Nexus Real Estate Investment Trust

Condensed Consolidated Interim Financial Statements
(Unaudited)

For the three and six months ended June 30, 2020

Nexus Real Estate Investment Trust

Condensed Consolidated Interim Statements of Financial Position
(unaudited)

	June 30, 2020 $	December 31, 2019 $
Non-current Assets		
Investment properties (notes 3 and 4)	605,058,687	584,772,861
Equity investment in joint venture (note 5)	7,086,990	7,395,957
Restricted cash	2,234,232	2,412,810
Derivative financial instruments (note 18)	-	781,269
Right-of-use assets	1,225,801	1,272,348
Other non-current assets	84,927	87,274
	615,690,637	596,722,519
Current Assets		
Cash	18,803,027	7,875,818
Tenant and other receivables (note 6)	4,517,974	2,302,199
Prepaid expenses (note 19)	6,683,357	598,990
Deposits	100,000	-
Other current assets (note 7)	5,266,185	5,879,941
	35,370,543	16,656,948
Total Assets	651,061,180	613,379,467
Non-current Liabilities		
Mortgages payable (notes 3 and 8)	203,988,097	186,971,943
Credit Facility (note 9)	64,943,584	65,009,228
Lease liabilities (note 19)	3,704,274	3,737,072
Derivative financial instruments (note 18)	5,342,294	-
Class B LP Units (note 10)	36,883,896	39,528,332
Warrants (note 11)	-	1,210
Unit options (note 12)	28,000	522,000
Restricted share units (note 13)	59,337	87,841
	314,949,482	295,857,626
Current Liabilities		
Mortgages payable (notes 3 and 8)	39,194,664	45,132,631
Credit Facility (note 9)	500,000	-
Lease liabilities (note 19)	64,058	61,320
Distributions payable	1,437,006	1,361,152
Accounts payable, accruals and other liabilities (notes 14 and 21)	8,487,188	7,737,487
	49,682,916	54,292,590
Total Liabilities	364,632,398	350,150,216
Equity		
Unitholders’ equity (note 15)	208,204,814	197,073,074
Retained earnings	78,223,968	66,156,177
Total Unitholders’ Equity	286,428,782	263,229,251
Total Liabilities and Unitholders’ Equity	651,061,180	613,379,467

On behalf of the Board:

“Benjamin Rodney” Trustee

“Floriana Cipollone” 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 (unaudited)

	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	$	$	$	$
Net rental income				
Property revenues (note 17)	15,040,989	15,003,425	30,633,748	29,389,863
Property expenses (note 17)	(5,236,192)	(5,257,966)	(11,055,316)	(10,707,583)
Net rental income	9,804,797	9,745,459	19,578,432	18,682,280
General and administrative expense (note 21)	(830,590)	(882,191)	(1,823,252)	(1,593,088)
Fair value adjustment of investment properties (note 4)	(871,211)	(65,562)	(2,252,276)	(259,744)
Fair value adjustment of Class B LP Units (note 10)	1,854,495	585,156	17,013,350	(1,703,763)
Fair value adjustment of warrants (note 11)	-	2,584	1,210	1,622
Fair value adjustment of unit options (note 12)	2,000	53,000	494,000	(80,000)
Fair value adjustment of restricted share units (note 13)	(1,885)	-	24,119	-
Fair value adjustment of derivative financial instruments (note 18)	(685,151)	(1,069,729)	(6,123,563)	(1,069,729)
Income (loss) from equity accounted investment in joint venture (note 5)	93,908	(111,230)	(308,967)	(285,227)
Other income (note 7)	1,094,144	-	1,094,144	2,523,625
	10,460,507	8,257,487	27,697,197	16,215,976
Finance expense				
Net interest expense (notes 8 and 9)	(2,699,076)	(3,465,022)	(5,408,094)	(6,140,340)
Distributions on Class B LP Units (note 10)	(877,635)	(750,728)	(1,734,307)	(1,432,922)
	(3,576,711)	(4,215,750)	(7,142,401)	(7,573,262)
Net income and comprehensive income for the period	6,883,796	4,041,737	20,554,796	8,642,714

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
(unaudited)

	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2020	197,073,074	66,156,177	263,229,251
Net income for the period	-	20,554,796	20,554,796
Units issued as acquisition consideration (note 3)	7,682,380	-	7,682,380
Class B LP Units exchanged for REIT Units (note 10)	2,331,548	-	2,331,548
Distributions	-	(8,487,005)	(8,487,005)
Issue of units under distribution reinvestment plan (note 16)	1,025,881	-	1,025,881
Issue of units under restricted share unit plan (note 13)	91,931	-	91,931
Balance – June 30, 2020	208,204,814	78,223,968	286,428,782

