



Nexus Industrial REIT

Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three and nine months ended September 30, 2023

Nexus Industrial REIT

Condensed Consolidated Interim Statements of Financial Position

(In thousands of Canadian dollars)

(Unaudited)

	Note(s)	September 30, 2023	December 31, 2022
		\$	\$
Non-current assets			
Investment properties	3,4	2,261,911	1,822,639
Equity investment in joint venture	6	11,601	10,975
Restricted cash		1,436	1,473
Derivative financial instruments	18	20,826	17,073
Right-of-use assets		923	993
Other investments	9	6,500	6,500
Other assets	8	371	167
		2,303,568	1,859,820
Current assets			
Cash		15,684	11,533
Tenant and other receivables	7	6,240	5,944
Deposits		3,050	8,300
Prepaid expenses		6,193	2,186
Derivative financial instruments	18	2,682	-
Other assets	8	11,404	8,833
Assets held for sale	5	31,614	70,885
		76,867	107,681
Total assets		2,380,435	1,967,501
Non-current liabilities			
Mortgages payable	3,10	612,525	633,624
Credit Facilities	11	375,280	112,532
Lease liabilities		10,481	10,495
Derivative financial instruments	18	98	-
Class B LP Units	12	159,737	195,857
Unit-based compensation liabilities	13	46	351
Other liabilities	14b	8,393	9,224
		1,166,560	962,083
Current liabilities			
Mortgages payable	3,10	77,334	70,410
Credit Facilities	11	64,974	-
Lease liabilities		23	46
Distributions payable		3,645	3,590
Accounts payable and other liabilities	14a,19	45,484	25,941
Liabilities associated with assets held for sale	5,10	14,956	32,891
		206,416	132,878
Total liabilities		1,372,976	1,094,961
Equity			
Unitholders' equity	15	646,477	636,776
Retained earnings		360,982	235,764
Total unitholders' equity		1,007,459	872,540
Total liabilities and unitholders' equity		2,380,435	1,967,501
Commitments and contingencies	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)	Three months ended		Nine months ended	
		September 30,		September 30,	
		2023	2022	2023	2022
		\$	\$	\$	\$
Net rental income					
Property revenues	17	39,752	34,424	115,647	100,265
Property expenses		(10,421)	(9,551)	(32,899)	(29,406)
Net rental income		29,331	24,873	82,748	70,859
General and administrative expense		(1,402)	(1,453)	(5,501)	(5,025)
Fair value adjustment of investment properties	4,5	30,112	(1,890)	60,428	(4,513)
Fair value adjustment of Class B LP Units	12	28,663	27,558	51,184	88,212
Fair value adjustment of unit options		-	200	-	608
Fair value adjustment of restricted share units	13	131	124	252	369
Fair value adjustment of derivative financial instruments	18	3,766	1,499	6,337	17,365
Income (loss) from equity accounted investment in joint venture	6	209	(157)	626	(116)
Loss on disposal of investment properties		-	(255)	(807)	(255)
Unrealized foreign exchange gain (loss)		(178)	(464)	59	(776)
Other income	8	882	848	1,770	1,737
		91,514	50,883	197,096	168,465
Finance expense					
Net interest expense	10,11	(11,005)	(7,577)	(29,167)	(20,927)
Distributions on Class B LP Units	12	(3,555)	(3,251)	(10,036)	(9,779)
		(14,560)	(10,828)	(39,203)	(30,706)
Net income and comprehensive income		76,954	40,055	157,893	137,759

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, 2023		67,322,644	636,776	235,764	872,540
Net income and comprehensive income		-	-	157,893	157,893
Distributions		-	-	(32,675)	(32,675)
Units issued under distribution reinvestment plan	16	484,487	4,178	-	4,178
Units issued under Incentive Plan	13	65,692	651	-	651
Units issued under Employee Purchase Plan	13	10,987	97	-	97
Units cancelled	15	(375)	(4)	-	(4)
Unit issuance costs	15	-	(75)	-	(75)
Class B LP Units exchanged for REIT Units	12	460,486	4,854	-	4,854
Balance – September 30, 2023		68,343,921	646,477	360,982	1,007,459

	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		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

