



Nexus REIT

NEXUS REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three months ended March 31, 2021

May 13, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of Nexus Real Estate Investment Trust ("the REIT") for the three months ended March 31, 2021 should be read in conjunction with the REIT's audited consolidated financial statements for the years ended December 31, 2020 and 2019 and the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021.

The information contained in this MD&A reflects events up to May 13, 2021, 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.

On February 1, 2021, the REIT commenced trading on the Toronto Stock Exchange ("TSX") under the symbol "NXR.UN" and was delisted from the TSX Venture Exchange upon commencement of trading on the TSX. On January 29, 2021, the REIT's trust units, Class B LP Units of subsidiary limited partnerships of the REIT and associated special voting units were consolidated on the basis of one post-consolidation unit per four pre-consolidation units (the "Consolidation").

The number of REIT Units, Class B LP Units, restricted share units and unit options, the exercise price of outstanding unit options and per unit amounts have been proportionately adjusted within this MD&A for all periods presented to reflect the Consolidation effected on January 29, 2021.

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") and same property NOI ("Same Property NOI") are measures of operating performance based on income generated from the properties of the REIT. Management considers these non-IFRS measures to be important measures 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, Same Property 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, Same Property 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 consolidated statements of income and comprehensive income prepared in accordance with IFRS. Accordingly, NOI is equivalent to net rental income as presented in the consolidated statements of income and comprehensive 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, loss on disposal of investment properties, other income, net interest expense and distributions on Class B LP Units.

Same Property NOI is defined as NOI generated from properties which were owned by the REIT throughout an entire reporting period in both the current and comparative periods. Same Property NOI excludes amortization of straight-line rent, tenant incentives and leasing costs, and termination fees and other non-recurring items. Same Property NOI includes vendor rent obligation amounts which are payable from vendors of properties until the buildout of the properties is complete and all tenants are occupying and paying rent. Management considers Same Property NOI to be an important measure of operating performance of the REIT's properties.

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.

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 of investment properties, warrants, unit options, restricted share units and derivative financial instruments, fair value adjustments and other effects of redeemable units classified as liabilities and the Class B LP Units, if any, amortization of right-of-use assets, lease principal payments, deferred income taxes, and amortization of tenant incentives and leasing costs. 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 is an unincorporated, open-ended real estate investment trust governed by the laws of the Province of Ontario pursuant to an amended and restated declaration of trust dated August 13, 2020. The REIT owns and operates commercial real estate properties across Canada.

The strategy of the REIT is to grow by acquiring commercial real estate assets, with a focus on industrial properties, 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 25 years of successfully investing in the Canadian real estate industry.

HIGHLIGHTS

- Occupancy of 94% at March 31, 2021, increased from 93% at December 31, 2020 and remained consistent as compared to March 31, 2020.
- Rent collections continue to be strong despite the challenges of COVID-19.
- Graduated to the Toronto Stock Exchange on February 1, 2021, with a 1 for 4 consolidation of outstanding units.
- Completed a \$14MM acquisition of two industrial properties in Edmonton, Alberta during Q1 2021.
- Closed a \$34.9MM bought deal equity offering on March 4, 2021 with 4,255,000 REIT Units issued (the “Offering”), including 555,000 units issued as part of a fully exercised overallotment. The incremental units outstanding following the offering will negatively impact per unit measures and the REIT’s AFFO payout ratio until proceeds of the offering are fully deployed to acquire industrial properties.
- Q1 2021 net operating income of \$10,565,713 increased by \$792,078 or 8.1% as compared to Q1 2020 net operating income of \$9,773,635 and by \$867,412 or 8.9% as compared to Q4 2020 net operating income of \$9,698,301.
- Q1 2021 same property NOI of \$9,501,869 increased by \$19,044 or 0.2% as compared to Q1 2020 same property NOI of \$9,482,825.
- Q1 2021 normalized FFO per unit of \$0.203, as compared to \$0.219 for Q1 2020 and \$0.206 for Q4 2020.
- Q1 2021 normalized AFFO per unit of \$0.183, as compared to \$0.197 for Q1 2020 and \$0.185 for Q4 2020.
- Q1 2021 normalized AFFO payout ratio of 87.7%, as compared to 81.3% for Q1 2020 and 86.1% for Q4 2020.
- Ended Q1 2021 with \$52MM of cash and full availability of \$5MM credit facility; debt to total assets of 45.8% compared to 48.2% at December 31, 2020.
- Book NAV per unit, including Class B LP Units, of \$10.09 at March 31, 2021 as compared to \$10.16 at December 31, 2020 and \$9.80 at March 31, 2020.
- Acquired six industrial properties in London, Ontario for \$103.5MM on April 1, 2021.
- \$144.9MM of industrial properties totalling 1.1MM square feet of gross leasable area under contract.
- Upon closing of announced transactions, more than 70% of the REIT’s NOI will be generated by its industrial portfolio.
- Management of the REIT will host a conference call on Friday May 14th at 1PM EST to review results and operations.

COVID-19 Collections Update

The following table summarizes rent collections presented as a percentage of contractual gross rent:

	Q1 2021
Cash collected from tenants	97.8%
Remaining to be collected	2.2%
Total	100.0%

ACQUISITIONS AND DISPOSALS

Acquisitions

On March 1, 2021, the REIT acquired two industrial properties located in Edmonton, Alberta (the “Edmonton Properties”), for a contractual purchase price of \$14,000,000. The purchase price was partially satisfied through the issuance of 853,659 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of \$8.20 per unit, which are convertible to REIT Units on a one-to-one basis with the balance, net of closing adjustments, satisfied in cash.

On December 31, 2020, the REIT acquired a 50 percent interest in an industrial property located in Ajax, Ontario (the “Ajax Property”) for a contractual purchase price of \$28,500,000. The REIT satisfied \$25,500,000 of the purchase price on the closing date and the remaining \$3,000,000 of purchase price will be satisfied in cash from mortgage financing to be placed on the Ajax Property following completion of an approximately 95,000 square foot expansion which the vendor is obligated to complete at its own cost. Over the period commencing December 31, 2020 and ending when the expansion is complete, the REIT will receive vendor rent obligation payments from the vendor, which are estimated to total \$270,839.

On December 1, 2020, the REIT acquired a single-tenant industrial property located in Moncton, New-Brunswick (the “Moncton Property”), for a contractual purchase price of \$8,000,000. The purchase price was partially satisfied through the issuance of 400,000 REIT Units at a deemed value of \$8.00 per unit with the balance, net of closing adjustments, satisfied in cash.