	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2019	178,267,365	39,774,838	218,042,203
Net income for the period	-	8,642,714	8,642,714
Class B LP Units exchanged for REIT Units (note 10)	17,117,801	-	17,117,801
Distributions	-	(7,857,440)	(7,857,440)
Issue of units under distribution reinvestment plan (note 16)	622,224	-	622,224
Issue of units to Trustees (note 21)	42,869	-	42,869
Balance – June 30, 2019	196,050,259	40,560,112	236,610,371

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
(unaudited)

	For the three months ended		For the six months ended	
	June 30, 2020 $	June 30, 2019 $	June 30, 2020 $	June 30, 2019 $
Operating activities				
Net income for the period	6,883,796	4,041,737	20,554,796	8,642,714
Adjustment for items not involving cash:				
Restricted share unit expense (note 13)	47,349	-	195,610	-
Share of net (income) loss from equity accounted investment in joint venture (note 5)	(93,908)	111,230	308,967	285,227
Amortization of deferred financing costs (notes 8 and 9)	78,386	101,686	156,111	234,027
Amortization of mortgage fair value adjustments (note 8)	(66,177)	(100,259)	(136,238)	(368,548)
Amortization of right-of-use assets (note 19)	23,274	23,274	46,547	46,547
Amortization of tenant incentives and leasing costs (note 4)	160,181	72,732	300,967	107,812
Straight-line adjustments of rent	(89,116)	(117,942)	(186,350)	(233,066)
Fair value adjustment of investment properties (note 4)	871,211	65,562	2,252,276	259,744
Fair value adjustment of Class B LP Units (note 10)	(1,854,495)	(585,156)	(17,013,350)	1,703,763
Fair value adjustment of warrants (note 11)	-	(2,584)	(1,210)	(1,622)
Fair value adjustment of unit options (note 12)	(2,000)	(53,000)	(494,000)	80,000
Fair value adjustment of restricted share units (note 13)	1,885	-	(24,119)	-
Fair value adjustment of derivative financial instruments (note 18)	685,151	1,069,729	6,123,563	1,069,729
Changes in non-cash working capital				
Tenant and other receivables	(2,355,295)	(174,021)	(2,215,775)	(428,497)
Prepaid expenses	139,627	(1,571,158)	(655,809)	(2,035,287)
Deposits on potential acquisition	-	500,000	-	200,000
Other current assets	(392,993)	998,102	400,106	774,605
Accounts payable, accruals and other liabilities	930,955	916,057	641,639	392,592
Changes in other non-current assets	2,082	11,456	2,347	38,268
Changes in restricted cash	186,922	(24,968)	178,578	(49,935)
Total cash generated by operating activities	5,156,835	5,282,477	10,434,656	10,718,073
Investing activities				
Acquisition of investment properties (note 3)	-	(16,757,896)	(165,682)	(16,757,896)
Investment in joint venture (note 5)	-	-	-	(500,000)
Capital expenditures, tenant incentives and leasing costs (note 4)	(902,066)	(389,309)	(3,419,104)	(880,597)
Total cash used in investing activities	(902,066)	(17,147,205)	(3,584,786)	(18,138,493)
Financing activities				
Proceeds from new financings	14,684,090	17,400,000	14,684,090	17,400,000
Financing costs	(177,616)	(260,412)	(177,616)	(260,412)
Lease principal repayments	(15,141)	(13,842)	(30,060)	(46,641)
Mortgage principal repayments	(1,504,818)	(1,488,213)	(3,432,378)	(3,262,096)
Net borrowing on (repayments of) the Credit Facility	413,724	825,250	418,574	2,540,871
Distributions to unitholders	(3,776,624)	(3,653,589)	(7,385,271)	(7,116,755)
Total cash generated by financing activities	9,623,615	12,809,194	4,077,339	9,254,967
Change in cash during the period	13,878,384	944,466	10,927,209	1,834,547
Cash - beginning of period	4,924,643	4,244,250	7,875,818	3,354,169
Cash - end of period	18,803,027	5,188,716	18,803,027	5,188,716

Supplemental cash flow information (note 22)

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

1 Organization

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

2 Summary of significant accounting policies

Statement of compliance

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, 2019.

Basis of presentation

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, unit options, restricted share units and interest rate swap agreements, 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 August 13, 2020.

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, 2019, except for the following accounting policy adopted by the REIT as of January 1, 2020:

IFRS 3, Business Combinations

On January 1, 2020, the REIT adopted IFRS 3, Business Combinations. IFRS 3 clarifies the definition of a business and provides guidance on whether an acquired set of activities and assets is a group of assets rather than a business. An acquirer only recognizes goodwill when acquiring a business, and not when acquiring a group of assets. The adoption of IFRS 3 had no impact on the REIT’s condensed consolidated interim financial statements.

