



Nexus Industrial REIT

Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three and nine months ended September 30, 2022

Nexus Industrial REIT

Condensed Consolidated Interim Statements of Financial Position

(In thousands of Canadian dollars)

(Unaudited)

	Note(s)	September 30, 2022 \$	December 31, 2021 \$
Non-current assets			
Investment properties	3,4	1,826,137	1,545,866
Equity investment in joint venture	6	9,062	9,178
Restricted cash		1,397	1,425
Derivative financial instruments	18	16,911	-
Right-of-use assets		1,016	1,086
Other investments	9	3,000	3,000
Other assets	8	167	86
		1,857,690	1,560,641
Current assets			
Cash		10,548	82,279
Tenant and other receivables	7	3,083	2,747
Deposits		5,623	3,800
Prepaid expenses		4,747	2,207
Other assets	8	9,131	6,483
Assets held for sale	5	42,990	-
		76,122	97,516
Total assets		1,933,812	1,658,157
Non-current liabilities			
Mortgages payable	3,10	660,531	553,011
Credit Facilities	11	149,911	64,713
Lease liabilities		11,479	3,597
Derivative financial instruments	18	-	455
Class B LP Units	12	173,249	248,150
Unit-based compensation liabilities	13	119	1,957
Other liabilities	14b	9,587	9,570
		1,004,876	881,453
Current liabilities			
Mortgages payable	3,10	66,088	58,152
Lease liabilities		41	73
Distributions payable		3,121	3,056
Accounts payable and other liabilities	14a,19	22,573	25,939
Liabilities associated with assets held for sale	5,10	23,845	-
		115,668	87,220
Total liabilities		1,120,544	968,673
Equity			
Unitholders' equity	15	550,748	536,883
Retained earnings		262,520	152,601
Total unitholders' equity		813,268	689,484
Total liabilities and unitholders' equity		1,933,812	1,658,157
Commitments	19		
Subsequent events	22		

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

(In thousands of Canadian dollars)

(Unaudited)

	Note(s)	For the three months ended		For the nine months ended	
		September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
		\$	\$	\$	\$
Net rental income					
Property revenues	17	34,424	20,719	100,265	56,022
Property expenses		(9,551)	(6,624)	(29,406)	(19,141)
Net rental income		24,873	14,095	70,859	36,881
General and administrative expense		(1,453)	(978)	(5,025)	(3,413)
Fair value adjustment of investment properties	4,5	(1,890)	26,287	(4,513)	100,370
Fair value adjustment of Class B LP Units	12	27,558	(45,204)	88,212	(73,104)
Fair value adjustment of unit options	13	200	(897)	608	(1,798)
Fair value adjustment of restricted share units	13	124	(170)	369	(318)
Fair value adjustment of derivative financial instruments	18	1,499	704	17,365	4,386
Income (loss) from equity accounted investment in joint venture	6	(157)	190	(116)	778
Loss on disposal of investment properties	3	(255)	-	(255)	(95)
Unrealized foreign exchange loss		(464)	-	(776)	-
Other income	8	848	201	1,737	982
		50,883	(5,772)	168,465	64,669
Finance expense					
Net interest expense	10,11	(7,577)	(3,679)	(20,927)	(9,916)
Distributions on Class B LP Units	12	(3,251)	(2,624)	(9,779)	(5,974)
		(10,828)	(6,303)	(30,706)	(15,890)
Net income (loss) and comprehensive income (loss)		40,055	(12,075)	137,759	48,779

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

(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		-	-	137,759	137,759
Distributions		-	-	(27,840)	(27,840)
Units issued under distribution reinvestment plan	16	192,389	2,070	-	2,070
Units issued under Option Plan	13	58,922	760	-	760
Units issued under Incentive Plan	13	35,755	461	-	461
Units issued under Employee Purchase Plan	13	18,943	216	-	216
Class B LP Units exchanged for REIT Units	12	910,962	10,358	-	10,358
Balance – September 30, 2022		58,519,600	550,748	262,520	813,268

