Nexus Industrial REIT

Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2022

Nexus Industrial REIT

Condensed Consolidated Interim Statements of Financial Position
As at March 31, 2022 and December 31, 2021
(In thousands of Canadian dollars)
(Unaudited)

	Note(s)	March 31, 2022 $	December 31, 2021 $
Non-current assets			
Investment properties	3,4	1,745,614	1,545,866
Equity investment in joint venture	5	9,638	9,178
Restricted cash		1,388	1,425
Derivative financial Instruments	17	8,012	-
Right-of-use assets		1,063	1,086
Other investments	8	3,000	3,000
Other assets	7	97	86
		1,768,812	1,560,641
Current assets			
Cash		6,565	82,279
Tenant and other receivables	6	4,124	2,747
Deposits		5,050	3,800
Prepaid expenses		2,675	2,207
Other assets	7	7,310	6,483
Assets held for sale	4	54,880	-
		80,604	97,516
Total assets		1,849,416	1,658,157
Non-current liabilities			
Mortgages payable	3,9	681,389	553,011
Credit Facilities	10	64,741	64,713
Lease liabilities		11,502	3,597
Derivative financial instruments	17	-	455
Class B LP Units	11	265,266	248,150
Unit-based compensation liabilities	12	981	1,957
Other liabilities	13b	9,332	9,570
		1,033,211	881,453
Current liabilities			
Mortgages payable	3,9	43,675	58,152
Credit Facilities	10	14,066	-
Lease liabilities		32	73
Distributions payable		3,090	3,056
Accounts payable and other liabilities	13a,18	24,636	25,939
Liabilities associated with assets held for sale	4,9	24,251	-
		109,750	87,220
Total liabilities		1,142,961	968,673
Equity			
Unitholders' equity	14	544,997	536,883
Retained earnings		161,458	152,601
Total unitholders' equity		706,455	689,484
Total liabilities and unitholders' equity		1,849,416	1,658,157
Commitments	18		

On behalf of the Board:

"Benjamin Rodney" Trustee "Floriana Cipollone" Trustee

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

Nexus Industrial REIT

Condensed Consolidated Interim Statements of Income and Comprehensive Income
For the three months ended March 31, 2022 and 2021
(In thousands of Canadian dollars)
(Unaudited)

	Note(s)	2022 $	2021 $
Net rental income			
Property revenues	16	31,699	16,588
Property expenses		(9,675)	(6,022)
Net rental income		22,024	10,566
General and administrative expense		(2,029)	(1,429)
Fair value adjustment of investment properties	4	1,925	5,096
Fair value adjustment of Class B LP Units	11	(3,692)	(4,236)
Fair value adjustment of unit options	12	(142)	(166)
Fair value adjustment of restricted share units	12	(42)	(48)
Fair value adjustment of derivative financial instruments	17	8,467	3,873
Income from equity accounted investment in joint venture	5	460	438
Loss on disposal of investment properties		-	(95)
Unrealized foreign exchange gain		148	-
Other income	7	444	200
		27,563	14,199
Finance expense			
Net interest expense	9,10	(6,294)	(2,995)
Distributions on Class B LP Units	11	(3,205)	(995)
		(9,499)	(3,990)
Net income and comprehensive income		18,064	10,209

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

Nexus Industrial REIT

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity
For the three months ended March 31, 2022 and 2021
(In thousands of Canadian dollars)
(Unaudited)

	Note	Units	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2022		57,302,629	536,883	152,601	689,484
Net income and comprehensive income		-	-	18,064	18,064
Distributions		-	-	(9,207)	(9,207)
Units issued under distribution reinvestment plan	15	67,008	777	-	777
Units issued under Option Plan	12	58,922	760	-	760
Units issued under Incentive Plan	12	35,755	461	-	461
Units issued under Employee Purchase Plan	12	15,251	176	-	176
Class B LP Units exchanged for REIT Units	11	455,481	5,940	-	5,940
Balance – March 31, 2022		57,935,046	544,997	161,458	706,455

	Note	Units	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2021		27,975,110	215,435	84,145	299,580
Net income and comprehensive income		-	-	10,209	10,209
Distributions		-	-	(4,782)	(4,782)
Units issued under distribution reinvestment plan	15	73,836	576	-	576
Units issued under Incentive Plan	12	24,067	176	-	176
Units issued for cash		4,255,000	34,891	-	34,891
Unit issuance costs		-	(1,967)	-	(1,967)
Class B LP Units exchanged for REIT Units	11	1,099,682	8,967	-	8,967
Balance – March 31, 2021		33,427,695	258,078	89,572	347,650