Government Assistance

The REIT recognizes government assistance, in the form of grants or forgivable loans, when there is reasonable assurance that the REIT will be able to comply with the conditions attached to the assistance and that the assistance will be received.

COVID-19 Rent Relief

The REIT accounts for rental abatements in connection with the Canada Emergency Commercial Rent Assistance ("CECRA") program and provincial COVID-19 rent relief programs under the derecognition rules of IFRS 9, Financial Instruments. Financial assets, such as tenant and other receivables, are derecognized when all or a portion of outstanding amounts will be forgiven or abated and no further collection activities will be pursued. The forgiveness or abatement of the tenant receivable is recognized as a property expense in the condensed consolidated interim statement of income and comprehensive income.

Significant accounting judgments, estimates and assumptions

The duration and full impact of the coronavirus disease 2019 ("COVID-19") pandemic are unknown at this point in time. As such, it is not possible to reliably estimate COVID-19 related impacts on the REIT's financial results and operations. Any estimates are therefore subject to significant uncertainty and may materially and adversely vary from actual outcomes. In particular, there is increased estimation uncertainty in determining the fair value of the REIT's investment properties and the recoverability of amounts receivable. Estimates and assumptions used in these condensed consolidated interim financial statements are based on information available to the REIT as at the end of the reporting period.

3 Acquisitions and disposals

1) Acquisitions

On February 3, 2020, the REIT acquired three industrial properties located in Regina and Saskatoon, Saskatchewan (the "Access Properties") for a contractual purchase price of $17,400,000. The purchase price was satisfied through the issuance of 4,809,524 Class B LP Units of a subsidiary limited partnership of the REIT, which are convertible to REIT Units on a one to one basis, and 3,476,190 REIT Units, with both the REIT Units and the Class B LP Units issued at a deemed value of $2.10 per unit, with closing adjustments satisfied in cash. The fair value of the units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT Units on February 3, 2020 of $2.21 per unit. The Access Properties were initially recorded at $18,311,428, the fair value of the consideration paid. The carrying amount was subsequently adjusted to the acquisition date fair value of the Access Properties of $17,400,000.

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. The fair value of the units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT Units on April 2, 2019 of $2.02. The Mastec Properties were initially recorded at $30,437,585, the fair value of the consideration paid. The carrying amount was subsequently adjusted to the acquisition date fair value of the Mastec Properties of $31,000,000.

The impact of the acquisition completed during the period ended June 30, 2020 is as follows:

	$
Investment properties acquired	18,311,428
Transaction costs	165,682
Net assets acquired	18,477,110
Consideration:	
Cash	165,682
Issuance of REIT Units to the vendor	7,682,380
Issuance of Class B LP Units to the vendor	10,629,048
	18,477,110

The impact of the acquisition completed during the year ended December 31, 2019 is as follows:

	$
Investment properties acquired	30,437,585
Transaction costs	521,287
Working capital acquired	586,678
Net assets acquired	31,545,550
Consideration:	
Proceeds of new mortgages financing	17,400,000
Issuance of Class B LP Units to the vendor	14,200,976
Deferred financing costs - new financing	(55,426)
	31,545,550

2) 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 disposal of $134,313.

4 Investment properties

	June 30, 2020 $	**December 31, 2019 $**
Balance, beginning of period	584,772,861	530,191,912
IFRS 16 transition - recognition of right-of-use assets	-	2,233,667
Acquisition of investment properties, including acquisition costs of $165,682 (December 31, 2019 - $521,287) (note 3)	18,477,110	30,958,872
Additions - capital expenditures	2,614,414	1,438,780
Additions - tenant incentives and leasing costs	1,447,545	2,596,965
Amortization of tenant incentives and leasing costs	(300,967)	(317,326)
Reclassified from prepaid development charges (note 7)	300,000	1,200,000
Disposal of investment property (note 3)	-	(3,700,000)
Fair value adjustment	(2,252,276)	20,169,991
Balance, end of period	605,058,687	584,772,861

The fair value of the investment properties as at June 30, 2020 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 fair value of the investment properties as at June 30, 2020 represents the REIT's best estimate based on the available information as at the end of the reporting period. Inputs used in determining the fair value of investment properties have been adjusted to reflect the REITs best estimates of impacts related to COVID-19. The REIT will continue to monitor the effect of the economic environment on the valuation of its investment properties.

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

	June 30, 2020	December 31, 2019
Weighted average capitalization rate	6.66%	6.70%
Range of capitalization rates	5.75% - 9.50%	5.75% - 10.10%
Stabilized net operating income	$40,620,000	$39,575,000

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at June 30, 2020, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately $22,046,000 in the determination of the fair value of the investment properties. A 0.25% decrease in the weighted average capitalization rate would result in an increase of approximately $23,765,000 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.