	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		-	-	48,779	48,779
Distributions		-	-	(16,632)	(16,632)
Units issued under distribution reinvestment plan	16	211,454	1,924	-	1,924
Units issued under Option Plan	13	54,226	559	-	559
Units issued under Incentive Plan	13	24,067	201	-	201
Units issued under Employee Purchase Plan	13	6,255	75	-	75
Units issued for cash		14,173,750	146,973	-	146,973
Unit issuance costs		-	(7,214)	-	(7,214)
Class B LP Units exchanged for REIT Units	12	1,390,441	11,976	-	11,976
Balance – September 30, 2021		43,835,303	369,929	116,292	486,221

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

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Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Note(s)	For the three months ended		For the nine months ended	
		September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
		\$	\$	\$	\$
Operating activities					
Net income (loss) for the period		40,055	(12,075)	137,759	48,779
Adjustment for items not involving cash:					
Restricted share unit expense	13	151	67	881	383
Share of net income (loss) from equity accounted investment in joint venture	6	157	(190)	116	(778)
Loss on disposal of investment properties	3	255	-	255	95
Amortization of deferred financing costs	10,11	204	91	506	258
Amortization of mortgage fair value adjustments	10	(38)	(76)	(152)	(210)
Amortization of right-of-use assets		23	23	69	70
Amortization of tenant incentives and leasing costs	4	204	188	680	509
Straight-line adjustments of rent		(1,036)	(133)	(2,619)	(363)
Fair value adjustment of investment properties	4	1,890	(26,287)	4,513	(100,370)
Fair value adjustment of Class B LP Units	12	(27,558)	45,204	(88,212)	73,104
Fair value adjustment of unit options	13	(200)	897	(608)	1,798
Fair value adjustment of restricted share units	13	(124)	170	(369)	318
Fair value adjustment of derivative financial instruments	18	(1,499)	(704)	(17,365)	(4,386)
Unrealized foreign exchange loss		464	-	776	-
Changes in non-cash working capital	21	4,776	(3,949)	(8,390)	(7,114)
Changes in other non-current assets		(15)	(27)	(81)	(34)
Changes in restricted cash		20	93	28	103
Changes in other non-current liabilities		194	-	17	-
Total cash generated by operating activities		17,923	3,292	27,804	12,162
Investing activities					
Acquisition of income producing properties	3,4	(32,021)	(80,680)	(250,973)	(166,489)
Additions to income producing properties	4	(11,277)	-	(11,277)	-
Acquisition of properties held for development	3,4	(5,423)	-	(8,394)	-
Additions to properties held for development	4	(1,417)	-	(1,487)	-
Net proceeds on disposal of investment properties	3	3,676	-	3,676	2,792
Capital expenditures, tenant incentives and leasing costs	4	(3,716)	(1,122)	(5,460)	(4,286)
Total cash used in investing activities		(50,178)	(81,802)	(273,915)	(167,983)
Financing activities					
Proceeds from new mortgage financing	10	3,120	35,750	168,520	87,325
Financing costs		(547)	(148)	(1,418)	(713)
Lease principal repayments		(10)	(17)	(34)	(50)
Mortgage principal repayments	10	(20,863)	(2,694)	(52,439)	(7,279)
Net borrowing on (repayments of) Credit Facilities	11	61,606	(41)	85,456	(293)
Units issued for cash		-	112,082	-	146,973
Unit issuance costs		-	(5,247)	-	(7,214)
Distributions to unitholders		(8,652)	(5,266)	(25,705)	(13,862)
Total cash generated by financing activities		34,654	134,419	174,380	204,887
Change in cash during the period		2,399	55,909	(71,731)	49,066
Cash - beginning of period		8,149	7,150	82,279	13,993
Cash - end of period		10,548	63,059	10,548	63,059
Supplemental cash flow and non-cash information	21				

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

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Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

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 November 14, 2022.

As at September 30, 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 and Non-current Liabilities with Covenants

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. In October 2022, the IASB issued “Amendments to IAS 1 – Non-current Liabilities with Covenants”. These further amendments clarify how to address the effects on classification and disclosure of covenants currently applicable and covenants that will apply in future periods. These amendments are effective January 1, 2024, with earlier application permitted and are to be applied retrospectively. The REIT is currently evaluating the impact of these amendments on its consolidated financial statements.