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

Nexus Industrial REIT

Condensed Consolidated Interim Statements of Cash Flows
For the three months ended March 31, 2022 and 2021
(In thousands of Canadian dollars)
(Unaudited)

	Note(s)	2022 $	2021 $
Operating activities			
Net income for the period		18,064	10,209
Adjustment for items not involving cash:			
Restricted share unit expense	12	581	250
Share of net income from equity accounted investment in joint venture	5	(460)	(438)
Loss on disposals		-	95
Amortization of deferred financing costs	9,10	138	80
Amortization of mortgage fair value adjustments	9	(55)	(57)
Amortization of right-of-use assets		23	23
Amortization of tenant incentives and leasing costs	4	265	144
Straight-line adjustments of rent		(776)	(85)
Fair value adjustment of investment properties	4	(1,925)	(5,096)
Fair value adjustment of Class B LP Units	11	3,692	4,236
Fair value adjustment of unit options	12	142	166
Fair value adjustment of restricted share units	12	42	48
Fair value adjustment of derivative financial instruments	18	(8,467)	(3,873)
Unrealized foreign exchange gain		(148)	-
Changes in non-cash working capital:			
Tenant and other receivables		(2,073)	(111)
Prepaid expenses		(447)	203
Deposits		(1,250)	(300)
Other current assets		(51)	176
Accounts payable and other liabilities		(2,117)	26
Changes in other non-current assets		(12)	29
Changes in restricted cash		37	(22)
Changes in other non-current liabilities		(1,165)	-
Total cash generated by operating activities		4,038	5,703
Investing activities			
Acquisition of investment properties	3	(218,952)	(7,073)
Net proceeds on disposal of investment properties		-	2,792
Capital expenditures, tenant incentives and leasing costs	4	(592)	(755)
Total cash used in investing activities		(219,544)	(5,036)
Financing activities			
Proceeds from new mortgage financing		156,300	10,500
Financing costs		(835)	(41)
Lease principal repayments		(13)	(16)
Mortgage principal repayments		(21,330)	(2,150)
Net borrowing on (repayments of) the Credit Facilities		14,066	(126)
Units issued for cash		-	34,891
Unit issuance costs		-	(1,967)
Distributions to unitholders		(8,396)	(3,915)
Total cash generated by financing activities		139,792	37,176
Change in cash during the period		(75,714)	37,843
Cash - beginning of period		82,279	13,993
Cash - end of period		6,565	51,836

Supplemental cash flow and non-cash information 19

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

1 Organization

Nexus Industrial REIT (formerly 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 March 7, 2022. Nexus Industrial REIT and its subsidiaries, (together, “the REIT”) own and operate commercial real estate properties across Canada. The registered office of the REIT is located at 211-1540 Cornwall Road, Oakville, ON, L6J 7W5.

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, 2021.

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, unit options, restricted share units and financial instruments classified as fair value through profit or loss (“FVTPL”), which are presented at fair value. These condensed consolidated interim financial statements are presented in thousands of Canadian dollars, which is the functional currency of the REIT. The condensed consolidated interim financial statements were authorized for issue by the board of trustees of the REIT on May 12, 2022.

As at March 31, 2022 the REIT has presented its investment in a limited partnership as a separate item on the condensed consolidated interim statements of financial position. The prior period balance has been reclassified from other assets to other investments to conform with the presentation adopted in the current period.

Significant accounting judgments, estimates and assumptions

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

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. The REIT is currently evaluating the impact of these amendments on its consolidated financial statements.

(In thousands of Canadian dollars)

3 Acquisitions and disposals

Acquisitions

The impact of the acquisitions completed during the three-months ended March 31, 2022 is as follows:

Property location	Note	Acquisition date	Contractual purchase price $	Fair value adjustment (1) $	Transaction costs $	Investment properties acquired $	Working capital acquired $	Mortgages assumed (2) $	Net assets acquired $
Edmonton, AB		March 1st	14,600	-	51	14,651	(141)	-	14,510
London, ON	a	March 1st	35,694	1,736	1,052	38,482	(256)	(2,664)	35,562
Edmonton, AB	b	February 22nd	91,000	-	192	91,192	(59)	-	91,133
Edmonton, AB	c	February 8th	38,161	-	154	38,315	(119)	-	38,196
Mascouche, QC	d	February 2nd	28,914	-	976	29,890	(1,355)	-	28,535
Regina, SK		January 12th	28,000	-	147	28,147	(290)	-	27,857
Post-closing adjustments	e		-	-	2,524	2,524	-	-	2,524
			236,369	1,736	5,096	243,201	(2,220)	(2,664)	238,317

(1) Fair value adjustment for Class B LP units issued, and mortgage assumed on acquisition.
(2) Fair value of mortgages assumed.