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

	June 30, 2020 $	December 31, 2019 $
Balance, beginning of period	7,395,957	4,353,866
Capital contribution	-	900,000
Share of net (loss) income from investment in joint venture	(308,967)	2,142,091
Balance, end of period	7,086,990	7,395,957

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

	June 30, 2020 $	December 31, 2019 $
Investment property	31,614,615	-
Property under development	-	31,300,000
Other non-current assets	657,274	564,988
Cash	366,401	210,095
Tenant and other receivables	191,577	389,811
Other current assets	24,481	-
Derivative financial instruments	(1,186,506)	(65,543)
Bank facility	(16,712,010)	(17,145,680)
Accounts payable, accruals and other liabilities	(781,852)	(461,757)
Net assets	14,173,980	14,791,914
50% investment in joint venture	7,086,990	7,395,957

	For the three months ended		For the six months ended	
	June 30, 2020 $	June 30, 2019 $	June 30, 2020 $	June 30, 2019 $
Property revenues	920,948	677,220	1,759,270	1,323,542
Property expenses	(416,292)	(519,807)	(875,975)	(942,631)
Net rental income	504,656	157,413	883,295	380,911
General and administrative expense	(41,589)	(37,884)	(95,857)	(98,150)
Net interest expense	(147,560)	(122,142)	(284,408)	(220,521)
Fair value adjustment of derivative financial instruments	(127,691)	(219,847)	(1,120,963)	(632,694)
Net income (loss) and comprehensive income (loss) for the period	187,816	(222,460)	(617,933)	(570,454)
Share of net income (loss) and comprehensive income (loss) from 50% investment in joint venture	93,908	(111,230)	(308,967)	(285,227)

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:

	June 30, 2020 $
Remainder of 2020	20,072,378
2021	37,940,357
2022	35,091,957
2023	31,077,961
2024	27,163,748
Thereafter	60,192,186
	211,538,587

7 Other current assets

Other current assets are comprised as follows:

	June 30, 2020 $	December 31, 2019 $
Prepaid development charges	900,000	1,200,000
Vendor rent obligation	2,039,831	2,116,452
Reserves held by mortgage lenders with respect to property taxes and capital expenditures	89,490	564,168
Cumulative straight-line rent adjustments	1,892,579	1,707,229
Other	344,285	292,092
Total other current assets	5,266,185	5,879,941

As at June 30, 2020, 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. The estimated total amount of vendor rent obligation receivable between July 1, 2020 and the commencement of these leases increased by $1,094,144, and this amount was recorded in other income in the consolidated interim statement of income and comprehensive income. As at June 30, 2020, the vendor rent obligation receivable of $2,039,831 represents the total amount of vendor rent obligation estimated to be collectible from the vendor in the future until the property improvements are complete and tenant leases have commenced.

8 Mortgages payable

As at June 30, 2020, the mortgages payable are secured by charges against 57 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 3.77% and the weighted average term to maturity is 3.44 years (December 31, 2019 – 3.68 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled Repayments $	Principal Maturities $	Total $
Remainder of 2020	3,945,514	31,849,899	35,795,413
2021	6,800,008	16,989,177	23,789,185
2022	6,401,439	15,981,908	22,383,347
2023	5,100,808	49,130,789	54,231,597
2024	3,174,492	43,228,674	46,403,166
Thereafter	2,838,172	57,892,831	60,731,003
Total	28,260,433	215,073,278	243,333,711

During the three months ended June 30, 2020, certain lenders extended mortgage payment deferrals to the REIT as part of their Covid-19 relief programs. As at June 30, 2020, mortgage principal repayments in the amount of $497,595 were deferred.

The following table summarizes the changes in mortgages payable for the six months ended June 30, 2020 and year ended December 31, 2019:

	June 30, 2020 $	December 31, 2019 $
Mortgages payable, beginning of period	232,081,999	224,313,560
New mortgage financing	14,684,090	17,400,000
Principal repayments	(3,432,378)	(9,631,561)
Mortgages payable, end of period	243,333,711	232,081,999
Less: Deferred financing costs, beginning of period	(691,336)	(563,134)
Less: Additions to deferred financing costs	(177,616)	(401,554)
Plus: Amortization of deferred financing costs	140,329	273,352
Plus: Fair value adjustment of mortgages, beginning of period	713,911	1,248,067
Less: Amortization of fair value adjustments	(136,238)	(534,156)
Balance, end of period	243,182,761	232,104,574
Less: Current portion	(39,194,664)	(45,132,631)
	203,988,097	186,971,943

9 Credit Facility

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

The $65,000,000 fixed-term facility bears interest at the 30-day Bankers' acceptance rate plus 150 basis points. Concurrent with the refinancing, the REIT entered into interest rate swap agreements totalling $65,000,000 to swap floating 30-day Bankers' acceptance rates for a fixed rate of 1.65%, such that the interest rate on the fixed-term facility, including the 150 basis point spread, is fixed at 3.15%. The $5,000,000 revolving credit facility allows the REIT to draw against the facility in the form of prime rate advances or Bankers' acceptances. Prime rate advances bear interest at 100 basis points per annum over the Canadian prime borrowing rate. Bankers' acceptance advances bear interest at 200 basis points per annum over the floating bankers' acceptance rate.