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Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

3 Acquisitions and Dispositions

Acquisition of income producing properties:

The impact of the acquisition of income producing properties completed during the nine months ended September 30, 2022 is as follows:

Property location	Note	Acquisition date	Contractual purchase price \$	Fair value adjustment ⁽¹⁾ \$	Transaction costs \$	Income producing properties acquired \$	Working capital acquired \$	Mortgages assumed ⁽²⁾ \$	Net assets acquired \$
Cornwall, ON		September 30 th	4,850	-	127	4,977	(20)	-	4,957
Baie-D'Urfé, QC		September 8 th	17,800	-	485	18,285	(468)	-	17,817
St-Augustin-de-Desmaures, QC		July 11 th	18,875	(460)	529	18,944	(616)	(9,080)	9,248
Edmonton, AB		March 1 st	14,600	-	51	14,651	(141)	-	14,510
London and Chatham, ON	a	March 1 st	35,694	1,736	1,052	38,482	(256)	(2,664)	35,562
Edmonton, AB	b	February 22 nd	91,000	-	192	91,192	(59)	-	91,133
Edmonton, AB	c	February 8 th	38,161	-	154	38,315	(119)	-	38,196
Mascouche, QC	d	February 2 nd	28,914	-	976	29,890	(1,355)	-	28,535
Regina, SK		January 12 th	28,000	-	147	28,147	(290)	-	27,857
Post-closing adjustments	e		-	-	2,524	2,524	-	-	2,524
			<u>277,894</u>	<u>1,276</u>	<u>6,237</u>	<u>285,407</u>	<u>(3,324)</u>	<u>(11,744)</u>	<u>270,337</u>

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

⁽²⁾ Fair value of mortgages assumed.

Consideration:

Cash	250,973
Class B LP Units issued	19,364
	<u>270,337</u>

- On March 1, 2022, the REIT acquired three industrial properties, two of which are located in London, Ontario and one of which is located in Chatham, 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.
- On February 22, 2022, the REIT acquired two industrial properties located in Edmonton, Alberta for a contractual purchase price of \$91,000.
- On February 8, 2022, the REIT acquired an industrial warehouse located in Edmonton, Alberta for a contractual purchase price of \$38,161. Pursuant to the acquisition the REIT acquired a ground lease asset of \$9,175 and an associated lease liability of \$9,175.
- On February 2, 2022, the REIT acquired a distribution centre located in the Montreal, Quebec area for a contractual purchase price of \$28,914.
- Post-closing adjustments relate to transaction costs for an industrial property acquired in December 2021.

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Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

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

⁽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
	<u>629,393</u>

- 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 14).
- 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

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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.
- 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.

Acquisitions of properties held for development:

On July 18, 2022, the REIT acquired an 80% interest in a property held for development located in Hamilton, Ontario for a contractual purchase price of \$4,846. The development is partially owned and managed by entities controlled by RFA Capital Partners Inc. (“RFA”), an entity related to a trustee of the REIT. The purchase price was settled in cash.

On June 22, 2022, the REIT acquired an 80% interest in a property held for development located in Hamilton, Ontario for a contractual purchase price of \$17,760. The development is partially owned, and managed, by entities controlled by RFA. The vendor provided financing in the amount of \$15,360 repayable within 18 to 24 months, with the balance of the purchase price settled in cash.

Disposition

On August 3, 2022, the REIT sold a retail property located in Châteauguay, Quebec for a selling price of \$8,300. Net of selling costs of \$255 and the assumption of the \$4,369 mortgage against the property, the REIT received net cash proceeds of \$3,676. Selling costs on the sale of the property generated a loss on disposal of \$255.

4 Investment properties

	September 30, 2022 \$	December 31, 2021 \$
Income producing properties	1,800,896	1,545,866
Properties held for development	25,241	-
Balance, end of period	1,826,137	1,545,866

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	Note	Income producing properties \$	Properties held for development \$	Investment properties \$
Balance - January 1, 2022		1,545,866	-	1,545,866
Acquisitions	3	285,407	23,754	309,161
Additions - capital expenditures		1,194	-	1,194
Additions - tenant incentives and leasing costs		4,266	-	4,266
Additions - development		-	1,487	1,487
Amortization of tenant incentives and leasing costs		(680)	-	(680)
Reclassified from prepaid development costs		198	-	198
Investment properties reclassified as assets held for sale	5	(54,880)	-	(54,880)
Fair value adjustment		10,350	-	10,350
Ground lease additions	3f	9,175	-	9,175
Balance - September 30, 2022		1,800,896	25,241	1,826,137