On October 1, 2020, the REIT acquired a single-tenant industrial property located in Rocky View County Alberta, within the Calgary Metropolitan Region (the “Rocky View Property”), for a contractual purchase price of \$13,750,000. The purchase price was partially satisfied through the issuance of 687,500 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of \$8.00 per unit, which are convertible to REIT Units on a one-to-one basis with the balance, net of closing adjustments, satisfied in cash.

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 1,202,381 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 869,048 REIT Units, with both the REIT Units and the Class B LP Units issued at a deemed value of \$8.40 per unit, with closing adjustments satisfied in cash.

Disposal

On March 16, 2021, the REIT sold a property located in Lachine, Quebec, for a selling price of \$2,900,000. Net of selling costs of \$108,471, the REIT received cash proceeds of \$2,791,529. The sale of the property generated a loss on disposal of \$95,350.

REIT PROPERTIES BY ASSET CLASS AS AT MARCH 31, 2021

Property Address	Property Use	Rentable Area (Square Feet)	Rentable Area (Square Feet) At REIT Ownership Interest	Occupancy	Weighted Average Remaining Lease Term
<u>INDUSTRIAL</u>					
<u>Alberta</u>					
4700 & 4750 – 102 Ave., SE, Calgary, AB	Industrial	29,471	29,471	100%	3.8 years
3780 & 4020 - 76 th Ave., SE, Calgary, AB	Industrial	58,937	58,937	100%	4.6 years
41 Royal Vista Drive, NW, Calgary, AB	Industrial	36,915	36,915	31%	6.2 years
8001 - 99 St., Clairmont, AB	Warehouse and Office	26,638	26,638	100%	3.3 years
12104 & 12110 - 17 th St., NE, Edmonton, AB	Industrial and Headquarters	116,582	116,582	100%	4.6 years
14801 - 97 th St., Grande Prairie, AB	Industrial	42,120	42,120	100%	4.6 years
3501 Giffen Rd. North 3711 – 36 St. North, Lethbridge, AB	Industrial	229,000	229,000	100%	8.3 years
5406 - 59 th Ave., Lloydminster, AB	Industrial	12,425	12,425	100%	4.6 years
4301 – 45 Ave., Rycroft, AB	Industrial	22,110	22,110	100%	8.3 years
2301 – 8 St., Nisku, AB	Industrial	21,506	21,506	100%	3.6 years
2303A – 8 St., Nisku, AB	Industrial	39,649	39,649	100%	4.5 years
1010 Brier Park Dr., Medicine Hat, AB	Industrial	14,354	14,354	100%	2.1 years
27323 – 144 Township Rd. 394, Blackfalds, AB	Industrial	25,000	25,000	100%	5.5 years
261177-261185 Wagon Wheel Way, Balzac, AB	Industrial	95,180	95,180	100%	4.5 years
9110 23 Avenue NW, Edmonton, AB	Industrial	72,356	72,356	100%	3.6 years
11510 168 Street NW, Edmonton, AB	Industrial	35,800	35,800	100%	2.1 years
<u>British Columbia</u>					
965 McMaster Way, Kamloops, BC	Industrial	13,706	13,706	100%	4.6 years
9929 Swanson St., Fort St. John, BC	Industrial	26,477	26,477	100%	2.1 years
<u>New Brunswick</u>					
675 St-George Boulevard, Moncton, NB	Industrial	93,443	93,443	100%	4.3 years

Northwest Territories

348-352 Old Airport Rd., Yellowknife, NWT	Industrial	53,212	53,212	100%	4.6 years
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Ontario

455 Welham Rd., Barrie, ON	Industrial	109,366	109,366	100%	4.2 years
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200 Sheldon Drive, Cambridge, ON	Industrial	150,000	150,000	100%	3.4 years
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241-377 Fairall Street 332-360 Frankcom Street 97-121 McMaster Avenue Ajax, ON ⁽¹⁾	Industrial	479,496	239,748	100%	10.0 years
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Québec

935-965 rue Reverchon, Saint-Laurent, QC	Multi-tenant Industrial	114,857	114,857	100%	3.2 years
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1901 Dickson / 5780 Ontario Est, Montréal, QC	Industrial	91,068	91,068	100%	4.2 years
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6810 boul. Des Grandes Prairies, Montréal, QC	Industrial	60,786	60,786	100%	1.2 years
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3330 2 ^e rue, Saint-Hubert, QC	Multi-tenant Industrial	60,441	60,441	100%	5.6 years
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3600 1 ^{ère} rue, Saint-Hubert, QC	Multi-tenant Industrial	37,554	37,554	100%	4.2 years
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3550 1 ^{ère} rue, Saint-Hubert, QC	Industrial	22,428	22,428	100%	2.8 years
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3490-3504 rue Griffith, Saint-Laurent, QC	Multi-tenant Industrial	40,665	40,665	100%	2.0 years
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425 rue Guy, Montréal, QC ⁽¹⁾	Multi-tenant Industrial	37,196	18,598	82%	2.2 years
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Saskatchewan

110 - 71 st St., Saskatoon, SK	Industrial	74,796	74,796	100%	4.6 years
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15 Peters Ave., Saskatoon, SK	Industrial	38,160	38,160	100%	4.6 years
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1414 Fletcher Road, Saskatoon, SK	Industrial	86,000	86,000	100%	2.1 years
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850 Manitoba St. East & 15 - 9 th Ave., NE, Moose Jaw, SK	Industrial	18,800	18,800	100%	4.6 years
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4271 – 5 Ave. East, Prince Albert, SK	Industrial	24,600	24,600	100%	4.8 years
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1117 -1135 Pettigrew Ave., Regina, SK	Industrial	38,690	38,690	93%	1.1 years
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320 Industrial Drive, Regina, SK	Industrial	60,000	60,000	100%	2.1 years
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332 Industrial Drive, Regina, SK	Industrial	85,660	85,660	100%	2.1 years
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101 Jahn St., Estevan, SK	Industrial	11,846	11,846	100%	2.1 years
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RETAIL

British Columbia

988 Great St., Prince George, BC	Multi-Tenant Service, Warehousing, Retail	53,126	53,126	100%	3.0 years
1751 & 1771 Savage Road, Richmond, BC ^{(2) (4)}	Retail	171,274	171,274	65% ⁽²⁾⁽⁴⁾	8.2 years

Prince Edward Island

695 University Ave., Charlottetown, PEI	Retail	4,501	4,501	100%	5.3 years
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Ontario

5005 South Service Road, Beamsville, ON	Retail	8,125	8,125	100%	2.4 years
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Québec