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

Nexus Industrial REIT

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Note(s)	Three months ended		Nine months ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
		\$	\$	\$	\$
Operating activities					
Net income for the period		76,954	40,055	157,893	137,759
Adjustment for items not involving cash:					
Restricted share unit expense	13	162	151	1,021	881
Share of net loss (income) from equity accounted investment in joint venture	6	(209)	157	(626)	116
Loss on disposal of investment properties	3	-	255	807	255
Amortization of deferred financing costs	10, 11	286	204	886	506
Amortization of mortgage fair value adjustments	10	(9)	(38)	(64)	(152)
Amortization of right-of-use assets		23	23	69	69
Amortization of tenant incentives and leasing costs	4	272	204	853	680
Straight-line adjustments of rent		(1,435)	(1,036)	(3,649)	(2,619)
Fair value adjustments		(62,672)	(27,491)	(118,201)	(102,041)
Unrealized foreign exchange loss (gain)		178	464	(59)	776
Changes in other non-cash operating items	21	(4,623)	4,975	(5,219)	(8,426)
Total cash generated by operating activities		8,927	17,923	33,711	27,804
Investing activities					
Acquisition of income-producing properties	3,4	(50,043)	(32,021)	(272,382)	(250,973)
Additions to income-producing properties	4	-	(11,277)	-	(11,277)
Acquisition of properties held for development	3,4	-	(5,423)	(4,600)	(8,394)
Additions to properties held for development	4	(11,439)	(1,417)	(15,374)	(1,487)
Net proceeds on disposal of investment properties	3	-	3,676	27,552	3,676
Capital expenditures, tenant incentives and leasing costs	4	(6,639)	(3,716)	(16,089)	(5,460)
Total cash used in investing activities		(68,121)	(50,178)	(280,893)	(273,915)
Financing activities					
Proceeds from new mortgage financing	10	-	3,120	-	168,520
Financing costs	10,11	(394)	(547)	(1,757)	(1,418)
Lease principal repayments		(17)	(10)	(49)	(34)
Mortgage principal repayments	10	(8,452)	(20,863)	(47,344)	(52,439)
Net borrowing on the Credit Facilities	11	85,060	61,606	329,000	85,456
Unit issuance costs	15	-	-	(75)	-
Distributions to unitholders		(9,231)	(8,652)	(28,442)	(25,705)
Total cash generated by financing activities		66,966	34,654	251,333	174,380
Change in cash during the period		7,772	2,399	4,151	(71,731)
Cash - beginning of period		7,912	8,149	11,533	82,279
Cash - end of period		15,684	10,548	15,684	10,548
Supplemental cash flow and non-cash information	21				

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

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

1 Organization

Nexus Industrial REIT 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, 2022.

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, 2023.

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.

Nexus Industrial REIT

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, 2023 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 \$
Burlington, ON		July 4 th	48,370	-	2,218	50,588	(545)	-	50,043
London, ON	a	June 15 th	56,358	(3,791)	1,290	53,857	(358)	(32,379)	21,120
Laval, QC		June 1 st	64,701	-	2,553	67,254	(2,167)	-	65,087
London, ON		April 21 st	36,000	-	808	36,808	(87)	-	36,721
Casselman, ON	b	March 7 th	116,516	-	2,599	119,115	214	-	119,329
			<u>321,945</u>	<u>(3,791)</u>	<u>9,468</u>	<u>327,622</u>	<u>(2,943)</u>	<u>(32,379)</u>	<u>292,300</u>

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

⁽²⁾ Fair value of mortgages assumed.

Consideration:

Cash	272,382
Class B LP Units issued	19,918
	<u>292,300</u>

- a) On June 15, 2023, the REIT acquired an industrial property located in London, Ontario, for a contractual purchase price of \$56,358. The purchase price was partially satisfied through the issuance of 2,359,978 Class B LP Units at a deemed value of \$10.30 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 June 15, 2023, of \$8.44 per unit. The property was initially recorded at \$51,968, 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 \$56,358.
- b) On March 7, 2023, the REIT acquired an industrial property located in Casselman, Ontario for a contractual purchase price of \$116,800. The REIT received a vendor rent obligation payment from the vendor of \$284 to subsidize the lower base rent until March 7, 2025, which reduced the carrying value of the property of \$116,516.

The impact of the acquisitions completed during the year ended December 31, 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 \$
Windsor, ON and Tilbury, ON	c	November 1 st	38,875	-	939	39,814	(3)	-	39,811
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	d	March 1 st	35,694	1,736	1,052	38,482	(256)	(2,664)	35,562
Edmonton, AB	e	February 22 nd	91,000	-	192	91,192	(59)	-	91,133
Edmonton, AB	f	February 8 th	38,161	-	154	38,315	(119)	-	38,196
Mascouche, QC	g	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	h		-	-	2,524	2,524	-	-	2,524
			<u>316,769</u>	<u>1,276</u>	<u>7,176</u>	<u>325,221</u>	<u>(3,327)</u>	<u>(11,744)</u>	<u>310,150</u>

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

⁽²⁾ Fair value of mortgages assumed.