	Note	Income producing properties \$	Properties held for development \$	Investment properties \$
Balance - January 1, 2021		667,601	-	667,601
Acquisitions	3	718,268	-	718,268
Additions - capital expenditures		5,083	-	5,083
Additions - tenant incentives and leasing costs		1,361	-	1,361
Amortization of tenant incentives and leasing costs		(669)	-	(669)
Reclassified from prepaid development costs		3,450	-	3,450
Disposal of investment properties	3	(13,900)	-	(13,900)
Fair value adjustment		164,672	-	164,672
Balance - December 31, 2021		1,545,866	-	1,545,866

Acquisition of income producing properties include \$6,237 of transaction costs (December 31, 2021 - \$8,428) and acquisition of properties held for development includes \$1,148 of transaction costs (December 31, 2021 - \$nil).

During the three-month and nine-month period ended September 30, 2022, the REIT capitalized \$58 of borrowing cost to a qualifying development property.

The fair value adjustment recorded in the condensed consolidated interim statement of income for the three and nine-month periods ended September 30, 2022 excludes the estimated value enhancement of \$11,277 attributable to the vendor of the REIT's Richmond BC property.

The fair value of the investment properties as at September 30, 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 September 30, 2022 represents the REIT's best estimate based on available information as at the end of the reporting period.

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

	September 30, 2022	December 31, 2021
Weighted average capitalization rate	5.50%	5.47%
Range of capitalization rates	3.90% - 9.75%	3.90% - 9.50%
Stabilized net operating income	\$98,935	\$84,169

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at September 30, 2022, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$78,345 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 \$85,813 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 Assets held for sale

As at September 30, 2022, four income producing properties with a combined fair value of \$42,990 are classified 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. During the nine-month period ended September 30, 2022, a fair value adjustment loss of \$3,590 was recognized for the properties classified as assets held for sale. During the nine-month period ended September 30, 2022, the REIT disposed of one income producing property located in Châteauguay, Quebec (see note 3).

The following table summarizes the fair value changes in properties classified as assets held for sale:

	Note	September 30, 2022 \$	December 31, 2021 \$
Balance, beginning of the period		-	-
Investment properties classified as assets held for sale	4	54,880	-
Fair value loss		(3,590)	-
Disposal of an investment property	3	(8,300)	-
Balance, end of period		42,990	-

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(Unaudited)

6 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:

	September 30, 2022 \$	December 31, 2021 \$
Balance, beginning of period	9,178	8,261
Share of net income (loss) from investment in joint venture	(116)	917
Balance, end of period	9,062	9,178

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

	September 30, 2022 \$	December 31, 2021 \$
Investment property	31,067	33,242
Other non-current assets	1,865	884
Current assets	700	528
Non-current liabilities	(13,993)	(14,921)
Current liabilities	(1,516)	(1,377)
Net assets	18,123	18,356
50% investment in joint venture	9,062	9,178

	For the three months ended September 30,		For the nine months ended September 30,	
	2022 \$	2021 \$	2022 \$	2021 \$
Net rental income				
Property revenues	1,039	1,016	2,899	2,928
Property expenses	(439)	(555)	(1,382)	(1,444)
Net rental income	600	461	1,517	1,484
General and administrative expense	(43)	(38)	(137)	(132)
Fair value adjustment of investment property	(875)	-	(2,346)	-
Fair value adjustment of derivative financial instruments	128	88	1,111	603
Net interest expense	(124)	(132)	(377)	(400)
Net income (loss) and comprehensive income (loss)	(314)	379	(232)	1,555
Share of net income (loss) and comprehensive income (loss) from 50% investment in joint venture	(157)	190	(116)	778

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7 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:

	September 30, 2022 \$
Remainder of 2022	25,556
2023	96,757
2024	88,081
2025	75,831
2026	62,261
Thereafter	390,342
	<hr/> 738,828

8 Other assets

Other assets are comprised as follows:

	September 30, 2022 \$	December 31, 2021 \$
Prepaid development costs	-	198
Vendor rent obligations	601	801
Property tax reserves held by mortgage lenders	339	414
Cumulative straight-line rent adjustments	5,674	3,054
Restricted cash	646	630
Prepaid acquisition costs	542	542
Other	1,496	930
Balance, end of period	9,298	6,569
Less: Current portion	(9,131)	(6,483)
Non-current balance, end of period	<hr/> 167	<hr/> 86

As at September 30, 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 nine-month period ended September 30, 2022, a total of \$1,602 (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.