1185-1195 Chemin du Tremblay, Longueuil, QC	Retail	53,924	53,924	97%	3.3 years
41 boulevard Saint-Jean-Baptiste, Châteauguay, QC	Retail	53,151	53,151	100%	4.6 years
1094-1100 boulevard Des Chutes, Beauport, QC ⁽¹⁾	Retail	32,411	16,206	100%	3.5 years
1700 rue Sherbrooke, Magog, QC ⁽¹⁾	Retail	132,584	66,292	81%	2.8 years
1971 rue Bilodeau, Plessisville, QC ⁽¹⁾	Retail	99,611	49,806	92%	4.0 years
14000 boulevard Henri-Bourassa, Québec City, QC ⁽¹⁾	Retail	44,619	22,310	100%	3.9 years
6700 rue St-Georges, Lévis, QC ⁽¹⁾	Retail	43,203	21,602	84%	3.8 years
10516 boulevard Sainte-Anne, Ste-Anne-de-Beaupré, QC ⁽¹⁾	Retail	88,625	44,313	86%	3.3 years
9550 boulevard L'Ornière, Québec, QC ⁽¹⁾	Retail	114,331	57,166	97%	1.9 years
333 Côte Joyeuse, St-Raymond, QC ⁽¹⁾	Retail	64,481	32,241	80%	2.3 years
161 Route 230 Ouest, La Pocatière, QC ⁽¹⁾	Retail	208,799	104,400	68%	4.4 years
25 Route 138, Forestville, QC ⁽¹⁾	Retail	55,962	27,981	88%	3.7 years
2000 boulevard Louis-Fréchette, Nicolet, QC ⁽¹⁾	Retail	88,383	44,192	93%	5.0 years
3856 boulevard Taschereau, Greenfield Park, QC ⁽¹⁾	Retail	213,982	106,991	86%	4.5 years
250 boulevard Fiset, Sorel, QC ⁽¹⁾	Retail	116,348	58,174	100%	4.7 years
8245 boulevard Taschereau, Brossard, QC ⁽¹⁾	Retail	43,335	21,668	97%	7.2 years

340 rue Belvédère Sud, Sherbrooke, QC ⁽¹⁾	Retail	171,265	85,633	90%	3.2 years
401-571 boulevard Jutras Est, Victoriaville, QC	Retail	379,254	379,254	92%	5.7 years
7500 boulevard Les Galeries d'Anjou, Anjou, QC ⁽¹⁾	Retail	104,691	52,346	93%	5.1 years

OFFICE

New Brunswick

400 Main Street, St. John, NB	Office	160,071	160,071	91%	3.1 years
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Québec

2045 rue Stanley, Montréal, QC ⁽¹⁾	Office	112,406	56,203	95%	13.0 years
72 rue Laval, Gatineau, QC ⁽¹⁾	Office	68,473	34,237	100%	1.4 years
10500 avenue Ryan, Dorval, QC	Office	52,372	52,372	100%	8.7 years
955 boulevard Michèle-Bohec, Blainville, QC	Office	33,461	33,461	100%	5.2 years
1600 rue Montgolfier, Laval, QC	Office	27,097	27,097	100%	5.3 years
353 St-Nicolas, Montréal, QC ⁽¹⁾	Office	34,425	17,213	51%	2.8 years
410 St-Nicolas, Montréal, QC ⁽¹⁾	Office	154,862	77,431	82%	4.9 years
360 Notre-Dame Ouest, Montréal, QC ⁽¹⁾	Office	29,442	14,721	93%	2.0 years
321 de la Commune, Montréal, QC ⁽¹⁾	Office	11,502	5,751	100%	1.8 years
329 de la Commune, Montréal, QC ⁽¹⁾	Office	21,022	10,511	93%	2.3 years
127, 137 & 145 St-Pierre, Montréal, QC ⁽¹⁾	Office	36,837	18,419	77%	4.3 years
63 rue des Brésosles, Montréal, QC ⁽¹⁾	Office	38,253	19,127	100%	2.6 years

Total		5,833,498	4,510,234	94% ⁽³⁾	4.8 years ⁽³⁾
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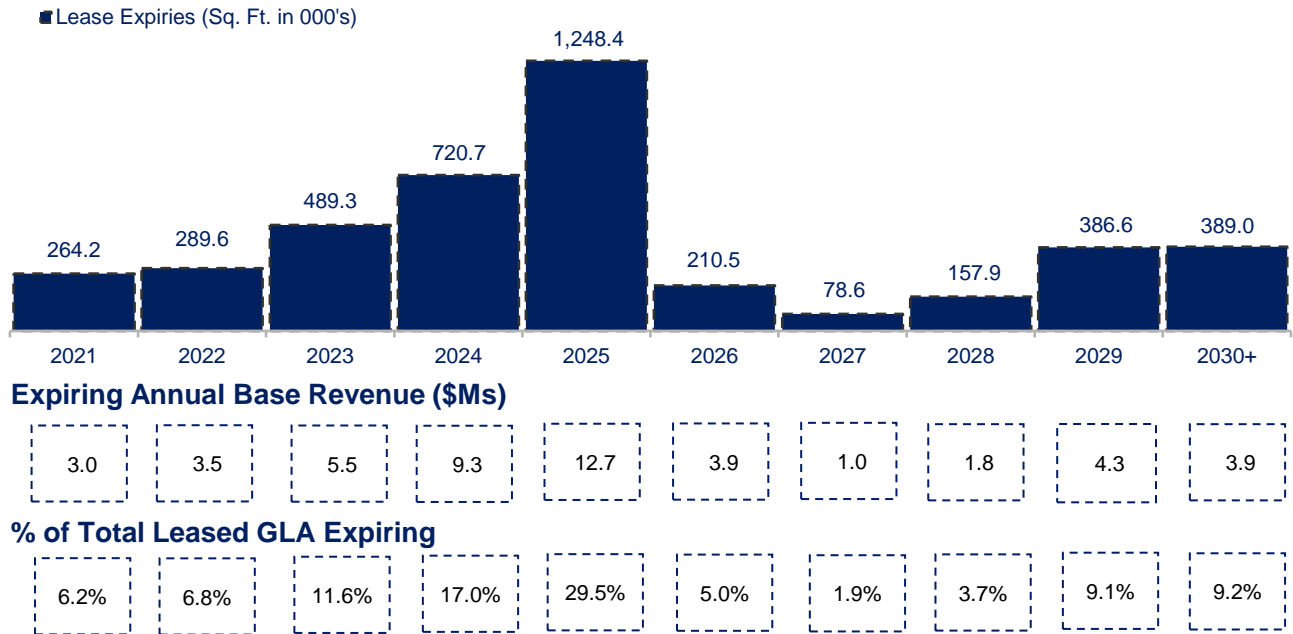
(1) The REIT owns a 50% interest in these properties.