On April 6, 2020, the REIT received working capital relief loans totalling $500,000 from its Credit Facility lender as part of their Covid-19 relief programs. These loans were set at an amount that approximates three months' interest payments under the Credit Facility. The loans bear interest of 100 basis points over the lender's prime lending rate, can be early repaid without penalty and must be repaid by July 31, 2021.

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 June 30, 2020, this line of credit was undrawn (December 31, 2019 - undrawn).

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

	June 30, 2020 $	December 31, 2019 $
Fixed-term borrowings	65,000,000	65,000,000
Working capital relief loans	500,000	-
Prime rate borrowings	57,847	139,273
Total drawn against the Credit Facility	65,557,847	65,139,273
Less: deferred financing costs	(114,263)	(130,045)
	65,443,584	65,009,228

Amounts drawn on the Credit Facility as at June 30, 2020 are as follows:

	Principal Amount $	Interest Rate	Repricing Date
Fixed-term borrowings	65,000,000	2.02% (1)	July 15, 2020 (1)
Working capital relief loans	500,000	3.45%	July 31, 2020
Prime rate borrowings	57,847	3.45%	Variable
	65,557,847		

(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 (see note 18).

The following table summarizes the changes in the Credit Facility for the six months ended June 30, 2020 and year ended December 31, 2019:

	June 30, 2020 $	December 31, 2019 $
Drawn against credit facility, beginning of period	65,139,273	58,808,838
New working capital relief loans during the period	500,000	-
Net borrowings (repayments) during the period	(81,426)	6,330,435
Drawn against credit facility, end of period	65,557,847	65,139,273
Less: Deferred financing costs, beginning of period	(130,045)	(93,500)
Less: Deferred financing costs incurred	-	(136,888)
Plus: Amortization of deferred financing costs	15,782	100,343
Balance, end of period	65,443,584	65,009,228

10 Class B LP Units

The following table summarizes the changes in Class B LP Units for the period ended June 30, 2020:

	Class B LP Units	Amount $
Balance as at December 31, 2019	18,215,819	39,528,332
Class B LP Units issued for purchase price consideration (note 3)	4,809,524	10,629,048
Class B LP Units exchanged for REIT Units	(1,557,969)	(2,331,548)
Class B LP Units issued in settlement of contractual obligations (note 19)	2,639,745	6,071,414
Fair value adjustment during the period	-	(17,013,350)
Balance as at June 30, 2020	24,107,119	36,883,896

On April 1, 2020, 2,639,745 Class B LP Units were issued in settlement of contractual obligations and these units were held in trust by the REIT. While the units are held in trust, they will not accrue any distributions declared. 724,636 of these units were immediately exchanged for REIT Units on a 1 for 1 basis, and 1,915,109 Class B LP Units were held in trust as at June 30, 2020.

Distributions in the amount of $877,635 (2019 - $750,728) were declared payable to holders of Class B LP Units for the three months ended June 30, 2020, and distributions in the amount of $1,734,307 (2019 - $1,432,922) were declared in the six-month period then ended. These amounts have been recognized as finance expense in the condensed consolidated interim statement of income and comprehensive income. Distributions payable in the amount of $293,405 were accrued as at June 30, 2020 (December 31, 2019 - $242,817).

11 Warrants

The following table presents the changes in warrants for the period ended June 30, 2020:

	Number of warrants	Weighted average exercise price $	Weighted average remaining contract life (in years)
Outstanding as at December 31, 2019	501,000	2.99	0.42
Warrants expired	(501,000)	2.99	
Outstanding as at June 30, 2020	-	-	-

12 Unit options

The REIT adopted a unit-based compensation plan (the “Option Plan”) effective January 13, 2014. Under the terms of the Option 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 and restricted share units that may be reserved under the Option Plan and the Incentive Plan (note 13) is 10% of the outstanding units of the REIT.