Consideration:	
Cash	218,952
Class B LP Units issued	19,364
	238,317

a) On March 1, 2022, the REIT acquired three industrial properties located in London, Ontario for a contractual purchase price of $35,694. The purchase price was partially satisfied through the issuance of 1,565,394 Class B LP Units at a deemed value of $11.30 per unit which are convertible to 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's units on March 1, 2022 of $12.37 per unit. The property was initially recorded at $37,369, the fair value of the consideration paid. The carrying amount of the property was subsequently adjusted to the acquisition date fair value of the property of $35,694.

b) On February 22, 2022, the REIT acquired two industrial properties located in Edmonton, Alberta for a contractual purchase price of $91,000. Pursuant to the acquisition the REIT acquired a ground lease liability of $9,175 and an associated lease liability of $9,175.

c) On February 8, 2022, the REIT acquired an industrial warehouse located in Edmonton, Alberta for a contractual purchase price of $38,161.

d) On February 2, 2022, the REIT acquired a distribution centre located in the Montreal, Quebec area for a contractual purchase price of $28,914.

e) Post-closing adjustments relate to transaction costs for an industrial property acquired in December 2021.

(In thousands of Canadian dollars)

The impact of the acquisitions completed during the year ended December 31, 2021 is as follows:

Property location	Note	Acquisition date	Contractual purchase price $	Fair value adjustment (1) $	Transaction costs $	Investment properties acquired $	Working capital acquired $	Mortgages assumed (2) $	Net assets acquired $
London, ON		December 30th	12,550	-	323	12,873	(16)	-	12,857
Pointe-Claire, QC	f	December 9th	98,183	(1,052)	98	97,229	(274)	(60,440)	36,515
Nisku, AB	g	November 19th	19,335	-	74	19,409	(44)	-	19,365
London, ON	h	November 1st	44,070	16,345	1,055	61,470	(447)	(16,448)	44,575
Windsor, ON		October 13th	11,500	-	360	11,860	(102)	-	11,758
Moncton, NB and Regina, SK	i	October 1st	241,095	-	2,401	243,496	(1,191)	-	242,305
Red Deer, AB		September 9th	19,750	-	47	19,797	(81)	-	19,716
Edmonton, AB		July 23rd	19,700	-	65	19,765	(267)	-	19,498
Edmonton, AB		July 16th	12,050	-	58	12,108	(205)	-	11,903
Calgary, AB and Headingley, MB	j	July 2nd	44,000	2,892	397	47,289	(287)	-	47,002
Windsor, ON		July 14th	14,665	-	479	15,144	(51)	-	15,093
St. Thomas, ON		June 11th	13,800	-	364	14,164	-	-	14,164
Red Deer, AB		June 10th	16,300	-	72	16,372	(74)	-	16,298
London, ON	k	April 1st	103,500	7,217	2,562	113,279	(567)	(7,913)	104,799
Edmonton, ON	l	March 1st	14,000	(60)	73	14,013	(468)	-	13,545
			684,498	25,342	8,428	718,268	(4,074)	(84,801)	629,393

(1) Fair value adjustment for Class B LP units issued, and mortgage assumed on acquisition.
(2) Fair value of mortgages assumed.

Consideration:	
Cash	477,176
Deferred consideration	10,720
Class B LP Units issued	141,497
	629,393

f) On December 9, 2021, the REIT acquired a 50% interest in an industrial property located in Pointe-Claire, Quebec for a contractual purchase price of $98,183.

g) On November 19, 2021, the REIT acquired a single-tenant industrial property in Nisku, Alberta, for a contractual purchase price of $19,335 ($15,250 USD).

h) On November 1, 2021, the REIT acquired an industrial property located in London, Ontario, for a contractual purchase price of $44,070. The purchase price was partially satisfied through the issuance of 3,303,275 Class B LP Units at a deemed value of $8.63 per unit which are convertible to 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's units on November 1, 2021 of $13.31 per unit. The property was initially recorded at $59,537, the fair value of the consideration paid. The carrying amount of the property was subsequently adjusted to the acquisition date fair value of the property of $44,070.