(2) Property is currently being repositioned from industrial uses to other higher yielding uses.

(3) Excluding 1751 & 1771 Savage Road (the "Richmond Property"), which is currently being repositioned, the occupancy rate is 95% and the weighted average remaining lease term is 4.7 years.

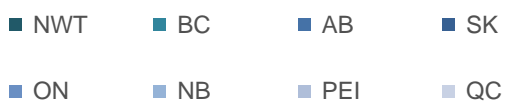
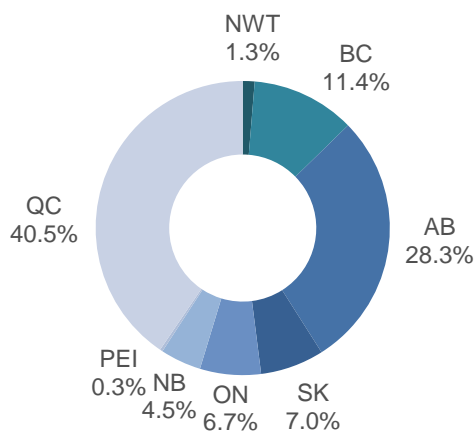
(4) As at March 31, 2021, 1751 & 1771 Savage Road has a total committed occupancy of 100%.

LEASE EXPIRIES

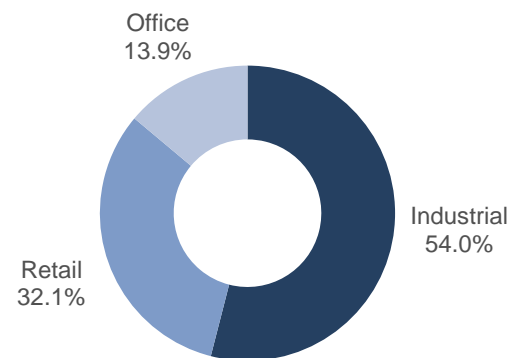


PROPERTY COMPOSITION DIVERSITY

GEOGRAPHIC MIX (BY BASE RENT)



ASSET CLASS MIX (BY BASE RENT)



SUMMARY OF RESULTS

	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
Financial highlights		
Property revenues	16,587,724	15,592,759
Net rental income (NOI)	10,565,713	9,773,635
Same Property NOI ⁽¹⁾	9,501,869	9,482,825
Funds from operations (FFO) ⁽¹⁾	6,684,053	6,283,632
Normalized FFO ^{(1) (2)}	7,321,379	6,893,562
Adjusted funds from operations (AFFO) ⁽¹⁾	5,953,596	5,590,259
Normalized AFFO ^{(1) (2)}	6,590,922	6,200,189
Distributions declared ⁽³⁾	5,777,047	5,040,412
Weighted average units outstanding – basic ⁽⁴⁾	36,041,448	31,435,903
Weighted average units outstanding – diluted ⁽⁴⁾	36,124,359	31,465,380
Distributions per unit, basic and diluted ^{(3) (4)}	0.160	0.160
FFO per unit, basic and diluted ^{(1) (4)}	0.185	0.200
Normalized FFO per unit, basic and diluted ^{(1) (2) (4)}	0.203	0.219
AFFO per unit, basic and diluted ^{(1) (4)}	0.165	0.178
Normalized AFFO per unit, basic ^{(1) (2) (4)}	0.183	0.197
Normalized AFFO per unit, diluted ^{(1) (2) (4)}	0.182	0.197
AFFO payout ratio, basic ^{(1) (3)}	97.0%	90.2%
Normalized AFFO payout ratio, basic ^{(1) (2) (3)}	87.7%	81.3%
Debt to total assets ratio	45.8%	47.6%

(1) See Non-IFRS Measures.

(2) Normalized FFO and Normalized AFFO include adjustments for vendor rent obligation amounts related to the REIT's Richmond and Ajax Properties, which are payable from the vendor of the property until the buildout of the property 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. For the three months ended March 31, 2021, normalized FFO and AFFO are also adjusted to exclude \$207,355 of one-time TSX listing fees related to graduation to the TSX, which are included in general and administrative expense in the period.

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

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

	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
Financial results		
Property revenues	16,587,724	15,592,759
Property expenses	<u>(6,022,011)</u>	<u>(5,819,124)</u>
Net operating income (NOI)	10,565,713	9,773,635
General and administrative expense	(1,429,051)	(992,662)
Fair value adjustment of investment properties	5,096,002	(1,381,065)
Fair value adjustment of Class B LP Units	(4,236,428)	15,158,855
Fair value adjustment of warrants	-	1,210
Fair value adjustment of unit options	(166,000)	492,000
Fair value adjustment of restricted share units	(47,930)	26,004
Fair value adjustment of derivative financial instruments	3,873,482	(5,438,412)
Income (loss) from equity accounted investment in joint venture	437,513	(402,875)
Loss on disposal of investment property	(95,350)	-
Other income	<u>200,255</u>	<u>-</u>
	<u>14,198,206</u>	<u>17,236,690</u>
Net interest expense	(2,995,026)	(2,709,018)
Distributions on Class B LP Units	<u>(995,407)</u>	<u>(856,672)</u>
Net income and comprehensive income for the period	<u>10,207,773</u>	<u>13,671,000</u>

Q1 2021 NOI of \$10,565,713 was \$792,078 higher than Q1 2020 NOI of \$9,773,635. Properties acquired in 2020 and 2021 generated incremental NOI of approximately \$930,000 in Q1 2021 as compared to Q1 2020. Partially offsetting was the impact of a vacancy at a REIT industrial property in Calgary, Alberta which reduced Q1 2021 NOI by approximately \$150,000 as compared to Q1 2020.

Q1 2021 general and administrative expense of \$1,429,051 was \$436,389 higher than Q1 2020 general and administrative expense of \$992,662, primarily due to \$207,355 of one-time TSX listing fees relating to the TSX graduation and expenses related to the REIT's equity-settled RSU plan, which were approximately \$105,000 higher in Q1 2021 as compared to Q1 2020. Other staffing related costs were approximately \$80,000 higher in Q1 2021 as compared to Q1 2020. SEDAR filing fees and TSX listing fees were higher following TSX graduation, partially offset by lower travel and meals and entertainment expenses in Q1 2021 as compared to Q1 2020.

Fair value adjustments of Class B LP Units are driven by changes in the trading price of units of the REIT, 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 March 31, 2021, 6,195,224 Class B LP Units were outstanding. The trading price of the REIT's units as at March 31, 2021 was \$8.40 as compared to \$7.72 as at December 31, 2020 and \$6.08 per unit as at March 31, 2020.