The following table presents the changes in unit options for the period ended June 30, 2020:

	Number of unit options	Weighted average exercise price $	Weighted average remaining contract life	Number of vested unit options
Outstanding as at December 31, 2019	2,541,800	2.04	2.51	1,983,466
Outstanding as at June 30, 2020	2,541,800	2.04	2.01	1,983,466

The following table presents the details of unit options outstanding as at June 30, 2020:

Exercise price $	Number of unit options	Weighted average remaining contract life	Number of vested unit options
01.88	800,000	1.15	800,000
2.10	1,675,000	2.49	1,116,666
2.54	66,800	0.16	66,800
	2,541,800	2.01	1,983,466

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 June 30, 2020 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:

	June 30, 2020	December 31, 2019
Weighted average expected unit option life (in years)	1.06	1.36
Weighted average volatility rate	25.00%	25.00%
Weighted average risk-free interest rate	0.27%	1.71%
Distribution yield	10.46%	7.37%

13 Restricted share units

The REIT adopted an incentive unit plan (the "Incentive Plan") effective June 22, 2018. Under the Incentive Plan, the Board of Trustees may grant restricted share units ("RSUs") of the REIT to trustees, officers and employees of the REIT and consultants. The REIT is authorized to issue up to 4,448,704 units under the Incentive Plan. The maximum number of restricted share units and options that may be reserved under the Incentive Plan and the Option Plan is 10% of the outstanding units of the REIT.

On March 25, 2020, the REIT granted an aggregate of 217,468 RSUs. These RSUs vest one-third on the date of issuance, one-third on February 28, 2021 and one-third on February 28, 2022.

On July 12, 2019, the REIT granted an aggregate of 130,348 RSUs. These RSUs vest one-third on the date of issuance, one-third on February 28, 2020 and one-third on February 28, 2021.

The initial fair value of each unit granted is determined based on the volume-weighted average trading price of units of the REIT for the five trading days prior to the grant date. The RSUs are remeasured at each reporting date to fair value with gains and losses reported within the condensed consolidated interim statement of income and comprehensive income.

14 Accounts payable, accruals and other liabilities

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

	June 30, 2020 $	December 31, 2019 $
Prepaid rent	2,216,211	1,354,022
Security deposits	1,797,512	1,825,341
Accrued interest expense	971,351	795,959
Sales and other taxes payable	825,356	742,735
Trade accounts payable and other	2,676,758	3,019,430
	8,487,188	7,737,487

15 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 June 30, 2020:

	Units	Amount $
Unitholders' equity as at December 31, 2019	102,111,919	197,073,074
Class B LP Units exchanged for REIT Units (note 10)	1,557,969	2,331,548
Units issued as purchase price consideration (note 3)	3,476,190	7,682,380
Units issued under distribution reinvestment plan (note 16)	601,000	1,025,881
Units issued under restricted share unit plan (note 13)	55,348	91,931
Unitholders' equity as at June 30, 2020	107,802,426	208,204,814

On April 1, 2020, 724,636 Class B LP Units were exchanged for REIT Units, which were held in trust by the REIT. While the units are held in trust, they will not accrue any distributions declared. On each of April 1, 2020, May 1, 2020, and June 1, 2020, 181,159 units were released from trust to the registered holder and became eligible to receive distributions. As at June 30, 2020, 181,159 REIT Units were held in trust.

16 Distribution reinvestment plan

The REIT adopted a distribution reinvestment plan ("DRIP)" on February 20, 2014, pursuant to which resident Canadian holders of not less than 1,000 units are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional units at a price per unit calculated by reference to the weighted average of the trading price for the units for the five trading days immediately preceding the relevant distribution date. Eligible unitholders who so elect will receive a bonus distribution of units equal to 4% of each distribution that was reinvested by them under the DRIP. During the three-month period ended June 30, 2020, 340,241 units (2019 - 185,544 units) were issued under the DRIP for a stated value of $ 501,359 (2019 - $360,848) and for the six-month period then ended, 601,000 units (2019 - 324,080 units) were issued under the DRIP for a stated value of $ 1,025,881 (2019 - $622,224).

17 Property revenues

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

	For the three months ended		For the six months ended	
	June 30, 2020 $	June 30, 2019 $	June 30, 2020 $	June 30, 2019 $
Rental income	13,125,788	13,083,236	26,223,110	25,179,361
Revenue from services	1,617,784	1,704,394	3,892,058	3,774,643
Other revenue	297,417	215,795	518,580	435,859
	15,040,989	15,003,425	30,633,748	29,389,863

Under the CECRA program, the REIT effectively abates 25% of gross rents for the period which an eligible tenant is included in the program. CECRA is currently available for the months of April through August 2020. On June 8, 2020, the Government of Quebec announced a program which would reduce the amount effectively abated by the REIT with respect to tenants of properties located in Quebec that are included in the CECRA program from 25% to 12.5%. The CECRA rent abatement, net of the Quebec program contribution, is estimated at $147,194 for the months of April, May and June and is presented as a property expense. The REIT has accrued a provision of $132,702 for rent relief provided to a limited number of tenants which did not qualify for CECRA but had demonstrated significant financial hardship due to COVID-19. In other cases, the REIT entered into agreements to defer portions of rental payments. As at June 30, 2020, a total of $1,185,608 of rents have been deferred.