i) On October 1, 2021, the REIT acquired three single-tenant distribution centres located in Moncton, New Brunswick and Regina, Saskatchewan for a contractual purchase price of $230,375 plus deferred consideration of $10,720 (see note 13).

j) On July 2, 2021, the REIT acquired two single-tenant industrial properties located in Calgary, Alberta and Headingley, Manitoba (the "Valard Properties"), for a contractual purchase price of $44,000. The purchase price was partially satisfied through the issuance of 1,821,925 Class B LP Units at a deemed value of $8.45 per unit which are convertible to 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's units on July 2, 2021, of $10.04 per unit. The Valard Properties were initially recorded at $46,892, the fair value of the consideration paid. The carrying amount was subsequently adjusted to the acquisition date fair value of the Valard Properties of $44,000.

k) On April 1, 2021, the REIT acquired six industrial properties located in London, Ontario (the "London Properties"), for a contractual purchase price of $103,500. The purchase price was partially satisfied through the issuance of 8,586,407 Class B LP Units 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 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's units on April 1, 2021 of $8.42 per unit. The London Properties were initially recorded at $110,717, the fair value of the consideration paid. The carrying amount was subsequently adjusted to the acquisition date fair value of the London Properties of $103,500.

(In thousands of Canadian dollars)

l) 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. The purchase price was partially satisfied through the issuance of 853,659 Class B LP Units 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. The fair value of the units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on March 1, 2021 of $8.13 per unit. The Edmonton Properties were initially recorded at $13,940, the fair value of the consideration paid. The carrying amount was subsequently adjusted to the acquisition date fair value of the Edmonton Properties of $14,000.

4 Investment properties

	Note	March 31, 2022 $	December 31, 2021 $
Balance, beginning of period		1,545,866	667,601
Acquisition of investment properties	3	243,201	718,268
Additions - capital expenditures		190	5,083
Additions - tenant incentives and leasing costs		402	1,361
Amortization of tenant incentives and leasing costs		(265)	(669)
Reclassified from prepaid development costs		-	3,450
Investment properties reclassified as assets held for sale		(54,880)	-
Disposal of investment properties	3	-	(13,900)
Fair value adjustment		1,925	164,672
Ground lease additions	3b	9,175	-
Balance, end of period		1,745,614	1,545,866

Acquisition of investment properties includes $5,096 of transaction costs (December 31, 2021 - $8,428).

As at March 31, 2022, the REIT classified five properties with a combined fair value of $54,880 as assets held for sale. The mortgages, and a lease liability, associated with these properties were classified as liabilities associated with assets held for sale.

The fair value of the investment properties as at March 31, 2022 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 March 31, 2022 represents the REIT's best estimate based on available information as at the end of the reporting period.

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

	March 31, 2022	December 31, 2021
Weighted average capitalization rate	5.39%	5.47%
Range of capitalization rates	3.90% - 9.50%	3.90% - 9.50%
Stabilized net operating income	$93,220	$84,169

(In thousands of Canadian dollars)

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at March 31, 2022, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately $76,813 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 $84,293 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:

	March 31, 2022 $	December 31, 2021 $
Balance, beginning of period	9,178	8,261
Share of net income from investment in joint venture	460	917
Balance, end of period	9,638	9,178

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

	March 31, 2022 $	December 31, 2021 $
Investment property	33,241	33,242
Other non-current assets	923	884
Current assets	1,022	528
Non-current liabilities	(14,088)	(14,921)
Current liabilities	(1,823)	(1,377)
Net assets	19,275	18,356
50% investment in joint venture	9,638	9,178

	For the period ended March 31,	
	2022 $	2021 $
Net rental income		
Property revenues	979	966
Property expenses	(488)	(451)
Net rental income	491	515
General and administrative expense	(57)	(40)
Fair value adjustment of derivative financial instruments	608	533
Net interest expense	(122)	(133)
Net income and comprehensive income	920	875
Share of net income and comprehensive income from 50% investment in joint venture	460	438

(In thousands of Canadian dollars)

6 Tenant and other receivables

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

	March 31, 2022 $
Remainder of 2022	69,408
2023	86,360
2024	80,465
2025	69,026
2026	55,063
Thereafter	336,948
	697,270

7 Other assets

Other assets are comprised as follows:

	March 31, 2022 $	**December 31, 2021 $**
Prepaid development costs	198	198
Vendor rent obligations	601	801
Property tax reserves held by mortgage lenders	280	414
Cumulative straight-line rent adjustments	3,834	3,054
Restricted cash	635	630
Prepaid acquisition costs	407	542
Other	1,452	930
Balance, end of period	7,407	6,569
Less: Current portion	(7,310)	(6,483)
Non-current balance, end of period	97	86

As at March 31, 2022, the vendor rent obligation related to the REIT's Richmond, BC property was $601 (December 31, 2021 - $801). This amount is an estimate of the total expected to be due to the REIT during the completion of the buildout and prior to commencement of tenant leases.