9 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 September 30, 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 three-month period ended September 30, 2022, the REIT recorded other income of \$34 (2021 - \$nil) with respect to the annual guarantee fee and for the nine-month period then ended, the REIT recorded other income of \$122 (2021 - \$nil) with respect to the annual guarantee fee.

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10 Mortgages payable

As at September 30, 2022, the mortgages payable are secured by charges against 80 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 3.27% (December 31, 2021 – 3.28%) and the weighted average term to maturity is 6.28 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	4,999	315	5,314
2023	19,594	52,212	71,806
2024	18,076	54,594	72,670
2025	16,858	64,690	81,548
2026	14,209	94,650	108,859
Thereafter	96,569	315,213	411,782
Total	170,305	581,674	751,979

The following table summarizes the changes in mortgages payable for the nine months ended September 30, 2022 and year ended December 31, 2021:

	Note	September 30, 2022 \$	December 31, 2021 \$
Mortgages payable, beginning of period		612,764	274,231
New mortgage financing		183,880	266,761
Mortgages refinanced/repaid		(37,685)	-
Principal assumed/repaid on disposal of investment properties	3	(4,369)	(1,812)
Mortgages assumed	3	12,143	84,456
Principal repayments		(14,754)	(10,872)
Mortgages payable, end of period		751,979	612,764
Less: Deferred financing costs, beginning of period		(2,121)	(911)
Less: Additions to deferred financing costs		(1,063)	(1,586)
Plus: Amortization of deferred financing costs		409	376
Plus: Fair value adjustment of mortgages, beginning of period		520	462
Plus: Additions to fair value adjustment of mortgages	3	(399)	345
Less: Amortization of fair value adjustments		(152)	(287)
Balance, end of period		749,173	611,163
Less: Current portion		(66,088)	(58,152)
Less: Mortgage payable associated with assets held for sale		(22,554)	-
Non-current balance, end of period		660,531	553,011

11 Credit Facilities

On August 31, 2022, the REIT amended an existing revolving credit facility to increase the amount available under the facility from \$40,000 to \$140,000 ("**Credit Facility 3**"). Credit Facility 3 matures on June 24, 2024 and is secured against 13 of the REIT's investment properties. Credit Facility 3 allows the REIT to draw against the facility in the form of prime rate advances or bankers' acceptances. Prime rate advances bear interest at 80 basis points per annum over the lender's Canadian prime borrowing rate. Bankers' acceptance advances bear interest at 180 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 September 30, 2022, \$81,171 of Credit Facility 3 was drawn (December 31, 2021 - undrawn).

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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 four 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 September 30, 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 September 30, 2022, \$4,285 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:

	September 30, 2022	December 31, 2021
	\$	\$
Fixed-term borrowings	65,000	65,000
Bankers’ acceptance borrowings	75,200	-
Prime rate borrowings	10,256	-
Total drawn against the Credit Facilities	150,456	65,000
Less: Deferred financing costs	(545)	(287)
Balance, end of period	149,911	64,713

Details of the amounts drawn under the Credit Facilities on September 30, 2022 are as follows:

	Principal amount	Interest rate	Repricing date
	\$		
Fixed-term borrowings	65,000	5.17% ⁽¹⁾	October 13, 2022 ⁽¹⁾
Bankers’ acceptance borrowings	10,000	5.40%	October 3, 2022
Bankers’ acceptance borrowings	35,500	5.45%	October 12, 2022
Bankers’ acceptance borrowings	8,700	5.47%	October 17, 2022
Bankers’ acceptance borrowings	11,000	5.53%	October 20, 2022
Bankers’ acceptance borrowings	10,000	5.54%	October 28, 2022
Prime rate borrowings	5,971	6.25%	Variable
Prime rate borrowings	4,285	6.45%	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 18).