Consideration:

Cash	290,786
Class B LP Units issued	19,364
	<u>310,150</u>

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

- c) On November 1, 2022, the REIT acquired a portfolio of four industrial properties for \$38,875 (\$28,500 USD). Three of the properties are located in Windsor, Ontario and one is located in Tilbury, Ontario.
- d) 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.
- e) On February 22, 2022, the REIT acquired two industrial properties located in Edmonton, Alberta for a contractual purchase price of \$91,000.
- f) 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.
- g) On February 2, 2022, the REIT acquired a distribution centre located in the Montreal, Quebec area for a contractual purchase price of \$28,914.
- h) Post-closing adjustments relate to transaction costs for an industrial property acquired in December 2021.

Dispositions of income-producing properties

Period ended September 30, 2023

On June 5, 2023, the REIT sold an industrial property located in Kamloops, British Columbia for a selling price of \$4,200. Net of selling costs of \$109, the REIT received net cash proceeds of \$4,091. The sale generated a loss on disposal of \$109.

On April 26, 2023, the REIT sold a retail property located in Victoriaville, Quebec for a selling price of \$41,635. Net of selling costs of \$698 and the repayment of a \$17,476 mortgage against the property, the REIT received net cash proceeds of \$23,461. The sale generated a loss on disposal of \$698.

Year ended December 31, 2022

On December 19, 2022, the REIT sold a retail property located in Charlottetown, Prince Edward Island for a selling price of \$955. Net of selling costs of \$59, the REIT received net cash proceeds of \$896. Upon the sale, a ground lease asset of \$886 and an associated lease liability of \$971 were derecognized. The sale generated a gain on disposal of \$26.

On October 4, 2022, the REIT sold a retail property located in Longueuil, Quebec for a selling price of \$11,850. Net of selling costs of \$398 and the assumption by the purchaser of a \$8,305 mortgage against the property, the REIT received net cash proceeds of \$3,147. The sale generated a loss on disposal of \$481, including the derecognition of a straight-line rent asset in the amount of \$83.

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 by the purchaser 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.

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

Acquisitions of properties held for development

Period ended September 30, 2023

On June 5, 2023, the REIT acquired a parcel of land in St. Thomas, Ontario for a contractual purchase price of \$4,500. The purchase price was settled in cash. The parcel acquired is adjacent to another property owned by the REIT.

Year ended December 31, 2022

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 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 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.

4 Investment properties

	September 30, 2023 \$	December 31, 2022 \$
Income-producing properties	2,168,781	1,797,109
Properties held for development	93,130	25,530
Balance, end of period	2,261,911	1,822,639

	Note	Income- producing properties \$	Properties held for development \$	Investment properties \$
Balance - January 1, 2023		1,797,109	25,530	1,822,639
Acquisitions	3	327,622	4,600	332,222
Additions - capital expenditures		12,107	-	12,107
Additions - tenant incentives and leasing costs		3,982	-	3,982
Additions - development		-	37,843	37,843
Amortization of tenant incentives and leasing costs		(853)	-	(853)
Investment properties reclassified as properties held for development		(8,600)	8,600	-
Investment properties reclassified as assets held for sale	5	(12,290)	-	(12,290)
Fair value adjustment		49,704	16,557	66,261
Balance - September 30, 2023		2,168,781	93,130	2,261,911

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

	Note	Income-producing properties \$	Properties held for development \$	Investment properties \$
Balance - January 1, 2022		1,545,866	-	1,545,866
Acquisitions	3	325,221	23,716	348,937
Additions – capital expenditures		5,908	-	5,908
Additions – tenant incentives and leasing costs		5,305	-	5,305
Additions – development		-	1,814	1,814
Amortization of tenant incentives and leasing costs		(988)	-	(988)
Reclassified from prepaid development costs		198	-	198
Investment properties reclassified as assets held for sale	5	(95,039)	-	(95,039)
Disposal of investment property	3	(955)	-	(955)
Fair value adjustment		3,304	-	3,304
Ground lease addition	3f	9,175	-	9,175
Ground lease disposition	3	(886)	-	(886)
Balance - December 31, 2022		1,797,109	25,530	1,822,639

Acquisitions of income-producing properties include \$9,468 of transaction costs (December 31, 2022 - \$7,176) and acquisition of properties held for development includes transaction costs of \$100 (December 31, 2022 - \$1,110).

During the nine months ended September 30, 2023, the REIT capitalized \$1,472 of borrowing costs (December 31, 2022 - \$94) to qualifying development properties.