During the period ended March 31, 2022, a total of $401 (December 31, 2021 - $2,384) of vendor rent obligation was accrued and recorded in other income in the condensed consolidated interim statement of income and comprehensive income.

8 Other investments

On November 16, 2021, the REIT acquired an interest in a limited partnership for $3,000 through one of its subsidiaries. The limited partnership owns development land. The REIT has accounted for the interest in the limited partnership as a FVTPL financial asset. The fair value of the investment was $3,000 as at March 31, 2022 (December 31, 2021 - $3,000).

The REIT also indirectly, through one of its subsidiaries, guaranteed a $17,500 debt of the limited partnership and is entitled to an annual guarantee fee of $175. During the period ended March 31, 2022, the REIT recorded other income of $43 (December 31, 2021 - $nil) with respect to the annual guarantee fee.

(In thousands of Canadian dollars)

9 Mortgages payable

As at March 31, 2022, the mortgages payable are secured by charges against 81 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 3.29% (December 31, 2021 – 3.28%) and the weighted average term to maturity is 6.71 years (December 31, 2021 – 6.61 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled repayments $	Principal maturities $	Total $
Remainder of 2022	14,981	24,490	39,471
2023	19,260	48,922	68,182
2024	17,707	43,319	61,026
2025	16,358	61,570	77,928
2026	13,729	86,056	99,785
Thereafter	97,110	306,835	403,945
Total	179,145	571,192	750,337

The following table summarizes the changes in mortgages payable for the three months ended March 31, 2022 and year ended December 31, 2021:

	Note	March 31, 2022 $	December 31, 2021 $
Mortgages payable, beginning of period		612,764	274,231
New mortgage financing		156,300	266,761
Mortgages refinanced/repaid		(16,910)	-
Principal repaid on disposal of investment properties		-	(1,812)
Mortgages assumed	3	2,603	84,456
Principal repayments		(4,420)	(10,872)
Mortgages payable, end of period		750,337	612,764
Less: Deferred financing costs, beginning of period		(2,121)	(911)
Less: Additions to deferred financing costs		(835)	(1,586)
Plus: Amortization of deferred financing costs		110	376
Plus: Fair value adjustment of mortgages, beginning of period		520	462
Plus: Additions to fair value adjustment of mortgages	3	61	345
Less: Amortization of fair value adjustments		(55)	(287)
Balance, end of period		748,017	611,163
Less: Current portion		(43,675)	(58,152)
Less: Mortgage payable associated with assets held for sale		(22,953)	-
Non-current balance, end of period		681,389	553,011

(In thousands of Canadian dollars)

10 Credit Facilities

On June 24, 2021, the REIT entered into a new $40,000 revolving credit facility agreement (“Credit Facility 3”). The revolving credit facility matures on June 24, 2024 and is secured against three of the REIT’s investment properties. The 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 90 basis points per annum over the lender’s Canadian prime borrowing rate. Bankers’ acceptance advances bear interest at 190 basis points per annum over the floating bankers’ acceptance rate. The unadvanced portion of the revolving credit facility is subject to a predetermined standby fee. As at March 31, 2022, $10,000 of this revolving credit facility was drawn (December 31, 2021 - undrawn).

The REIT has a $500 revolving line of credit (“Credit Facility 2”) bearing interest at 100 basis points per annum over the Canadian prime borrowing rate. This 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 credit limit. As at March 31, 2022, this line of credit was undrawn (December 31, 2021 - undrawn).

On September 13, 2019, the REIT refinanced its existing credit facility to a fixed-term facility of $65,000 and a revolving credit facility of $5,000 (collectively “Credit Facility 1”). Credit Facility 1 matures on September 13, 2024 and is secured against 13 of the REIT’s investment properties. The $65,000 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 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 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. As at March 31, 2022, $4,066 of the revolving portion of this credit facility was drawn (December 31, 2021 - undrawn).