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The following table summarizes the changes in the Credit Facilities for the nine months ended September 30, 2022 and year ended December 31, 2021:

	September 30, 2022	December 31, 2021
	\$	\$
Drawn against Credit Facilities, beginning of period	65,000	65,293
Net borrowings	85,456	-
Working capital relief loan repayments	-	(293)
Drawn against Credit Facilities, end of period	150,456	65,000
Less: Deferred financing costs, beginning of period	(287)	(97)
Less: Deferred financing costs incurred	(355)	(259)
Plus: Amortization of deferred financing costs	97	69
Balance, end of period	149,911	64,713

12 Class B LP Units

The following table summarizes the changes in Class B LP Units for the nine months ended September 30, 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 issued in settlement of contractual obligations	19	406,516	4,305
Class B LP Units exchanged for REIT Units		(910,962)	(10,358)
Fair value adjustment		-	(88,212)
Balance – September 30, 2022		20,723,606	173,249

As at September 30, 2022, 406,516 units were held in escrow by the REIT. While the units are held in escrow, they will not accrue any distributions declared.

Distributions in the amount of \$3,251 (2021 - \$2,624) were declared payable to holders of Class B LP Units for the three months period ended September 30, 2022 and distributions in the amount of \$9,779 (2021 - \$5,974) were declared in the nine-month period then ended. These amounts have been recognized as finance expense in the condensed consolidated interim statement of income and comprehensive income. Distributions payable in the amount of \$1,084 were accrued as at September 30, 2022 (December 31, 2021 - \$1,049).

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13 Unit-based compensation liabilities

Unit-based compensation liabilities are comprised as follows:

	September 30, 2022 \$	December 31, 2021 \$
Unit options	36	1,404
Restricted share units	83	553
Total unit-based compensation liabilities	119	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 nine months ended September 30, 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 September 30, 2022	187,500	8.40	0.17	187,500

The weighted average unit price when unit options were exercised during the nine months ended September 30, 2022, was \$12.91 (\$10.32 during the year ended December 31, 2021).

The following table presents the details of unit options outstanding as at September 30, 2022:

Exercise price \$	Number of unit options	Weighted average remaining contractual life	Number of vested unit options
8.40	187,500	0.17	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.

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

	September 30, 2022	December 31, 2021
Weighted average expected unit option life (in years)	0.08	0.48
Weighted average volatility rate	25.00%	25.00%
Weighted average risk-free interest rate	3.44%	0.32%
Distribution yield	7.66%	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 September 30, 2022, a total of \$151 (2021 - \$67) of expense for restricted share units granted under the plan was recognized in general and administrative expense and for the nine-month period ended September 30, 2022, a total of \$881 (2021 - \$383) 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 September 30, 2022, 1,940 REIT Units (2021 – 6,255 REIT Units) were issued from treasury at \$9.51 per unit in respect of \$9 of Employee Contributions and \$9 of REIT Contributions.

During the nine months ended September 30, 2022, 18,943 REIT Units (2021 – 6,255 REIT Units) were issued from treasury at \$11.40 per unit in respect of \$108 of Employee Contributions and \$108 of REIT Contributions.

12,917 REIT Units issued in respect of REIT Contributions remain in the Employee Purchase Plan at September 30, 2022 (2021 – 3,130 REIT Units), of which, 9,787 REIT Units are unvested.

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Included in other current assets as at September 30, 2022, related to REIT Contributions, is unamortized compensation expense of \$40 (December 31, 2021 - \$20). During the three months ended September 30, 2022, a total of \$24 (2021 - \$9) of expense for REIT Contributions was recognized in general and administrative expense and for the nine months ended September 30, 2022, a total of \$87 (2021 - \$9) of expense for REIT contributions was recognized in general and administrative expense.

14 Accounts payable and other liabilities

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

	Note	September 30, 2022 \$	December 31, 2021 \$
Estimated value enhancement payable	19	-	5,805
Purchase consideration payable		-	3,000
Prepaid rent		4,260	4,360
Security deposits		3,035	2,667
Accrued interest expense		2,746	2,591
Sales and other taxes payable		1,750	920
Trade payables and accrued liabilities		9,752	5,668
Other liabilities		1,030	928
Current balance, end of period		22,573	25,939

b) Other liabilities – non-current as at September 30, 2022 of \$9,587 (\$6,995 USD) (December 31, 2021 - \$9,570 (\$7,560 USD)) represents deferred consideration related to the acquisition of an investment property. The deferred consideration is denominated in US dollars and payable in quarterly instalments amortized over a 10-year period.