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 during the quarter.

A fair value gain on derivative financial instruments of \$3,873,482 was recorded during the quarter, relating to an increase in the pricing of interest rate swaps with terms comparable to those that the REIT is a party to. The interest rate swaps effectively fix interest rates on \$65,000,000 of the REIT's Credit Facility and \$142,100,106 of floating rate mortgages.

A fair value gain on investment properties of \$5,096,002 was recorded during the quarter, relating primarily to the revaluation of a portfolio of industrial properties acquired in Q1 2020 to increase the carrying value of the properties to fair values as determined by reference to appraisals completed at the time of purchasing the properties.

Net income from equity accounted investment in joint venture for Q1 2021 of \$437,513 is comprised of \$257,504 of NOI from the joint venture investment property, a fair value gain of \$266,653 to mark to market interest rate swaps in place at the joint venture, offset by \$66,602 of interest expense as well as \$20,042 of general and administrative expense.

During Q1 2021, the estimated vendor rent obligation related to the Richmond Property was reassessed and \$200,255 was recorded in other income in the quarter, reflecting an increase in the total amount expected to be collected from the vendor through to completion of property improvements. The work is progressing and expected to be completed in the third quarter or fourth quarter of 2021.

Net interest expense for Q1 2021 of \$2,995,026 was \$286,008 higher than net interest expense of \$2,709,018 for Q1 2020 primarily due to increased mortgage interest expense relating to new mortgage financings completed in Q2 2020 on previously unencumbered properties as well as new mortgage financing secured by the properties acquired in Q4 2020 and Q1 2021.

Distributions on Class B LP Units for Q1 2021 of \$995,407 were \$138,735 higher than distributions on Class B LP Units of \$856,672 for the same period of the prior year due to a greater number of Class B LP Units outstanding in the period, which were primarily issued in connection with the acquisition of the Rocky View Property in Q4 2020.

	As at March 31, 2021	As at December 31, 2020
	\$	\$
Select balance sheet data		
Investment properties	685,262,981	667,600,805
Cash	51,836,038	13,993,230
Total Assets	766,328,481	710,498,718
Current portion of mortgages payable	34,588,867	34,368,494
Total Current Liabilities	48,611,278	47,954,912
Non-current portion of mortgages payable	247,517,324	239,413,077
Non-current portion of Credit Facility	64,909,469	64,903,002
Class B LP Units	52,039,890	49,186,994
Total Non-current Liabilities	370,069,521	362,964,311
Total Unitholders' Equity	347,497,682	299,579,495
Debt to total assets ratio	45.8%	48.2%

Debt to total assets

The REIT's debt to total assets as at March 31, 2021 was 45.8% as compared to 48.2% as at December 31, 2020. The decrease is primarily related to the \$32,923,584 of net proceeds raised through the Offering. The REIT's calculation of debt includes mortgages payable, Credit Facility and lease liabilities balances at the amounts carried in the REIT's condensed consolidated interim statement of financial position.

SUMMARY OF QUARTERLY RESULTS ⁽¹⁾

	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Property revenues	\$ 16,587,724	\$ 15,648,288	\$ 15,103,549	\$ 15,040,989
Property expenses	\$ (6,022,011)	\$ (5,949,987)	\$ (5,154,187)	\$ (5,236,192)
Net operating income (NOI)	\$ 10,565,713	\$ 9,698,301	\$ 9,949,362	\$ 9,804,797
Net income	\$ 10,207,773	\$ 9,831,115	\$ 4,848,450	\$ 6,883,796
Weighted average number of units, basic ⁽²⁾	36,041,448	34,014,593	33,031,819	32,936,436
Weighted average number of units, diluted ⁽²⁾	36,124,359	34,036,656	33,053,882	32,958,499
	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Property revenues	\$ 15,592,759	\$ 15,583,030	\$ 14,929,417	\$ 15,057,425
Property expenses	\$ (5,819,124)	\$ (5,925,756)	\$ (5,340,871)	\$ (5,311,966)
Net operating income (NOI)	\$ 9,773,635	\$ 9,657,274	\$ 9,588,546	\$ 9,745,459
Net income	\$ 13,671,000	\$ 27,332,940	\$ 6,412,316	\$ 4,041,737
Weighted average number of units, basic ⁽²⁾	31,435,903	30,051,476	29,987,983	29,932,496
Weighted average number of units, diluted ⁽²⁾	31,465,380	30,079,262	30,002,339	29,949,551

(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.

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

SAME PROPERTY RESULTS

The following is a reconciliation of the REIT's NOI to Same Property NOI, including all properties owned by the REIT for the entire current and comparative reporting period:

	Three months ended		Variance
	March 31, 2021	March 31, 2020	
	\$	\$	\$
Property revenues	16,587,724	15,592,759	994,965
Property expenses	(6,022,011)	(5,819,124)	(202,887)
NOI	10,565,713	9,773,635	792,078
Add:			
Amortization of tenant incentives and leasing costs	165,734	114,972	50,762
Straight-line adjustments of rent	(85,314)	(97,234)	11,920
Acquisitions/Disposals	(1,144,264)	(202,593)	(941,671)
Termination fees and non-recurring items ⁽¹⁾	-	(105,955)	105,955
Same Property NOI	9,501,869	9,482,825	19,044

(1) Termination fees and lump sum rental income totalling \$105,955 were received in Q1 2020.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
FFO		
Net income	10,207,773	13,671,000
Adjustments:		
Loss on disposal of investment property	95,350	-
Fair value adjustment of investment properties	(5,096,002)	1,381,065
Fair value adjustment of Class B LP Units	4,236,428	(15,158,855)
Fair value adjustment of warrants	-	(1,210)
Fair value adjustment of unit options	166,000	(492,000)
Fair value adjustment of RSU	47,930	(26,004)
Fair value adjustment of derivative financial instruments	(3,873,482)	5,438,412
Adjustments for equity accounted joint venture ⁽¹⁾	(266,653)	496,636
Attribution of grant date fair value of unit options	-	(31,224)
Distributions on Class B LP Units expensed	995,407	856,672
Amortization of tenant incentives and leasing costs	144,305	140,786
Lease principal payments	(16,277)	(14,919)
Amortization of right-of-use assets	23,274	23,273
Deferred income taxes	20,000	-
Funds from operations (FFO)	<u>6,684,053</u>	<u>6,283,632</u>
Add: Vendor rent obligation ⁽²⁾	630,226	609,930
Less: Other income ⁽²⁾	(200,255)	-
Add: TSX graduation listing fees ⁽³⁾	207,355	-
Normalized FFO	<u>7,321,379</u>	<u>6,893,562</u>
AFFO		
FFO	6,684,053	6,283,632
Adjustments:		
Straight-line adjustments ground lease and rent	(105,457)	(118,373)
Capital reserve ⁽⁴⁾	(625,000)	(575,000)
Adjusted funds from operations (AFFO)	<u>5,953,596</u>	<u>5,590,259</u>
Add: Vendor rent obligation ⁽²⁾	630,226	609,930
Less: Other income ⁽²⁾	(200,255)	-
Add: TSX graduation listing fees ⁽³⁾	207,355	-
Normalized AFFO	<u>6,590,922</u>	<u>6,200,189</u>

(1) Adjustment for equity accounted joint venture relates to a fair value adjustment of swaps 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 investment property.