(Credit Facility 1, Credit Facility 2 and Credit Facility 3, collectively “the Credit Facilities”)

Funds drawn against the Credit Facilities are as follows:

	March 31, 2022 $	**December 31, 2021 $**
Fixed-term borrowings	65,000	65,000
Prime rate borrowings	14,066	-
Total drawn against the Credit Facilities	79,066	65,000
Less: Deferred financing costs	(259)	(287)
Balance, end of period	78,807	64,713
Less: Current portion	(14,066)	-
Non-current balance, end of period	64,741	64,713

(In thousands of Canadian dollars)

Details of the amounts drawn under the Credit Facilities on March 31, 2022 are as follows:

	Principal amount $	Interest rate	Repricing date
Fixed-term borrowings	65,000	2.31% [1]	April 13, 2022 [1]
Prime rate borrowings	10,000	3.60%	Variable
Prime rate borrowings	4,066	3.70%	Variable

[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 Credit Facility 1 (see note 17).

The following table summarizes the changes in the Credit Facilities for the three months ended March 31, 2022 and year ended December 31, 2021:

	March 31, 2022 $	December 31, 2021 $
Drawn against Credit Facilities, beginning of period	65,000	65,293
Net borrowings	14,066	-
Working capital relief loan repayments	-	(293)
Drawn against Credit Facilities, end of period	79,066	65,000
Less: Deferred financing costs, beginning of period	(287)	(97)
Less: Deferred financing costs incurred	-	(259)
Plus: Amortization of deferred financing costs	28	69
Balance, end of period	78,807	64,713

11 Class B LP Units

The following table summarizes the changes in Class B LP Units for the three months ended March 31, 2022:

	Note	Class B LP Units	Amount $
Balance – January 1, 2022		19,662,658	248,150
Class B LP Units issued as purchase price consideration	3	1,565,394	19,364
Class B LP Units exchanged for REIT Units		(455,481)	(5,940)
Fair value adjustment		-	3,692
Balance – March 31, 2022		20,772,571	265,266

Distributions in the amount of $3,205 (2021 - $995) were declared payable to holders of Class B LP Units for the period ended March 31, 2022. 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 $1,108 were accrued as at March 31, 2022 (December 31, 2021 - $1,049).

(In thousands of Canadian dollars)

12 Unit-based compensation

Unit-based compensation liabilities are comprised as follows:

	March 31, 2022 $	December 31, 2021 $
Unit options	786	1,404
Restricted share units	195	553
Total unit-based compensation liabilities	981	1,957

1) Unit options

The REIT adopted a unit-based compensation plan (the "Option Plan") effective January 13, 2014. On June 4, 2021, the Option Plan was amended to allow for the cashless exercise of options. 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 (as defined hereafter) is 10% of the outstanding units of the REIT.

The following table presents the changes in unit options for the period ended March 31, 2022 and year ended December 31, 2021:

	Number of unit options	Weighted average Exercise price $	Weighted average remaining contractual life	Number of vested unit options
Outstanding as at January 1, 2021	556,250	8.08	1.51	556,250
Unit options exercised	(200,000)	7.52		
Outstanding as at December 31, 2021	356,250	8.40	0.95	356,250
Unit options exercised	(168,750)	8.40		
Outstanding as at March 31, 2022	187,500	8.40	0.67	187,500

The weighted average unit price when unit options were exercised during the period ended March 31, 2022, was $12.91 ($10.32 for the year ended December 31, 2021).

The following table presents the details of unit options outstanding as at March 31, 2022:

Exercise price $	Number of unit options	Weighted average remaining contractual life	Number of vested unit options
8.40	187,500	0.67	187,500

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.

(In thousands of Canadian dollars)

The key assumptions used in determining the fair value of the unit options are as detailed below:

	March 31, 2022	December 31, 2021
Weighted average expected unit option life (in years)	0.33	0.48
Weighted average volatility rate	25.00%	25.00%
Weighted average risk-free interest rate	1.09%	0.32%
Distribution yield	5.01%	5.07%

2) 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 1,112,176 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, 2022, the REIT granted an aggregate of 107,009 RSUs with a fair value at the grant date of $12.38. These RSUs vest one-third on the date of issuance, one-third on February 28, 2023 and one-third on February 28, 2024.

On March 31, 2021, the REIT granted an aggregate of 65,646 RSUs with a fair value at the grant date of $8.22. These RSUs vest one-third on the date of issuance, one-third on February 28, 2022 and one-third on February 28, 2023.

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

During the three months ended March 31, 2022, a total of $581 (2021 - $250) of expense for restricted share units granted under the plan was recognized in general and administrative expense.

