the year ended December 31, 2019 of \$3,045,621 is higher than the amount of the capital reserve included in AFFO of \$2,204,043 by \$841,578. Of the total actual spending for the year then ended, \$2,351,849 relates to a portfolio of properties acquired in 2017. Capital spending on this portfolio is anticipated to be higher in the first 2 to 3 years post-acquisition, and to then normalize.

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

	Three months ended		Year ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Cash flows generated by operating activities	6,612,159	7,946,394	23,347,175	19,528,428
Adjustments:				
Changes in non-cash working capital	(20,048)	(3,099,842)	897,635	(1,502,889)
Changes in other non-current assets	(31,663)	(6,421)	(59,611)	(30,444)
Changes in restricted cash	224,086	(291,867)	453,944	(216,965)
Distributions on Class B LP Units expensed	728,450	818,464	2,890,624	2,467,348
Loss on disposals	134,313	-	134,313	48,721
Adjustments for equity accounted joint venture	(2,152,954)	1,095,441	(1,830,150)	866,263
Share of net income (loss) from 50% investment in joint venture	2,333,538	(1,063,727)	2,142,091	(770,522)
Straight-line rent adjustments of equity accounted joint venture	(4,828)	(48,689)	(85,674)	(138,092)
Non-cash trustee fees settled in units	-	(42,809)	-	(171,237)
Restricted share unit expense	(86,339)	-	(158,339)	-
Attribution of grant date fair value of unit options	(31,224)	(45,125)	(161,965)	(185,500)
Amortization of deferred financing fees	(73,537)	(114,627)	(373,695)	(503,806)
Amortization of mortgage fair value adjustments	78,038	267,214	534,156	1,106,609
Lease principal repayments	(14,553)	-	(75,242)	-
Capital reserve	(553,681)	(539,000)	(2,204,043)	(2,094,000)
AFFO	7,141,757	4,875,406	25,451,219	18,403,914

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The REIT's principal source of liquidity is cash on hand and the undrawn borrowing capacity on its Credit Facility. As at December 31, 2019, the REIT had cash of \$7,875,818 (December 31, 2018 - \$3,354,169) and a working capital deficit of \$37,635,642 (December 31, 2018 - \$122,666,451). Excluding the current portion of mortgages payable of \$45,132,631, working capital would be a surplus of \$7,496,989. The REIT expects that it will be able to refinance the mortgages on their maturities. Management of the REIT believes that sufficient cash from operations will be generated to settle the REIT's liabilities as they come due, and the REIT has the ability to draw funds on the Credit Facility if required. The REIT has sufficient liquidity to maintain and expand its business.

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

	Three months ended		Year ended	
	December 31,		December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Cash generated by (used in)				
Operating activities	6,612,159	7,946,394	23,347,175	19,528,428
Investing activities	1,696,089	(7,119,491)	(17,993,641)	(52,855,224)
Financing activities	(5,281,460)	(1,158,489)	(831,885)	32,427,194
Change in cash	3,026,788	(331,586)	4,521,649	(899,602)
Cash – beginning of period	4,849,030	3,685,755	3,354,169	4,253,771
Cash – end of period	<u>7,875,818</u>	<u>3,354,169</u>	<u>7,875,818</u>	<u>3,354,169</u>

Cash generated by operating activities for the three months ended December 31, 2019 of \$6,612,159 is comprised of net income of \$ 27,332,940, cash from changes in non-cash working capital, other non-current assets and restricted cash of \$172,375, and non-cash items of \$20,548,406. Prepaid expenses decreased in the quarter, generating \$2,265,324 with most property taxes having been fully paid for the year prior to Q4 2019. Other current assets increased in the quarter, accounting for a \$1,254,850 use of cash, mainly due to an additional vendor rent obligation accrual of \$1,416,625 recorded in the fourth quarter.

Cash generated by operating activities for the year ended December 31, 2019 of \$23,347,175 is comprised of net income of \$42,387,970, cash from changes in non-cash working capital, other non-current assets and restricted cash of \$1,291,968, and non-cash items of \$17,748,827.