15 Unitholders' equity

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

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The following table presents the changes in unitholders' equity for the nine months ended September 30, 2022:

	Note	Units	Amount \$
Balance – January 1, 2022		57,302,629	536,883
Units issued under distribution reinvestment plan	16	192,389	2,070
Units issued under Option Plan	13	58,922	760
Units issued under Incentive Plan	13	35,755	461
Units issued under Employee Purchase Plan	13	18,943	216
Class B LP Units exchanged for REIT Units	12	910,962	10,358
Balance – September 30, 2022		58,519,600	550,748

16 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 three-month period ended September 30, 2022, 70,330 units (2021 – 60,030 units) were issued under the DRIP for a stated value of \$677 (2021 - \$668) and for the nine-month period ended September 30, 2022, 192,389 units (2021 – 211,454 units) were issued under the DRIP for a stated value of \$2,070 (2021 - \$1,924).

17 Property revenues

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Rental income	31,280	18,695	91,418	49,549
Revenue from services	2,915	1,798	8,171	5,793
Other revenue	229	226	676	680
Property revenues	34,424	20,719	100,265	56,022

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18 Financial instruments

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand or borrowing capacity to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at September 30, 2022, the REIT had cash of \$10,548 (December 31, 2021 - \$82,279), mortgages payable of \$751,979 (December 31, 2021 - \$612,764), a Credit Facilities balance of \$150,456 (December 31, 2021 - \$65,000) and accounts payable and other liabilities of \$32,160 (December 31, 2021 - \$35,509). The REIT had a working capital deficit of \$39,546 as at September 30, 2022 (December 31, 2021 - \$10,296 surplus). Excluding the current portion of mortgages payable of \$66,088, liabilities associated with assets held for sale of \$23,845 and assets held for sale of \$42,990, working capital would be a surplus of \$7,397. 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.

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	21,797	150	-	512	5,314	5,858	33,631
2023	1,037	609	-	2,048	71,806	22,028	97,528
2024	1,073	582	150,456	1,536	72,670	19,764	246,081
2025	1,109	604	-	-	81,548	17,518	100,779
2026	1,146	609	-	-	108,859	16,980	127,594
Thereafter	5,998	26,561	-	-	411,782	47,951	492,292
	<u>32,160</u>	<u>29,115</u>	<u>150,456</u>	<u>4,096</u>	<u>751,979</u>	<u>130,099</u>	<u>1,097,905</u>

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 September 30, 2022, there was a total of \$339,431 (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 September 30, 2022, the REIT has interest rate swap agreements totalling \$247,564 (2021 - \$160,449) 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.

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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 notional amount \$	Current notional amount \$	Fair value gain \$
April 2019	3.67%	April 24, 2024	12,000	11,204	(359)
April 2019	3.74%	April 24, 2026	12,500	11,681	(618)
April 2019	3.87%	April 24, 2029	12,500	11,701	(795)
September 2019	3.15%	September 13, 2024	65,000	65,000	(3,085)
November 2020	2.82%	November 2, 2027	7,650	7,254	(836)
December 2020	3.61%	December 1, 2025	18,500	17,676	(1,488)
December 2020	3.35%	December 30, 2030	15,000	14,342	(2,364)
April 2021	3.08%	April 1, 2026	19,750	18,990	(1,363)
November 2021	3.69%	June 1, 2028	22,600	21,980	(987)
February 2022	3.28%	February 23, 2032	29,500	29,160	(2,322)
February 2022	3.28%	February 23, 2032	20,000	19,769	(1,574)
March 2022	3.41%	March 1, 2027	17,800	17,572	(1,065)
March 2022	3.76%	April 1, 2025	1,500	1,235	(55)
			254,300	247,564	(16,911)

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 September 30, 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 September 30, 2022, the REIT had an allowance for expected credit losses of \$52 (December 31, 2021 – \$138).

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

19 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”).

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 was estimated at \$32,275 as at June 30, 2022, not including any value enhancement related to the Addition. This amount was settled as at June 30, 2022.

In September 2022, the terms of certain tenant leases in respect of the REIT’s Richmond, BC property were amended with increases to rents per square foot. The REIT agreed to make a payment to the Developer (\$11,277), calculated as one half of the increase in net rental income resulting from the amendments, subject to certain adjustments, divided by the capitalization rates applied in the previously prepared external appraisals.

The DMA provides that upon completion of the Addition, final external appraisals will be commissioned by each of the REIT and the Developer. The average of the two appraisals will be used to determine the final amount of value enhancement, if any, due to the Developer, at which time, any further amount due to the Developer will be payable.