The REIT obtains third party appraisals to supplement internal management valuations in support of the determination of the fair market value of investment properties. Investment properties with an aggregate fair value of \$681,500 were valued by qualified external valuation professionals during the nine months ended September 30, 2023.

The fair value of income-producing properties as at September 30, 2023 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 and with reference to external appraisals. The fair value of properties held for development as at September 30, 2023 was determined with reference to external valuations of the developments as completed. The difference between the fair value of the properties not considering development returns and the as completed fair value is recognized pro rata with costs incurred to date excluding the cost of land as compared to total budgeted development costs excluding the cost of land.

The fair value of the investment properties as at September 30, 2023 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:

	September 30, 2023	December 31, 2022
Weighted average capitalization rate	5.98%	5.72%
Range of capitalization rates	4.35% - 10.00%	4.25% - 9.75%
Stabilized net operating income	\$133,174	\$102,480

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

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(Unaudited)

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at September 30, 2023, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$89,326 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 \$97,119 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, 2023, four investment properties with a combined fair value of \$31,614 are classified as assets held for sale. The mortgages and a lease liability associated with these properties are classified as liabilities associated with assets held for sale. During the nine months ended September 30, 2023, a fair value adjustment of \$5,665 was recognized for the properties classified as assets held for sale. During the nine months ended September 30, 2023, the REIT disposed of two income-producing properties located in Victoriaville, Quebec, and Kamloops, British Columbia (see note 3).

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

	Note	September 30, 2023 \$	December 31, 2022 \$
Balance, beginning of period		70,885	-
Investment properties classified as assets held for sale	4	12,290	95,670
Fair value adjustment		(5,665)	(4,635)
Disposal of investment properties		(46,002)	(20,150)
Other adjustments ⁽¹⁾		106	-
Balance, end of period		31,614	70,885

⁽¹⁾ Other adjustments comprise the reclassification of straight-line rent relating to assets held for sale from other current assets.

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, Quebec.

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

	September 30, 2023 \$	December 31, 2022 \$
Balance, beginning of period	10,975	9,178
Share of net income from investment in joint venture	626	1,797
Balance, end of period	11,601	10,975

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

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

	September 30, 2023	December 31, 2022
	\$	\$
Investment property	35,349	34,400
Other non-current assets	2,195	1,915
Current assets	575	813
Non-current liabilities	(13,079)	(13,766)
Current liabilities	(1,838)	(1,413)
Net assets	23,202	21,949
The REIT's share of net assets	11,601	10,975

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Net rental income				
Property revenues	929	1,039	2,855	2,899
Property expenses	(412)	(439)	(1,315)	(1,382)
Net rental income	517	600	1,540	1,517
General and administrative expense	(93)	(43)	(185)	(137)
Fair value adjustment of investment property	-	(875)	-	(2,346)
Fair value adjustment of derivative financial instruments	110	128	250	1,111
Net interest expense	(116)	(124)	(354)	(377)
Net income (loss) and comprehensive income (loss)	418	(314)	1,251	(232)
The REIT's share of net income (loss) and comprehensive income (loss)	209	(157)	626	(116)

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, 2023
	\$
Remainder of 2023	28,524
2024	110,997
2025	99,921
2026	85,766
2027	75,596
Thereafter	472,557
Balance as at September 30, 2023	873,361

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

8 Other assets

Other assets are comprised as follows:

	September 30, 2023	December 31, 2022
	\$	\$
Vendor rent obligations	601	801
Property tax reserves held by mortgage lenders	433	534
Cumulative straight-line rent adjustments	9,297	5,758
Restricted cash	669	653
Prepaid acquisition costs	162	396
Other	613	858
Balance, end of period	11,775	9,000
Less: Current portion	(11,404)	(8,833)
Non-current balance, end of period	371	167

As at September 30, 2023, the vendor rent obligation related to the REIT's Richmond, BC property was \$601 (December 31, 2022 - \$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 months ended September 30, 2023, a total of \$1,602 (2022 - \$1,602) of vendor rent obligation was accrued and recorded in other income in the condensed consolidated interim statement of income and comprehensive income in respect of the REIT's Richmond, BC property.

9 Other investments

On November 16, 2021, the REIT acquired an interest in a limited partnership for \$3,000. 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 \$6,500 as at September 30, 2023 (December 31, 2022 - \$6,500).