Cash generated from investing activities for the three months ended December 31, 2019 of \$1,696,089 is primarily related to the \$3,700,000 proceeds from disposal of an investment property, partially offset by tenant incentives, leasing costs and capital spending in the amount of \$2,003,911.

Cash used in investing activities for the year ended December 31, 2019 of \$17,993,641 is primarily related to the use of \$16,757,896 for the acquisition of the Mastec Properties in April 2019. The remainder of cash used in investing activities relates to tenant incentives, leasing costs and capital spending in the amount of \$4,035,745 and a \$900,000 cash contribution to the joint venture that owns an office building located at 2045 Rue Stanley in Montreal. Partially offsetting these outflows was \$3,700,000 of proceeds from the disposition of an investment property.

Cash used in financing activities for the three months ended December 31, 2019 of \$5,281,460 is primarily related to cash distributions to unitholders of \$3,573,499 and repayments of the credit facility of \$1,623,949.

Cash used in financing activities for the year ended December 31, 2019 of \$831,885 is primarily related to cash distributions to unitholders of \$14,317,075 and mortgage principal repayments \$9,631,561, partially offset by \$16,861,558 of new mortgage financing net proceeds used to purchase the Mastec Properties and \$6,330,435 of net borrowings on the credit facility. The majority of net borrowings on the credit facility in the year was used to pay down mortgage debt, as well as to finance a \$900,000 investment in the joint venture.

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

Mortgages Payable

As at December 31, 2019, the mortgages payable are secured by charges against 53 of the REIT's investment properties. The weighted average interest rate, including deferred financing costs and interest rate swap agreements, of the mortgages payable is 3.89% and the weighted average term to maturity is 3.68 years (December 31, 2018 - 2.76 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled Repayments	Principal Maturities	Total
	\$	\$	\$
2020	7,017,203	38,138,628	45,155,831
2021	6,168,108	16,989,177	23,157,286
2022	5,753,437	15,972,007	21,725,444
2023	4,435,007	48,955,120	53,390,128
2024	2,480,871	43,027,899	45,508,769
Thereafter	2,591,856	40,552,686	43,144,542
Total	<u>28,446,482</u>	<u>203,635,517</u>	<u>232,081,999</u>

Credit Facility

On September 13, 2019, the REIT refinanced its existing credit facility to a fixed-term facility of \$65,000,000 and a revolving facility of \$5,000,000 (together the Credit Facility). The Credit Facility matures on September 13, 2024 and is secured against 13 of the REIT's investment properties.

The \$65,000,000 fixed-term facility bears interest at the 30-day Bankers' acceptance rate plus 150 basis points. Concurrent with the refinancing, the REIT entered into interest rate swap agreements totalling \$65,000,000 to swap floating 30-day Bankers' acceptance rates for a fixed rate of 1.65%. The \$5,000,000 revolving credit facility allows the REIT to draw against the facility in the form of prime rate advances or Bankers' acceptances. Prime rate advances bear interest at 100 basis points per annum over the Canadian prime borrowing rate. Bankers' acceptance advances bear interest at 200 basis points per annum over the floating bankers' acceptance rate.

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

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

	December 31, 2019	December 31, 2018
	\$	\$
Fixed-term borrowings	65,000,000	50,350,000
Bankers' acceptance borrowings	-	6,000,000
Prime rate borrowings	139,273	2,458,838
Total drawn against the Credit Facility	<u>65,139,273</u>	<u>58,808,838</u>
Less: deferred financing costs	<u>(130,045)</u>	<u>(93,500)</u>
	<u>65,009,228</u>	<u>58,715,338</u>

Amounts drawn on the Credit Facility as at December 31, 2019 are as follows:

	Principal Amount \$	Interest Rate	Repricing Date
Fixed-term borrowings	65,000,000	3.49% ⁽¹⁾	January 13, 2020 ⁽¹⁾
Prime rate borrowings	<u>139,273</u>	4.95%	Variable
	<u><u>65,139,273</u></u>		

⁽¹⁾ The REIT entered into interest rate swap agreements to swap floating rate interest for a fixed rate of 3.15% over the term of the Credit Facility.