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.

During the three-month period ended September 30, 2022, the REIT guaranteed the borrowings of a co-ownership in which the REIT has an interest. The guaranteed balance of up to \$8,000 is secured by development land owned by the co-ownership.

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

20 Related party transactions

For the three-month period ended September 30, 2022, trustee retainer fees in the amount of \$119 were expensed (2021 - \$44) and for the nine-month period ended September 30, 2022, trustee retainer fees in the amount of \$358 were expensed (2021 - \$133). Trustee retainer fees in the amount of \$219 were accrued as at September 30, 2022 (December 31, 2021 - \$44).

Trustee meeting fees in the amount of \$nil were expensed for the three months ended September 30, 2022 (2021 - \$7) and for the nine-month period ended September 30, 2022, trustee meeting fees in the amount of \$nil were expensed (2021 - \$17). Trustee meeting fees in the amount of \$nil were accrued as at September 30, 2022 (December 31, 2021 - \$6).

For the three-month period ended September 30, 2022, key management earned salaries and other short-term employee benefits in the amount of \$690 (2021 - \$401) and \$2,046 was earned in respect of the nine-month period ended September 30, 2022 (2021 - \$1,204).

On July 18, 2022, the REIT acquired an 80% interest in a property held for development in Hamilton, Ontario for \$4,846 ("190 Glover Road"). The REIT also indirectly, through one of its subsidiaries guaranteed up to \$8,000 of debt of the co-ownership. The development is partially owned, and managed, by entities controlled by RFA.

On June 22, 2022, the REIT acquired an 80% interest in a property held for development in Hamilton, Ontario for \$17,760 ("1540 South Service Road"). The development is partially owned, and managed, by entities controlled by RFA.

On November 16, 2021, the REIT acquired a 22% interest in a limited partnership which holds land in Hamilton, Ontario for development for \$3,000 ("844 Glancaster Road"). The REIT also indirectly, through one of its subsidiaries, guaranteed a \$17,500 debt of the limited partnership. The limited partnership is controlled by RFA, an entity related to a trustee of the REIT.

The REIT's investment to acquire its interest in 190 Glover Road, 1540 South Service Road and 844 Glancaster Road (collectively "the RFA Development Properties") is proportionately the same as the other limited partners and co-owners' investments.

The REIT is entitled to receive a guarantee fee in respect of debt related to the RFA Development Properties which is guaranteed by the REIT. Acquisition fees, asset management fees and development management fees are payable to entities related to RFA in respect of the RFA Development Properties. If certain return thresholds are met, RFA will also receive a preferential allocation of income related to the RFA Development Properties at the completion of their development. These fees receivable and payable in respect of the RFA Development Properties are consistent with market terms.

The REIT recognized \$38 and \$126 of guarantee fees during the three-month and nine-month periods ended September 30, 2022, respectively.

Fees to RFA related entities in respect of the RFA Development Properties totalled \$271 and \$449 for the three-month and nine-month periods ended September 30, 2022, respectively.

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

21 Supplemental cash flow and non-cash information

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Interest paid	10,786	6,081	30,227	15,050
Income taxes paid	5	1	1	11
Non-cash investing and financing activities:				
REIT Units issued under distribution reinvestment plan	676	670	2,070	1,924
Class B LP Units issued as purchase price consideration	-	18,292	19,364	97,530
Class B LP Units issued in settlement of contractual obligations	-	-	4,305	1,071
Changes in non-cash working capital:				
Tenant and other receivables	2,041	333	(1,086)	(709)
Prepaid expenses	1,500	(1,540)	(2,519)	(3,119)
Deposits	177	(4,901)	(1,823)	(7,651)
Other current assets	(565)	(766)	(226)	(347)
Accounts payable and other liabilities	1,623	2,925	(2,736)	4,712
Total Changes in non-cash working capital	4,776	(3,949)	(8,390)	(7,114)

22 Subsequent Events

On October 4, 2022, the REIT sold a retail property located in Longueuil, Quebec for \$11,850. The property was classified as an asset held for sale as at September 30, 2022.

On November 1, 2022, the REIT acquired a portfolio of four industrial properties for a purchase price of \$38,212 (\$28,500 USD). Three of the properties are located in Windsor, Ontario and one is located in Tilbury, Ontario