10 Mortgages payable

As at September 30, 2023, the mortgages payable are secured by charges against 76 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 3.28% (December 31, 2022 - 3.21%) and the weighted average term to maturity is 5.87 years (December 31, 2022 - 6.08 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled repayments	Principal maturities	Total
	\$	\$	\$
Remainder of 2023	4,618	29,278	33,896
2024	18,063	36,984	55,047
2025	17,101	48,642	65,743
2026	14,978	89,123	104,101
2027	12,609	51,727	64,336
Thereafter	90,158	292,038	382,196
Total	157,527	547,792	705,319

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

The following table summarizes the changes in mortgages payable for the nine months ended September 30, 2023 and year ended December 31, 2022:

	Note	September 30, 2023 \$	December 31, 2022 \$
Mortgages payable, beginning of period		738,359	612,764
New mortgage financing		-	183,880
Mortgages refinanced/repaid		(32,764)	(37,996)
Principal assumed/repaid on disposal of investment properties		(17,476)	(12,674)
Mortgages assumed	3	31,780	12,143
Principal repayments		(14,580)	(19,758)
Mortgages payable, end of period		705,319	738,359
Less: Deferred financing costs, beginning of period		(2,664)	(2,121)
Less: Additions to deferred financing costs		(79)	(1,100)
Plus: Amortization of deferred financing costs		486	557
Plus: Fair value adjustment of mortgages, beginning of period		(57)	520
Plus: Additions to fair value adjustment of mortgages	3	599	(399)
Less: Amortization of fair value adjustments		(64)	(178)
Balance, end of period		703,540	735,638
Less: Current portion		(77,334)	(70,410)
Less: Mortgage payable associated with assets held for sale		(13,681)	(31,604)
Non-current balance, end of period		612,525	633,624

11 Credit Facilities

As at September 30, 2023, the REIT had the following credit facilities:

Facility	Interest rate	Maturity date	Security	Facility limit \$	Amount drawn \$
Credit Facility 1:					
Fixed-term facility	30-day bankers' acceptance rate + 1.50%	September 13, 2024	12 investment properties	65,000	65,000
Revolving facility	Prime rate + 1.00% or floating bankers' acceptance rate +2.00%	September 13, 2024		5,000	Undrawn
Credit Facility 2:					
Revolving facility	Prime rate + 1.00%	-	4 investment properties	500	Undrawn
Unsecured Facilities:					
Revolving facility	Prime rate + 0.70% or floating bankers' acceptance rate +1.70% ⁽¹⁾	March 1, 2026	Unsecured	340,000 ⁽²⁾	202,000
Term loan facility	Prime rate + 0.70% or floating bankers' acceptance rate +1.70% ⁽¹⁾	March 1, 2026	Unsecured	175,000	175,000
Swingline facility	Prime rate + 0.70% or floating bankers' acceptance rate +1.70% ⁽¹⁾	March 1, 2026	Unsecured	10,000	Undrawn
				595,500	442,000

(Credit Facility 1, Credit Facility 2 and Unsecured Facilities, collectively "the Credit Facilities")

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

- (1) Represents the spreads in effect as at September 30, 2023. The applicable spread is set based on the REIT's total debt to total assets, unless the REIT receives an external credit rating, at which time the applicable spread will be based on the REIT's external credit rating.
- (2) On September 12, 2023, the revolving facility limit was increased from \$190,000 to \$340,000.

Amounts drawn against the Credit Facilities are as follows:

	September 30, 2023	December 31, 2022
	\$	\$
Bankers' acceptance borrowings	441,995	65,000
Prime rate borrowings	5	48,000
Total drawn against the Credit Facilities	442,000	113,000
Less: Deferred financing costs	(1,746)	(468)
Balance, end of period	440,254	112,532
Less: Current portion	(64,974)	-
Non-current balance, end of period	375,280	112,532

Details of the amounts drawn under the Credit Facilities as at September 30, 2023 are as follows:

	Total principal amount	Weighted average interest rate	Repricing date
	\$		
Bankers' acceptance borrowings not covered by swaps	159,813	7.09%	Variable ⁽¹⁾
Bankers' acceptance borrowings covered by swaps	282,182	4.87% ⁽²⁾	Variable ⁽²⁾
Prime rate borrowings	5	7.90%	Variable

(1) Dates between October 13, 2023 and October 31, 2023.

(2) Represents the weighted average interest rate net of the effect of swaps in place. The REIT is party to swaps that effectively fix the 30-day bankers' acceptance rate on borrowings under the Credit Facilities as follows:

An amortizing swap with a notional amount of amount of \$17,182 as at September 30, 2023, at a rate of 1.01% such that the interest rate on borrowings, including the current 170 basis point spread, is fixed at 2.71% for the life of the swap.