(2) Normalized FFO and Normalized AFFO include adjustments for vendor rent obligation amounts related to the REIT's Richmond and Ajax Properties, which are payable from the vendor of the property until the buildout of the property 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 estimated future vendor rent obligation amounts included in other income in the condensed consolidated interim statements of income and comprehensive income and include the scheduled quarterly rents receivable in the form of vendor rent obligation.

(3) Normalized FFO and Normalized AFFO include adjustments for \$207,355 of one-time TSX listing fees related to graduation to the TSX, which are included in general and administrative expense in the three-month period ended March 31, 2021.

(4) 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	
	March 31, 2021	March 31, 2020
	\$	\$
Capital reserve	625,000	575,000
Average square feet of Gross Leasable Area (GLA)	4,460,031	3,915,452
Annualized capital reserve per square foot of GLA	\$0.56	\$0.59
	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
Actual tenant incentives and leasing costs ⁽¹⁾	328,735	209,759
Actual maintenance capital expenditures ⁽²⁾	239,845	303,955
Total spending funded by the REIT	<u>568,580</u>	<u>513,714</u>
Average square feet of GLA	4,460,031	3,915,452
Annualized capital spent per square foot of GLA unadjusted for capital reserve	\$0.51	\$0.52

(1) Excludes tenant incentives and leasing costs in the amount of \$nil (2020 - \$907,182) incurred for incremental revenue generation relating to the construction of a new pad site and repurposing a previous industrial space into significantly higher yielding uses.

(2) Excludes capital expenditures in the amount of \$777,997 (2020 - \$1,096,143) incurred for incremental revenue generation relating to the repurposing of a previous industrial space into significantly higher yielding uses.

Actual capital spending and tenant incentive and leasing costs for the period ended March 31, 2021 of \$568,580 is \$56,420 lower than the \$625,000 of the capital reserve included in AFFO. Capital spending on a portfolio acquired in July 2017 was anticipated to be higher in the first 2 to 3 years post-acquisition, and to then normalize. A portion of the anticipated spending on this portfolio of properties has been deferred due to COVID-19.

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

	Three months ended	
	March 31, 2021	March 31, 2020
	\$	\$
Cash flows generated by operating activities	5,595,440	5,277,821
Adjustments:		
Changes in non-cash working capital	17,986	152,133
Changes in other non-current assets	(8,883)	(265)
Changes in restricted cash	21,924	8,344
Distributions on Class B LP Units expensed	995,407	856,672
Loss on disposal of investment property	95,350	-
Adjustments for equity accounted joint venture	(266,653)	496,636
Share of net income (loss) from equity accounted investment in joint venture	437,513	(402,875)
Straight-line rent adjustments of equity accounted joint venture	(20,142)	(21,139)
Restricted share unit expense	(250,028)	(148,261)
Attribution of grant date fair value of unit options	-	(31,224)
Amortization of deferred financing fees	(79,813)	(77,725)
Amortization of mortgage fair value adjustments	56,772	70,061
Lease principal repayments	(16,277)	(14,919)
Capital reserve	<u>(625,000)</u>	<u>(575,000)</u>
AFFO	<u>5,953,596</u>	<u>5,590,259</u>

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The REIT's principal source of liquidity is cash on hand and the undrawn borrowing capacity on its Credit Facility. As at March 31, 2021, the REIT had cash of \$51,836,038 (December 31, 2020 - \$13,993,230) and working capital of \$21,006,701 (December 31, 2020 – deficit of \$16,097,240). Excluding the current portion of mortgages payable of \$34,588,867, working capital would be \$55,595,568. 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	
	March 31, 2021	March 31, 2020
	\$	\$
Cash generated by (used in)		
Operating activities	5,595,440	5,277,821
Investing activities	(4,927,372)	(2,682,720)
Financing activities	37,174,740	(5,546,276)
Change in cash	37,842,808	(2,951,175)
Cash – beginning of period	13,993,230	7,875,818
Cash – end of period	51,836,038	4,924,643

Cash generated from operating activities for the three months ended March 31, 2021 of \$5,595,440 is comprised of net income of \$10,207,773, cash from changes in non-cash working capital, other non-current assets and restricted cash of \$11,027, and non-cash items of \$4,601,306. Prepaid expenses decreased in the quarter, generating \$203,019, primarily attributable to certain Quebec property tax installments being pushed to the second quarter of the year as a form of COVID-19 relief.

Cash used in investing activities for the three months ended March 31, 2021, of \$4,927,372 is primarily related to \$7,072,836 used for the acquisition of the Edmonton Properties on March 1, 2021. Partially offsetting was \$2,900,000 of proceeds generated from the disposal of a property located in Lachine, Quebec on March 16, 2021. The remainder of cash used in investing activities relates to tenant incentives, leasing costs and capital spending in the amount of \$754,536, including \$135,138 of capital expenditures as part of the repurposing of a previous industrial space into significantly higher yielding uses.

Cash generated from financing activities for the three months ended March 31, 2021 of \$37,174,740 is primarily related to the Offering which generated \$32,923,584 of net proceeds, and \$10,500,000 of proceeds of new mortgage financing placed on the Edmonton Properties acquired on March 1, 2021. Partially offsetting were cash distributions to unitholders of \$3,914,847 and mortgage principal repayments of \$2,150,496.

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 March 31, 2021, the mortgages payable are secured by charges against 62 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 3.62% and the weighted average term to maturity is 3.76 years (December 31, 2020 – 3.95 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled Repayments	Principal Maturities	Total
	\$	\$	\$
Remainder of 2021	6,545,822	25,922,023	32,467,845
2022	8,372,736	15,984,322	24,357,059
2023	7,120,972	48,922,042	56,043,014
2024	5,188,022	43,318,733	48,506,755
2025	3,415,846	63,172,781	66,588,627
Thereafter	4,439,504	50,177,382	54,616,885
Total	<u>35,082,902</u>	<u>247,497,283</u>	<u>282,580,185</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%, 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. As at March 31, 2021, \$167,726 (December 31, 2020 - \$293,491) relating to these working capital relief loans remained outstanding.