3) Employee unit purchase plan

The REIT adopted an employee unit purchase plan (the "Employee Purchase Plan") effective August 30, 2021. Under the Employee Purchase Plan, employees of the REIT may contribute up to $7.5 per calendar year to the plan ("Employee Contributions"), and Employee Contributions will be matched by a contribution from the REIT equivalent to 100% of the Employee Contributions ("REIT Contributions"). REIT Contributions will vest one year following each purchase date. All contributions received in respect of each participant in the Employee Purchase Plan shall be paid in full on behalf of such participant to purchase REIT Units from treasury or, at the election of the REIT, through market purchases carried out by an independent broker through the facilities of the TSX. REIT Units issued from treasury will be issued at the volume weighted average trading price of REIT Units for the five trading days prior to each respective purchase date.

During the three months ended March 31, 2022, 15,251 REIT Units (2021 – nil REIT Units) were issued from treasury at $11.48 per unit in respect of $88 of Employee Contributions and $88 of REIT Contributions.

11,071 REIT Units issued in respect of REIT Contributions are unvested and remained in the Employee Purchase Plan at March 31, 2022 (2021 – nil REIT Units).

Included in other current assets as at March 31, 2022, related to REIT Contributions, is unamortized compensation expense of $76 (2021 - $20). During the period ended March 31, 2022, a total of $32 (2021 - $nil) of expense for REIT Contributions was recognized in general and administrative expense.

(In thousands of Canadian dollars)

13 Accounts payable and other liabilities

a) Accounts payable and other liabilities are comprised as follows:

	Note	March 31, 2022 $	December 31, 2021 $
Estimated value enhancement payable	18	4,305	5,805
Purchase consideration payable		-	3,000
Prepaid rent		4,172	4,360
Security deposits		2,847	2,667
Accrued interest expense		2,902	2,591
Sales and other taxes payable		2,440	920
Trade payables and accrued liabilities		7,035	5,668
Other liabilities		935	928
Current balance, end of period		24,636	25,939

b) Other liabilities – non-current as at March 31, 2022 of $9,332 (December 31, 2021 - $9,570) represents deferred consideration related to the acquisition of an investment property. The deferred consideration is payable in quarterly instalments amortized over a 10-year period.

14 Unitholders' equity

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

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

On September 24, 2021, the REIT established an at-the-market equity program ("ATM Program") allowing the REIT to issue, at its discretion, up to $50,000 worth of REIT Units to the public from time to time at prevailing market prices at the time of sale. The ATM Program will be effective until August 17, 2023, unless previously terminated.

The following table presents the changes in unitholders' equity for the period ended March 31, 2022:

	Note	Units	Amount $
Balance – January 1, 2022		57,302,629	536,883
Units issued under distribution reinvestment plan	15	67,008	777
Units issued under Option Plan	12	58,922	760
Units issued under Incentive Plan	12	35,755	461
Units issued under Employee Purchase Plan	12	15,251	176
Class B LP Units exchanged for REIT Units	11	455,481	5,940
Balance – March 31, 2022		57,935,046	544,997

(In thousands of Canadian dollars)

15 Distribution reinvestment plan

The REIT adopted a distribution reinvestment plan ("DRIP)" on February 20, 2014, pursuant to which resident Canadian holders 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, 2022, 67,008 units (2021 – 73,836 units) were issued under the DRIP for a stated value of $777 (2021 - $576).

16 Property revenues

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

	For the period ended March 31, 2022 $	2021 $
Rental income	27,149	14,105
Revenue from services	4,324	2,255
Other revenue	226	228
Property revenues	31,699	16,588

17 Financial instruments

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand or borrowing capacity to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at March 31, 2022, the REIT had cash of $6,565 (December 31, 2021 - $82,279), mortgages payable of $750,337 (December 31, 2021 - $612,764), a Credit Facilities balance of $79,066 (December 31, 2021 - $65,000) and accounts payable and other liabilities of $33,968 (December 31, 2021 - $35,509). The REIT had a working capital deficit of $29,146 as at March 31, 2022 (December 31, 2021 - $10,296 surplus). Excluding the current portion of mortgages payable of $43,675, liabilities associated with assets held for sale of $24,251 and assets held for sale of $54,880, working capital would be a deficit of $16,100. 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 Facilities and expects to generate sufficient cash from operations to satisfy its financial liabilities as they come due.