A \$50,000 swap at a rate of 4.045%, such that the interest rate on the borrowings, including the current 170 basis point spread, is fixed at 5.745% for the life of the swap.

A \$100,000 swap at a rate of 4.18%, such that the interest rate on the borrowings, including the current 170 basis point spread, is fixed at 5.88% for the life of the swap.

A \$50,000 swap at a rate of 3.26%, such that the interest rate on the borrowings, including the current 170 basis point spread, is fixed at 4.96% for the life of the swap.

A \$65,000 swap at a rate of 1.65%, such that the interest rate on the fixed-term facility, including the applicable 150 basis point spread, is fixed at 3.15% for the life of the swap.

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

The following table summarizes the changes in the Credit Facilities for the nine months ended September 30, 2023 and year ended December 31, 2022:

	September 30, 2023 \$	December 31, 2022 \$
Drawn against Credit Facilities, beginning of period	113,000	65,000
Net borrowings	329,000	48,000
Drawn against Credit Facilities, end of period	442,000	113,000
Less: Deferred financing costs, beginning of period	(468)	(287)
Less: Deferred financing costs incurred	(1,678)	(355)
Plus: Amortization of deferred financing costs	400	174
Balance, end of period	440,254	112,532

12 Class B LP Units

The following table summarizes the changes in Class B LP Units for the nine months ended September 30, 2023:

	Note	Class B LP Units	Amount \$
Balance – January 1, 2023		20,317,090	195,857
Class B LP Units issued as purchase price consideration	3	2,359,978	19,918
Class B LP Units exchanged for REIT Units		(460,486)	(4,854)
Fair value adjustment		N/A	(51,184)
Balance – September 30, 2023		22,216,582	159,737

Distributions in the amount of \$3,555 (2022 - \$3,251) were declared payable to holders of Class B LP Units for the three months ended September 30, 2023 and distributions in the amount of \$10,036 (2022 - \$9,779) were declared for the nine months ended September 30, 2023. 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 \$1,185 were accrued as at September 30, 2023 (December 31, 2022 - \$1,084).

13 Unit-based compensation

Unit-based compensation liabilities are comprised of restricted share units.

1) 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 April 6, 2023, the REIT granted 511 RSUs to an employee with a fair value at the grant date of \$9.73. These RSUs vested on the date of issuance.

On January 13, 2023, the REIT granted an aggregate of 99,164 RSUs to employees with a fair value at the grant date of \$9.93. These RSUs vest one-third on the date of issuance, one-third on January 13, 2024 and one-third on January 13, 2025. On January 13, 2023, the REIT also granted an aggregate of 20,138 RSUs to trustees with a fair value at the grant date of \$9.93. These RSUs vested on the date of issuance.

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

On March 25, 2022, the REIT granted an aggregate of 107,009 RSUs to employees 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.

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, 2023, a total of \$162 (2022 - \$151) of expense for restricted share units granted under the plan was recognized in general and administrative expense and for the nine months ended September 30, 2023, a total of \$1,022 (2022 - \$881) of expense for restricted share units granted under the plan was recognized in general and administrative expense.

2) *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, 2023, 738 REIT Units (2022 – 1,940 REIT Units) were issued from treasury at \$8.43 per unit in respect of \$3 of Employee Contributions and \$3 of REIT Contributions

During the nine months ended September 30, 2023, 10,280 REIT Units (2022 – 18,943 REIT Units) were issued from treasury at \$8.63 per unit in respect of \$44 of Employee Contributions and \$44 of REIT Contributions.

16,332 REIT Units issued in respect of REIT Contributions remain in the Employee Purchase Plan at September 30, 2023 (2022 – 12,917 REIT Units), of which, 6,345 REIT Units are unvested.

Included in other current assets as at September 30, 2023, related to REIT Contributions, is unamortized compensation expense of \$32 (December 31, 2022 - \$19). During the three months ended September 30, 2023, a total of \$10 (2022 - \$24) of expense for REIT Contributions was recognized in general and administrative expense and for the nine months ended September 30, 2023, a total of \$29 (2022 - \$87) 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:

	September 30, 2023	December 31, 2022
	\$	\$
Prepaid rent	4,091	4,448
Security deposits	3,380	3,064
Accrued interest expense	2,852	2,644
Sales and other taxes payable	1,423	1,808
Development costs	22,469	-
Trade payables and accrued liabilities	10,206	12,961
Other liabilities	1,063	1,016
Current balance, end of period	45,484	25,941

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

- b) Other liabilities – non-current as at September 30, 2023 of \$8,393 (\$6,208 USD) (December 31, 2022 - \$9,224 (\$6,810 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 which commenced October 1, 2021.