18 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 June 30, 2020, the REIT had cash of $18,803,027 (December 31, 2019 - $7,875,818), mortgages payable of $243,333,711 (December 31, 2019 - $232,081,999), a Credit Facility balance of $65,557,847 (December 31, 2019 - $65,139,273) and accounts payable, accruals and other liabilities of $8,487,188 (December 31, 2019 - $7,737,487). The REIT had a working capital deficit of $14,312,373 as at June 30, 2020 (December 31, 2019 - $37,635,642). Excluding the current portion of mortgages payable of $39,194,664, the working capital would be a surplus of $24,882,291. 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 $
Remainder of 2020	8,487,188	143,283	500,000	1,023,750	35,795,413	4,306,293	50,255,927
2021	-	287,739	-	2,047,500	23,789,185	7,566,636	33,691,060
2022	-	287,739	-	2,047,500	22,383,347	6,486,252	31,204,838
2023	-	297,039	-	2,047,500	54,231,597	4,937,896	61,514,032
2024	-	269,905	65,057,847	1,535,625	46,403,166	3,056,359	116,322,902
Thereafter	-	6,275,953	-	-	60,731,003	2,695,086	69,702,042
Total	8,487,188	7,561,658	65,557,847	8,701,875	243,333,711	29,048,522	362,690,801

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. There is a risk that the REIT may not be able to renegotiate its mortgages and Credit Facility at maturity on terms as favourable as the existing mortgages payable and Credit Facility. As at June 30, 2020, there was a total of $101,493,511 (December 31, 2019 - $101,536,795) of mortgage and Credit Facility borrowings which bear interest at floating bankers' acceptance or Canadian prime rates plus a fixed spread. There is a risk that prevailing interest rates could increase, and those increases could be significant. The REIT mitigates interest rate risk by maintaining reasonable levels of debt to investment property value and aims to structure new debt to stagger the maturities to ensure that the majority of debt does not come due for repayment in any one particular year. As at June 30, 2020, the REIT has interest rate swap agreements totalling $100,935,664 to mitigate interest rate risk arising from floating rate debt.

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

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

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

Transaction date	Effective fixed interest rate	Maturity date	Original principal amount $	Outstanding amount $	Unrealized loss on change in the fair value $
April 2019	3.67 %	April 24, 2024	12,000,000	11,650,462	576,870
April 2019	3.74 %	April 24, 2026	12,500,000	12,139,391	886,488
April 2019	3.87 %	April 24, 2029	12,500,000	12,145,811	1,299,824
September 2019	3.15 %	September 13, 2024	65,000,000	65,000,000	2,579,112
			102,000,000	100,935,664	5,342,294

Credit risk

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

As at June 30, 2020, one tenant accounted for approximately 13% of the REIT's base rental income, resulting in a concentration of credit risk. The REIT monitors the creditworthiness of its tenants on an ongoing basis.

COVID-19 has resulted in government mandated shutdowns, and an economic slow down which are creating financial difficulties for tenants. While government plans have been put in place to support businesses through the COVID-19 pandemic, a deterioration in the economy may impact the ability of tenants to meet their obligations under their leases. The REIT continues to assess the effect of economic conditions on the creditworthiness of its tenants. As part of this assessment, the REIT reviews contractual rent receivables on a regular basis and reduces carrying amounts through the use of an allowance for doubtful accounts recognizing the amount of any loss in the condensed consolidated interim statements of income and comprehensive income within property expenses. As at June 30, 2020, the REIT had an allowance for doubtful accounts of $164,231 (December 31, 2019 – $76,117). Additionally, as at June 30, 2020, $148,451 was recorded as a reduction of tenant and other receivables in respect of amounts expected to be abated under the CECRA program for the 3 months ended June 30, 2020.

19 Lease liabilities and 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 lease of 1,760 square feet of office space. The lease commenced on November 1, 2018.

Amounts payable in addition to base rents under leases as recovery of variable expenses such as property taxes, insurance and repairs and maintenance are not included in lease liabilities and totaled $39,774 for the three-month period and $79,548 for the six-month period ended June 30, 2020.

For the three-month period ended June 30, 2020, interest expense on lease liabilities of $56,353 (2019 - $57,213) and amortization of right-of-use assets of $23,274 (2019 - $23,274) are included in the condensed consolidated interim statements of income and comprehensive income. For the six-month period ended June 30, 2020, interest expense on lease liabilities of $112,930 (2019 - $95,469) and amortization of right-of-use assets of $46,547 (2019 - $46,547) are included in the condensed consolidated interim statements of income and comprehensive income.