The Credit Facility includes, inter alia, covenants that RW LP, the subsidiary of the REIT which is party to the Credit Facility: (i) will not allow the Total Funded Debt to Real Property Ratio to exceed 60% at any time; and (ii) the Interest Coverage Ratio shall not be less than 2.25:1.00. As at December 31, 2019, RW LP was in compliance with both of these covenants. The Credit Facility also contains restrictions on, inter alia, change of business, sale of assets, and mergers and acquisitions without the consent of the lender and includes events of default such as failure to pay the principal loan, failure to observe covenants and involuntary insolvency.

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

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

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

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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

Valuation of investment properties

The assumptions and estimates used when determining the fair value of investment properties are stabilized income and capitalization rates. Management determines fair value internally utilizing financial information, external market data and capitalization rates determined by reference to third party appraisals and reports published by industry experts including commercial real estate brokerages. The REIT also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. As at December 31, 2019, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$21,262,000 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 \$22,910,000 in the determination of the fair value of the investment properties.

Unit options and warrants

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

Standards issued but not yet effective

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

IFRS 3, Business Combinations

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

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

FINANCIAL INSTRUMENTS AND RISKS AND UNCERTAINTIES

Real property ownership and tenant risk

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

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

Outlook

The REIT has geographic and asset diversification of its portfolio and continues to have access to a robust pipeline of potential off-market deals across Canada, and will continue to evaluate and execute on opportunities which provide attractive metrics. Unit deals may be a source of growth for the REIT in the near term. While there is uncertainty with respect to the oil and gas industries, the REIT's tenants that are impacted by these industries are stable, long-term tenants that we feel are well positioned. The extent of impact that Coronavirus will have on the economy is not yet known. We believe that, due to the diversification of the REIT's portfolio, the REIT will not be impacted by Coronavirus any more significantly than its impact on the general economy.

Competition

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

Fixed costs and increased expenses

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

General uninsured risks

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

Environmental and litigation risk

The REIT is subject to federal, provincial and local environmental regulations that apply generally to the ownership of real property and the operation of commercial properties. If it fails to comply with those laws, the REIT could be subject to significant fines or other governmental sanctions. Under various federal, provincial and local laws, ordinances and regulations, an owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at a facility and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with contamination. Such liability may be imposed whether or not the owner or operator knew of, or was responsible for, the presence of these hazardous or toxic substances. The cost of investigation, remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to properly remediate such substances, may adversely affect the REIT's ability to sell or rent such facility or to borrow using such facility as collateral. In order to assess the potential for liabilities arising from the environmental condition at the REIT's properties, the REIT may obtain or examine environmental assessments prepared by environmental consulting firms. The environmental assessments received in respect of the investment properties have not revealed, nor is the REIT aware of, any environmental liability that the company believes will have a material adverse effect on it.

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

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand or borrowing capacity to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at December 31, 2019, the REIT had cash of \$7,875,818 (December 31, 2018 - \$3,354,169), mortgages payable of \$232,081,999 (December 31, 2018 - \$224,313,560), a Credit Facility balance of \$65,139,273 (December 31, 2018 - \$58,808,838) and accounts payable, accruals and other liabilities of \$7,737,487 (December 31, 2018 - \$7,789,734). The REIT had a working capital deficit of \$37,635,642 as at December 31, 2019 (December 31, 2018 - \$122,666,451). Excluding the current portion of mortgages payable of \$45,132,631, working capital would be a surplus of \$7,496,989. The REIT expects that it will be able to refinance the mortgages on their maturities. The REIT has access to undrawn funds under the Credit Facility and expects to generate sufficient cash from operations to satisfy its financial liabilities as they come due.