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.

The following table presents the changes in unitholders' equity for the period ended September 30, 2023:

	Note	Units	Amount \$
Balance – January 1, 2023		67,322,644	636,776
Units issued under distribution reinvestment plan	16	484,487	4,178
Units issued under Incentive Plan	13	65,692	651
Units issued under Employee Purchase Plan	13	10,987	97
Unit issuance costs		-	(75)
Units cancelled		(375)	(4)
Class B LP Units exchanged for REIT Units	12	460,486	4,854
Balance – September 30, 2023		68,343,921	646,477

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.

The following table summarizes units issued under the DRIP:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Number of units issued	214,723	70,330	484,487	192,389
Stated value (\$)	1,679	677	4,178	2,070

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

17 Property revenues

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

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	\$	\$	\$	\$
Rental income	37,062	31,280	106,731	91,418
Revenue from services	2,414	2,915	8,181	8,171
Other revenue	276	229	735	676
Property revenues	39,752	34,424	115,647	100,265

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, 2023, the REIT had cash of \$15,684 (December 31, 2022 - \$11,533), mortgages payable of \$705,319 (December 31, 2022 - \$738,359), a Credit Facilities balance of \$442,000 (December 31, 2022 - \$113,000) and accounts payable and other liabilities of \$53,877 (December 31, 2022 - \$35,165). The REIT had a working capital deficit of \$129,549 as at September 30, 2023 (December 31, 2022 - \$25,197). Excluding the current portion of mortgages payable of \$77,334, liabilities associated with assets held for sale of \$14,956 and assets held for sale of \$31,614, working capital would be a deficit of \$68,873. The REIT expects that it will be able to refinance the mortgages on their maturities. The REIT has access to undrawn amounts 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 term portion of Credit Facilities	Mortgages payable	Mortgage interest	Total
	\$	\$	\$	\$	\$	\$	\$
Remainder of 2023	44,683	135	-	3,437	33,896	5,489	87,640
2024	1,073	529	65,000	13,124	55,047	20,589	155,362
2025	1,109	551	-	11,636	65,743	18,695	97,734
2026	1,147	551	377,000	1,816	104,101	16,097	500,712
2027	1,185	551	-	-	64,336	13,088	79,160
Thereafter	4,680	22,889	-	-	382,196	44,682	454,447
	53,877	25,206	442,000	30,013	705,319	118,640	1,375,055

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

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, 2023, there was a total of \$608,555 (December 31, 2022 - \$300,690) 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, 2023, the REIT has interest rate swap agreements totalling \$442,460 (2022 - \$247,564) 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.

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 summarizes relevant information on interest rate swap agreements:

Effective date	Effective fixed interest rate	Maturity date	Original notional amount \$	Current notional amount \$	Fair value (gain) loss \$
April 2019	3.67% ⁽¹⁾	April 24, 2024	12,000	10,875	(214)
April 2019	3.74% ⁽¹⁾	April 24, 2026	12,500	11,342	(785)
April 2019	3.87% ⁽¹⁾	April 24, 2029	12,500	11,367	(1,149)
September 2019	3.15% ⁽¹⁾	September 13, 2024	65,000	65,000	(2,468)
November 2020	2.82% ⁽¹⁾	November 2, 2027	7,650	7,029	(934)
December 2020	1.01% ⁽²⁾	December 1, 2025	18,500	17,182	(1,494)
December 2020	3.35% ⁽¹⁾	December 30, 2030	18,000	16,878	(2,892)
April 2021	3.08% ⁽¹⁾	April 1, 2026	19,750	18,433	(1,523)
November 2021	3.69% ⁽¹⁾	June 1, 2028	22,600	21,207	(1,659)
February 2022	3.28% ⁽¹⁾	February 23, 2032	29,500	25,561	(3,533)
February 2022	3.28% ⁽¹⁾	February 23, 2032	20,000	19,363	(2,409)
March 2022	3.41% ⁽¹⁾	March 1, 2027	17,800	17,105	(1,439)
March 2022	3.76% ⁽¹⁾	April 1, 2025	1,500	1,118	(54)
March 2023	3.26% ⁽²⁾	February 29, 2028	50,000	50,000	(2,831)
August 2023	4.18% ^{(2) (3)}	August 31, 2028	100,000	100,000	98
September 2023	4.045% ^{(2) (3)}	September 29, 2028	50,000	50,000	(124)
			457,300	442,460	(23,410)

(1) Effective fixed interest rate of mortgage debt, including the applicable spread.