Development Management Agreement

On March 16, 2020, the REIT entered into a development management agreement (the “DMA”) with the vendor of the REIT’S Richmond, BC property (the “Developer”). Pursuant to the DMA, the REIT will redevelop approximately 60,000 square feet previously occupied by an industrial tenant. The Developer will manage the redevelopment and has secured new tenants for the space, and the REIT has entered into lease agreements with these tenants. The REIT will assume the costs of the redevelopment, which have been capped at $7,360,000, including leasing costs, tenant incentives, and construction costs.

Per the DMA, the REIT will also construct an approximately 70,000 square foot addition at this property. The REIT will assume the costs of the construction. The Developer will secure tenants and manage the construction. The REIT will pay the Developer a development management fee estimated at $3,000,000. The DMA provides that, as long as certain conditions are met, the development management fee may be paid by issuing to the Developer Class B LP Units of a subsidiary limited partnership of the REIT, valued at $2.30 per unit and exchangeable on a 1 for 1 basis for REIT Units. In accordance with the DMA, 465,837 units will be released to the Developer on August 1, 2020, and an additional 93,167 units a month will be issued to the Developer between September 1, 2020 and April 1, 2021, with a final issuance of 93,175 units on May 1, 2021 in full settlement of the estimated development management fee.

Also, pursuant to the DMA, the REIT will split the value enhancement of the property, measured as the difference between the fair market value of the property following completion of the redevelopment and addition described above, less the REIT’s total cost of the property. The REIT’s total cost of the property will be measured as the REIT’s original acquisition cost plus costs of redevelopment and construction (inclusive of construction costs, tenant incentives, leasing costs, and development management fees). The first $20,000,000 of value enhancement will be for the benefit of the REIT. The next $20,000,000 of value enhancement will be for the benefit of the Developer, provided that the Developer’s share of value enhancement will be reduced by the amount of rental income that would have been received between December 15, 2019 and the date the two new tenants take occupancy, had the previous industrial tenancy not been early terminated on December 15, 2019. Any value enhancement in excess of $40,000,000 will be split equally between the REIT and the Developer. As long as certain conditions are met, the REIT may satisfy its obligation to split the value enhancement with the Developer by issuing Class B LP Units valued at $2.30 per unit.

Pursuant to the DMA, the REIT is required to provide the Developer a $5,000,000 advance of the Developer’s share of the value enhancement. This advance is payable in Class B LP Units valued at $2.30 per unit and exchangeable on a 1 for 1 basis for REIT Units, in monthly installments of 181,159 units commencing on April 1, 2020 and continuing until March 1, 2021, when a total of 2,173,908 units will have been released to the Developer. On April 1, 2020, 2,173,908 Class B LP Units were issued from treasury, and 181,159 units were released to the Developer, with 1,992,749 units held by the REIT for release to the vendor between May 1, 2020 and March 1, 2021. As at June 30, 2020, of the 2,173,908 Class B LP Units issued from treasury, a total of 543,477 units have been released to the vendor.

20 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 June 30, 2020, the REIT was in compliance with all of the financial covenants contained within the Credit Facility and the mortgages.

21 Related party transactions

For the three-month period ended June 30, 2020, trustee retainer fees in the amount of $44,375 were expensed (2019 - $53,125). For the six-month period then ended, trustee retainer fees in the amount of $88,750 were expensed (2019 - $106,250), and nil units (2019 - 22,844 units at an average price per unit of $1.88) were issued to trustees as payment of retainer fees. Trustee retainer fees are settled in cash commencing with retainer fees earned in respect of 2019. Trustee retainer fees in the amount of $44,375 were accrued as at June 30, 2020 (December 31, 2019 - $44,375).

Trustee meeting fees in the amount of $2,600 were expensed for the three-month period ended June 30, 2020 (2019 - $11,500) and for the six-month period then ended, trustee meeting fees in the amount of $9,600 were expensed (2019 - $28,700). Trustee meeting fees in the amount of $2,600 were accrued as at June 30, 2020 (December 31, 2019 - $11,500).

For the three-month period ended June 30, 2020, key management earned salaries and other short-term employee benefits in the amount of $184,250 (2019 - $159,250) and $368,500 was earned in respect of the six-month period ended June 30, 2020 (2019 - $318,500).

The REIT received lease payments from companies controlled by funds associated with TriWest totalling $918,587 for the three-month period ended June 30, 2020 (2019 - $900,793) and $1,837,174 for the six-month period then ended (2019 - $1,801,587). TriWest is a related party to a former trustee of the REIT. On May 14, 2020, the trustee did not seek re-election to the REIT's board of trustees, and the former trustee and TriWest both ceased to be related parties of the REIT.

22 Supplemental cash flow information

Interest and income taxes paid and received are as follows:

	For the three months ended		For the six months ended	
	June 30, 2020 $	June 30, 2019 $	June 30, 2020 $	June 30, 2019 $
Interest paid	3,439,249	4,259,406	6,933,014	7,819,486
Income taxes paid	-	2,721	-	8,082