The 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
	\$	\$		\$	\$	\$	\$
2020	7,737,487	286,273	-	2,047,500	45,155,831	8,034,274	63,261,365
2021	-	287,739	-	2,047,500	23,157,285	7,037,412	32,529,936
2022	-	287,739	-	2,047,500	21,725,444	5,973,130	30,033,813
2023	-	297,039	-	2,047,500	53,390,127	4,442,601	60,177,267
2024	-	291,994	65,139,273	1,535,625	45,508,770	2,588,857	115,064,519
Thereafter	-	6,236,264	-	-	43,144,542	2,456,993	51,837,799
Total	7,737,487	7,687,048	65,139,273	9,725,625	232,081,999	30,533,267	352,904,699

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, 2019, there was a total of \$101,536,795 (December 31, 2018 - \$8,458,838) of mortgage and Credit Facility borrowings which bear interest at floating bankers' acceptance or Canadian prime rates plus a fixed spread. There is a risk that prevailing interest rates could increase, and those increases could be significant. The REIT mitigates interest rate risk by maintaining reasonable levels of debt to investment property value and aims to structure new debt to stagger the maturities to ensure that the majority of debt does not come due for repayment in any one particular year. The REIT has entered into interest rate swap agreements totalling \$101,397,522 to mitigate interest rate risk arising from floating rate debt.

In April 2019, the REIT entered into certain new mortgages and simultaneously entered into interest rate swap agreements to swap floating rate interest for fixed rate interest over the terms of these mortgages. The interest rate swap agreements expire coterminous with the maturity of the corresponding mortgages.

In September 2019, the REIT refinanced its Credit Facility and simultaneously entered into interest rate swap agreements to swap floating rate interest for fixed rate interest over the terms of the Credit Facility. The interest rate swap agreements expire coterminous with the maturity of the corresponding borrowings.

The fair value measurements of the interest rate swap agreements have been classified as Level 2, as they are based mainly on observable market data, namely government bond yields and interest rates.

The following table presents relevant information on interest rate swap agreements:

Transaction date	Effective fixed interest rate	Maturity date	Original principal amount	Outstanding amount	Unrealized loss (gain) on change in the fair value
			\$	\$	\$
April 2019	3.67 %	April 24, 2024	12,000,000	11,802,096	13,186
April 2019	3.74 %	April 24, 2026	12,500,000	12,295,863	77,966
April 2019	3.87 %	April 24, 2029	12,500,000	12,299,563	221,707
September 2019	3.15 %	September 13, 2024	65,000,000	65,000,000	(1,094,128)
			102,000,000	101,397,522	(781,269)

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, 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.

COMMITMENTS

The REIT has a leasehold interest in a property subject to a 66-year land lease, which commenced on May 1, 2006, and has two ten-year options to renew. The land lease provides for annual base rent and additional rent comprising the property's proportionate share of common area maintenance and property tax expense. The full annual ground lease payment is due in advance in May of each year. The REIT has a leasehold interest in a property subject to a 25-year land lease, which commenced on May 25, 2012, and has two five-year options to renew. The land lease provides for annual base rent. The REIT has the option to purchase the land subject to the land lease, and this option may first be exercised on May 25, 2022.

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

OUTSTANDING UNIT DATA

	Units	Amount \$
Unitholders' equity as at December 31, 2018	92,699,252	178,267,365
Class B LP Units exchanged for REIT units	8,560,432	17,158,583
Units issued under distribution reinvestment plan	809,176	1,564,091
Units issued under restricted share unit plan	20,215	40,167
Units issued as consideration for trustee services	22,844	42,869
Unitholders' equity as at December 31, 2019	<u>102,111,919</u>	<u>197,073,075</u>

As at March 12, 2020, a total of 105,756,500 REIT units and 23,025,343 Class B LP Units were issued and outstanding.

DISTRIBUTIONS

The REIT currently pays a monthly distribution of \$0.01333 per unit, representing \$0.16 per unit on an annualized basis. Total distributions declared with respect to REIT units in the three months and year ended December 31, 2019 amounted to \$4,080,056 (2018 - \$3,676,507) and \$16,006,631 (2018 - \$14,412,308), respectively.