The REIT has a \$500,000 revolving line of credit bearing interest at 100 basis points per annum over the Canadian prime borrowing rate. The line of credit is secured against six of the REIT's investment properties and allows the REIT to draw down a yearly average maximum of 75% of the \$500,000 credit limit. As at March 31, 2021, this line of credit was undrawn (December 31, 2020 - undrawn).

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

	March 31, 2021	December 31, 2020
	\$	\$
Fixed-term borrowings	65,000,000	65,000,000
Working capital relief loans	167,726	293,491
Total drawn against the Credit Facility	<u>65,167,726</u>	<u>65,293,491</u>
Less: deferred financing costs	<u>(90,531)</u>	<u>(96,998)</u>
	<u><u>65,077,195</u></u>	<u><u>65,196,493</u></u>

Amounts drawn on the Credit Facility as at March 31, 2021 are as follows:

	Principal Amount \$	Interest Rate	Repricing Date
Fixed-term borrowings	65,000,000	1.92% ⁽¹⁾	April 13, 2021 ⁽¹⁾
Working capital relief loans	<u>167,726</u>	3.45%	April 30, 2021
	<u><u>65,167,726</u></u>		

⁽¹⁾ The REIT entered into interest rate swap agreements in September 2019 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 Real Estate Holdings Limited Partnership ("RW LP"), a 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 March 31, 2021, 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 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 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 revenues and 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

Fair value is determined with reference to external valuations and internal valuations based on the direct income capitalization method. The critical assumptions and estimates used by management and external valuations when determining the fair value of investment properties are stabilized net rental income and capitalization rates (see note 4 of the condensed consolidated interim financial statements). 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 March 31, 2021, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$25,452,000 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 \$27,485,000 in the determination of the fair value of the investment properties.

Unit options

The estimates used when determining the fair value of unit-based compensation are the average expected unit option holding period, the average expected volatility rate and the average risk-free interest rate. For vested options, the average expected holding period is estimated to be half of the remaining contractual 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 holding period.

Coronavirus disease 2019

The duration and full impact of the coronavirus disease 2019 ("COVID-19") pandemic are unknown. 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 consolidated financial statements are based on information available to the REIT as at the end of the reporting period.

New accounting standards adopted by the REIT

IFRS 7, 9 and IAS 39, Financial Instruments, IFRS 4, Insurance Contracts and IFRS 16, Leases

On January 1, 2021, the REIT adopted amendments to IFRS 7, 9, IAS 39, IFRS 4 and IFRS 16. The amendments address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments primarily relate to modifications in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities. The adoption of these amendments had no impact on the REIT's condensed consolidated interim financial statements.

Standards issued but not yet effective

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

IAS 1, Classification of Liabilities as Current or Non-Current

On January 23, 2020, the IASB issued "Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)". The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. The amendments also clarify the definition of "settlement" and provide situations which would be considered as a settlement of a liability. The amendments are effective January 1, 2023, with earlier application permitted. These amendments are not expected to impact the REIT's consolidated financial statements.

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.

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 REIT 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.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss to another party by failing to settle its obligations. The REIT is subject to credit risk with respect to its cash deposited with financial institutions and tenant and other receivables. As at March 31, 2021, one tenant accounted for approximately 12% 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. The REIT mitigates credit risk by monitoring the credit ratings of the institutions holding the REIT's deposits. The REIT has examined its tenant receivables for indications of impairment. The tenant receivables default rate of the REIT is less than 0.5%.

COVID-19 has resulted in government mandated shutdowns, and an economic slowdown 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 expected credit losses recognizing the amount of any loss in the condensed consolidated interim statements of income and comprehensive income within property expenses.

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand or borrowing capacity to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at March 31, 2021, the REIT had cash of \$51,836,038 (December 31, 2020 - \$13,993,230), mortgages payable of \$282,580,185 (December 31, 2020 - \$274,230,681), a Credit Facility balance of \$65,167,726 (December 31, 2020 - \$65,293,491) and accounts payable, accruals and other liabilities of \$12,004,406 (December 31, 2020 - \$11,734,709). The REIT had working capital of \$21,006,701 as at March 31, 2021 (December 31, 2020 – deficit of \$16,097,240). Excluding the current portion of mortgages payable of \$34,588,867, the working capital would be \$55,595,568. 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 2021	12,004,406	215,804	167,726	1,535,625	32,467,845	7,181,680	53,573,086
2022	-	287,739	-	2,047,500	24,357,059	8,484,420	35,176,718
2023	-	297,039	-	2,047,500	56,043,014	6,874,177	65,261,730
2024	-	269,905	65,000,000	1,535,625	48,506,755	4,933,074	120,245,359
2025	-	269,905	-	-	66,588,627	3,099,076	69,957,608
Thereafter	-	5,921,775	-	-	54,616,885	3,711,646	64,250,306
Total	12,004,406	7,262,167	65,167,726	7,166,250	282,580,185	34,284,073	408,464,807

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. There is a risk that the REIT may not be able to renegotiate its mortgages and Credit Facility at maturity on terms as favourable as the existing mortgages payable and Credit Facility. As at March 31, 2021, there was a total of \$142,267,832 (December 31, 2020 - \$142,677,588) 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 March 31, 2021, the REIT has interest rate swap agreements totalling \$142,100,106 (December 31, 2020 - \$142,384,097) to mitigate interest rate risk arising from floating rate debt.

The REIT is a party to interest rate swap agreements to swap floating rate interest for fixed rate interest over the terms of certain mortgages and over the term of the Credit Facility. The interest rate swap agreements expire coterminous with the maturity of the corresponding mortgages and 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 (gain) on change in the fair value \$
April 2019	3.67 %	April 24, 2024	12,000,000	11,674,162	388,628
April 2019	3.74 %	April 24, 2026	12,500,000	12,167,060	426,565
April 2019	3.87 %	April 24, 2029	12,500,000	12,179,000	454,394
September 2019	3.15 %	September 13, 2024	65,000,000	65,000,000	1,379,809
November 2020	2.82 %	November 2, 2027	7,650,000	7,579,884	(266,979)
December 2020	3.61 %	December 1, 2025	18,500,000	18,500,000	(98,671)
December 2020	3.35 %	December 30, 2030	15,000,000	15,000,000	(781,666)
			<u>143,150,000</u>	<u>142,100,106</u>	<u>1,502,080</u>