(In thousands of Canadian dollars)

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

	Accounts payable and other liabilities $	Lease liabilities $	Credit Facilities principal repayment $	Interest on fixed portion of Credit Facilities $	Mortgages payable $	Mortgage interest $	Total $
Remainder of 2022	24,636	450	14,066	1,536	39,471	17,537	97,696
2023	960	609	-	2,048	68,182	21,499	93,298
2024	992	582	65,000	1,536	61,026	19,223	148,359
2025	1,026	604	-	-	77,928	17,003	96,561
2026	1,060	609	-	-	99,785	16,349	117,803
Thereafter	5,294	26,561	-	-	403,945	47,848	483,648
	33,968	29,415	79,066	5,120	750,337	139,459	1,037,365

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 Facilities at maturity on terms as favourable as the existing mortgages payable and Credit Facilities. As at March 31, 2022, there was a total of $264,174 (December 31, 2021 - $182,348) of mortgage and Credit Facilities 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, 2022, the REIT has interest rate swap agreements totalling $250,107 (2021 - $182,348) 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 1. The interest rate swap agreements expire coterminous with the maturity of the corresponding mortgages and Credit Facility 1.

(In thousands of Canadian dollars)

The fair value measurements of the interest rate swap agreements have been classified as Level 2, as they are based mainly on observable market data. The following table presents relevant information on interest rate swap agreements:

Transaction date	Effective fixed interest rate	Maturity date	Original principal amount $	Outstanding amount $	Fair value $
April 2019	3.67%	April 24, 2024	12,000	11,363	(140)
April 2019	3.74%	April 24, 2026	12,500	11,846	(253)
April 2019	3.87%	April 24, 2029	12,500	11,864	(278)
September 2019	3.15%	September 13, 2024	65,000	65,000	(1,703)
November 2020	2.82%	November 2, 2027	7,650	7,364	(603)
December 2020	3.61%	December 1, 2025	18,500	17,917	(1,036)
December 2020	3.35%	December 30, 2030	15,000	14,544	(1,584)
April 2021	3.08%	April 1, 2026	19,750	19,262	(797)
November 2021	3.69%	June 1, 2028	22,600	22,354	(35)
February 2022	3.28%	February 23, 2032	29,500	29,500	(675)
February 2022	3.28%	February 23, 2032	20,000	20,000	(458)
March 2022	3.41%	March 1, 2027	17,800	17,800	(426)
March 2022	3.76%	April 1, 2025	1,500	1,293	(24)
			254,300	250,107	(8,012)

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, 2022, 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. 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%. 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 using 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. As at March 31, 2022, the REIT had an allowance for expected credit losses of $78 (December 31, 2021 – $138).

18 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 "Redevelopment"). 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 $6,100, including leasing costs, tenant incentives, and construction costs (collectively the "Capped Redevelopment Costs").

(In thousands of Canadian dollars)

The DMA also contemplates that the REIT will construct an approximately 70,000 square foot addition at the property (the "Addition"). The REIT will be responsible for costs of the construction and has paid a development management fee in the amount of $3,000 in respect of the Addition. The Developer will secure tenants and manage the construction.

Pursuant to the DMA, the REIT will split the value enhancement of the property, measured as the difference between the fair value of the property following completion of each of the Redevelopment and the Addition, less the REIT's total cost of the property. The REIT's total cost of the property is measured as the REIT's original acquisition cost plus the Capped Redevelopment Costs and costs of the Addition (inclusive of construction costs, tenant incentives, leasing costs, and development management fees). The first $20,000 of value enhancement is for the benefit of the REIT. The next $20,000 of value enhancement will be for the benefit of the Developer. Any value enhancement in excess of $40,000 is to be split equally between the REIT and the Developer.

Based on external appraisals for the property and the settlement mechanism per the DMA, and subject to certain adjustments, the Developer's share of value enhancement through to completion of the Redevelopment is estimated at $32,275, not including any value enhancement related to the Addition, of which $27,970 was settled and $4,305 remains to be settled at March 31, 2022. Provided 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 the greater of $9.20 per unit and a price per unit that is no less than the maximum allowable discounted price in accordance with Toronto Stock Exchange rules.

Other

The REIT has guaranteed the borrowings of a limited partnership in which the REIT has an investment. The debt guaranteed has a principal amount of $17,500 and is secured by development land owned by the limited partnership.

19 Supplemental cash flow and non-cash information

	For the period ended March 31,	
	2022	**2021**
	$	**$**
Interest paid	9,111	3,933
Income taxes paid (refund)	(6)	7
Non-cash investing and financing activities:		
REIT Units issued under distribution reinvestment plan	777	576
Class B LP Units issued as purchase price consideration	19,364	6,940
Class B LP Units issued in settlement of contractual obligations	-	643