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

	Three months ended December 31, 2019 \$	Year ended December 31, 2019 \$	Year ended December 31, 2018 \$	Year ended December 31, 2017 \$
Cash generated from operating activities	6,612,159	23,347,175	19,528,428	11,619,908
Net income	27,332,940	42,387,970	38,834,266	15,688,792
Actual cash distributions paid or payable during the period	4,080,056	16,006,631	14,412,308	11,087,432
Excess of cash flows from operating activities over cash distributions paid	2,532,103	7,340,544	5,116,120	532,476
Excess of net income over cash distributions paid	23,252,884	26,381,339	24,421,958	4,601,360

Actual cash distributions paid or payable includes all distributions declared payable to holders of REIT units and excludes distributions declared payable to holders of Class B LP Units during the period. Actual cash distributions paid or payable is unadjusted for distributions settled through the issuance of REIT units under the distribution reinvestment program. Of distributions declared in the three month and year ended December 31, 2019, \$517,647 and \$1,658,895, respectively, was settled through the issuance of REIT units under the distribution reinvestment program.

Net income for the three months ended December 31, 2019 of \$27,332,940 was \$23,252,884 higher than actual cash distributions paid or payable for the three months ended December 31, 2019 of \$4,080,056. Net income excluding non-cash fair value adjustments of investment properties, Class B LP units, unit options, warrants, restricted share units and derivative financial instruments totalling \$18,263,089 and other income of \$1,416,625 was \$8,231,625 for the three months ended December 31, 2019, which exceeded actual cash distributions paid or payable by \$4,151,569.

Net income for the year ended December 31, 2019 of \$42,387,970 was \$26,381,339 higher than actual cash distributions paid or payable for the year ended December 31, 2019 of \$16,006,631. Net income excluding non-cash fair value adjustments of investment properties, Class B LP units, unit options, warrants, restricted share units and derivative financial instruments totalling \$15,525,561, other income of \$4,624,419 and repayment fees of \$578,399 was \$22,816,389 for the year ended December 31, 2019, which exceeded actual cash distributions paid or payable by \$6,809,758.

For the three months ended December 31, 2019, cash generated from operating activities exceeded actual cash distributions paid or payable by \$2,532,103. Excluding changes in non-cash working capital, other non-current assets and restricted cash of \$172,375, cash generated from operating activities exceeded actual cash distributions paid or payable by \$2,704,478.

For the year ended December 31, 2019, cash generated from operating activities exceeded actual cash distributions paid or payable by \$7,340,544. Excluding changes in non-cash working capital, other non-current assets and restricted cash of \$1,291,968, cash generated from operating activities exceeded actual cash distributions paid or payable by \$8,632,512.

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, 2019, 809,176 units (2018 – 467,482 units) were issued under the DRIP for a stated value of \$1,564,091 (2018 - \$897,526).

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2019, trustee retainer fees in the amount of \$195,951 were expensed (2018 - \$212,500) and 22,844 units (2018 – 79,040 units) at an average price per unit of \$1.88 (2018 - \$1.99) were issued to trustees as payment of retainer fees. Trustee retainer fees are settled in cash commencing with retainer fees earned in respect of 2019. Trustee retainer fees in the amount of \$44,375 were accrued as at December 31, 2019 (December 31, 2018 - \$55,538).

Trustee meeting fees in the amount of \$52,200 were expensed for the year ended December 31, 2019 (2018 - \$37,500). Trustee meeting fees in the amount of \$11,500 were accrued as at December 31, 2019 (December 31, 2018 - \$6,500).

For the year ended December 31, 2019, key management earned salaries and other short-term employee benefits in the amount of \$1,170,698 (2018 - \$1,050,308).

The REIT received lease payments from companies controlled by funds associated with TriWest, a related party to a trustee of the REIT, totalling \$3,603,174 for the year ended December 31, 2019 (2018 - \$3,530,199).

SUBSEQUENT EVENT

On February 3, 2020, the REIT purchased three industrial properties located in Regina and Saskatoon, Saskatchewan for a contractual purchase price of \$17,400,000. The contractual purchase price was satisfied through the issuance of 4,809,524 Class B LP Units of a subsidiary limited partnership of the REIT, which are convertible to REIT Units on a one to one basis, and 3,476,190 REIT units, with both the REIT Units and the Class B LP Units issued at deemed value of \$2.10 per unit.