COMMITMENTS

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 is redeveloping approximately 60,000 square feet previously occupied by an industrial tenant. The Developer is managing the redevelopment and has secured new tenants for the space, and the REIT has entered into lease agreements with these tenants. The REIT is responsible for 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 be responsible for costs of the construction. The Developer will secure tenants and manage the construction. The REIT is obligated to pay the Developer a development management fee estimated at \$3,000,000. The development management fee is payable over a 13-month period commencing April 1, 2020 and ending May 1, 2021. 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 \$9.20 per unit and exchangeable on a 1 for 1 basis for REIT Units. In accordance with the DMA, 116,460 Class B LP Units were issued on April 1, 2020, representing 5 months of development management fees. The 116,460 units were released to the Developer on August 1, 2020. Between September 1, 2020 and December 31, 2020, an additional 93,167 units were issued in settlement of the development management fee. Between January 1, 2021 and March 31, 2021, 69,876 Class B LP Units were issued and released to the Developer. On each of April 1, 2021 and May 1, 2021, 23,292 and 23,293 Class B P LP units, respectively, will be issued to the Developer 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 \$9.20 per unit, provided that the units shall be valued at a price per unit that is no less than the maximum allowable discounted price in accordance with Toronto Stock Exchange rules.

Pursuant to the DMA, the REIT was required to provide the Developer a \$5,000,000 advance of the Developer's share of the value enhancement. This advance was payable in Class B LP Units valued at \$9.20 per unit and exchangeable on a 1 for 1 basis for REIT Units. On April 1, 2020, 543,477 Class B LP Units were issued from treasury, and recorded within prepaid expenses. Each month from April 1, 2020 through to March 1, 2021, 45,290 of these Class B LP Units were released to the Developer. As at March 31, 2021, all 543,477 of these units had been released to the Developer.

OUTSTANDING UNIT DATA

The following table presents the changes in unitholders' equity for the three months ended March 31, 2021:

	Units	Amount \$
Unitholders' equity as at December 31, 2020	27,975,110	215,434,594
Units issued under distribution reinvestment plan	73,836	575,729
Units issued under Incentive Plan	24,067	176,104
Units issued for cash, net of \$1,967,416 of issuance costs	4,255,000	32,923,584
Class B LP Units exchanged for REIT Units	1,099,682	8,966,639
Unitholders' equity as at March 31, 2021	<u>33,427,695</u>	<u>258,076,650</u>

As at May 13, 2021, a total of approximately 33,582,000 REIT Units and 14,701,000 Class B LP Units were issued and outstanding.

DISTRIBUTIONS

The REIT currently pays a monthly distribution of \$0.05333 per unit, representing \$0.64 per unit on an annualized basis. Total distributions declared with respect to REIT Units in the three months ended March 31, 2021 amounted to \$4,781,642 (2020 - \$4,185,111).

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

	Three months ended March 31, 2021 \$	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$	Year ended December 31, 2018 \$
Cash generated from operating activities	5,595,440	24,348,165	23,347,175	19,528,428
Net income	10,207,773	35,234,361	42,387,970	38,834,266
Actual cash distributions paid or payable during the period ⁽¹⁾	4,781,642	17,245,638	16,006,631	14,412,308
Excess of cash flows from operating activities over cash distributions paid	813,798	7,102,527	7,340,544	5,116,120
Excess of net income over cash distributions paid	5,426,131	17,988,723	26,381,339	24,421,958

(1) 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 plan. Of distributions declared in the three months ended March 31, 2021, \$575,729 was settled through the issuance of REIT Units under the distribution reinvestment plan.

Net income for the three months ended March 31, 2021 of \$10,207,773 was \$5,426,131 higher than actual cash distributions paid or payable for the three months ended March 31, 2021 of \$4,781,642. Net income excluding non-cash fair value adjustments of investment properties, Class B LP Units, unit options, restricted share units and derivative financial instruments totalling \$4,519,126 and excluding other income of \$200,255 was \$5,488,392 for the three months ended March 31, 2021, which exceeded actual cash distributions paid or payable by \$706,750.

For the three months ended March 31, 2021, cash generated from operating activities exceeded actual cash distributions paid or payable by \$813,798. Excluding changes in non-cash working capital, other non-current assets and restricted cash of \$11,027, cash generated from operating activities exceeded actual cash distributions paid or payable by \$824,825.

DISTRIBUTION REINVESTMENT PLAN

The REIT adopted a distribution reinvestment plan ("DRIP") on February 20, 2014, pursuant to which resident Canadian unitholders are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional units at a price per unit calculated by reference to the weighted average of the trading price for the units for the five trading days immediately preceding the relevant distribution date. Eligible unitholders who so elect will receive a bonus distribution of units equal to 4% of each distribution that was reinvested by them under the DRIP. During the period ended March 31, 2021, 73,836 units (2020 – 65,190 units) were issued under the DRIP for a stated value of \$575,729 (2020 – \$524,523).

RELATED PARTY TRANSACTIONS

For the period ended March 31, 2021, trustee retainer fees in the amount of \$44,375 were expensed (2020 - \$44,375). Trustee retainer fees in the amount of \$44,375 were accrued as at March 31, 2021 (December 31, 2020 - \$44,375).

Trustee meeting fees in the amount of \$6,400 were expensed for the period ended March 31, 2021, (2020 - \$7,000). Trustee meeting fees in the amount of \$6,400 were accrued as at March 31, 2021 (December 31, 2020 - \$4,600).

For the period ended March 31, 2021, key management earned salaries and other short-term employee benefits in the amount of \$401,175 (2020 - \$341,800).

SUBSEQUENT EVENTS

On April 1, 2021, the REIT purchased six industrial properties located in London, Ontario for a contractual purchase price of \$103,500,000. The contractual purchase price was partially satisfied through the issuance of 8,586,407 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of \$7.64 per unit, which are convertible to REIT Units on a one-to-one basis with the balance, net of closing adjustments, satisfied through a combination of the assumption of debt and cash.

On May 6, 2021, the REIT waived conditions with respect to an agreement to purchase an industrial property located in Red Deer, Alberta, for a contractual purchase price of \$16,300,000. The purchase price will be satisfied through a combination of debt generated from new mortgage financing and cash on hand.

On May 12, 2021, the REIT waived conditions with respect to an agreement to purchase an industrial property located in St. Thomas, Ontario, for a contractual purchase price of \$13,800,000. The purchase price will be satisfied through a combination of debt generated from new mortgage financing and cash on hand.

On May 13, 2021, the REIT waived conditions with respect to an agreement to purchase an industrial property located in Windsor, Ontario, for a contractual purchase price of \$14,665,000. The contractual purchase price will be satisfied through a combination of debt generated from new mortgage financing and cash on hand.