(2) Effective fixed interest rate of bankers' acceptance borrowings under the Credit Facilities, excluding the applicable spread.

(3) The counterparties to these swaps have one-time options to terminate the swaps one year after the effective date.

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

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, 2023, one tenant accounted for approximately 12% of the REIT's base rental income, resulting in a concentration of credit risk. The REIT monitors the creditworthiness of its tenants on an ongoing basis. The REIT mitigates credit risk by monitoring the credit ratings of the institutions holding the REIT's deposits.

The REIT has examined its tenant receivables for indications of impairment. The tenant receivables default rate of the REIT is less than 0.5%. 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, 2023, the REIT had an allowance for expected credit losses of \$167 (December 31, 2022 – \$87).

19 Commitments and contingencies

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.

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

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

As at September 30, 2023, the REIT had contractual commitments to acquire two industrial properties for an aggregate contractual purchase price of \$89,941. \$27,061 of the aggregate contractual purchase price will be settled by issuing Class B LP Units at a deemed value of \$11.30 per unit.

On July 18, 2022, the REIT guaranteed up to \$8,000 of debt relating to a co-ownership for a property held for development in Hamilton, Ontario (see note 20).

On November 16, 2021, the REIT guaranteed up to \$17,500 of debt relating to a limited partnership which holds land for development in Hamilton, Ontario. On August 3, 2023, the guaranteed debt increased from \$17,500 to \$23,200 (see note 20).

20 Related party transactions

For the three months ended September 30, 2023, trustee retainer fees in the amount of \$119 were expensed (2022 - \$119) and for the nine months ended September 30, 2023, trustee retainer fees in the amount of \$358 were expensed (2022 - \$358). Trustee retainer fees in the amount of \$169 were accrued as at September 30, 2023 (December 31, 2022 - \$269).

For the three months ended September 30, 2023, key management earned salaries and other short-term employee benefits in the amount of \$705 (2022 - \$690) and \$2,115 was earned in respect of the nine months ended September 30, 2023 (2022 - \$2,046).

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 development is partially owned, and managed, by entities controlled by RFA Capital Partners Inc. ("RFA"), an entity related to a trustee of the REIT.

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 fair value of the investment was \$6,500 as at September 30, 2023 (December 31, 2022 - \$6,500). 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 \$40 (2022 - \$38) and \$112 (2022 - \$126) of guarantee fees during the three months and nine months ended September 30, 2023, respectively.

Fees to RFA related entities in respect of the RFA Development Properties totalled \$167 (2022 - \$271) and \$487 (2022 - \$449) for the three months and nine months ended September 30, 2023, respectively.

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

The REIT has purchased several properties from 1803299 Ontario Inc. (“1803299”) and issued Class B LP Units to 1803299 as purchase price consideration. 1803299 owns 15,815,054 Class B LP Units of a subsidiary limited partnership of the REIT, representing approximately 17.5% of the REIT’s outstanding voting units as at September 30, 2023. An entity related to 1803299 is a tenant of the REIT and provides property management services to the REIT for which it is paid fees on market terms. During the three and nine months ended September 30, 2023, the REIT incurred fees for property management services totalling \$25 and \$211, respectively (2022 - \$73 and \$213, respectively). During the three and nine months ended September 30, 2023, the REIT earned property revenues from an entity related to 1803299 totalling \$932 and \$2,586, respectively (2022 - \$1,459 and \$3,505, respectively).

On June 15, 2023, the REIT acquired an industrial property located in London, Ontario from 1803299 for a contractual purchase price of \$56,358. As partial purchase price consideration, 2,359,978 Class B LP units of a subsidiary limited partnership of the REIT were issued to 1803299 at a deemed value of \$10.30 per unit.

The REIT is party to a firm agreement to purchase an industrial property located in London, Ontario from 1803299 for a contractual purchase price of \$55,794. \$27,061 of the purchase price will be settled through the issuance of 2,394,774 Class B LP Units of a subsidiary limited partnership of the REIT at a deemed value of \$11.30 per unit.

21 Supplemental cash flow and non-cash information

The following details the changes in other non-cash operating items included in operating activities:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Changes in non-cash working capital:				
Tenant and other receivables	(353)	2,041	(606)	(1,086)
Prepaid expenses	984	1,500	(3,962)	(2,519)
Deposits	1,500	177	5,250	(1,823)
Other current assets	(148)	(565)	980	(226)
Accounts payable and other liabilities	(6,297)	1,623	(5,883)	(2,736)
Total changes in non-cash working capital	(4,314)	4,776	(4,221)	(8,390)
Changes in other non-current assets	(203)	(15)	(204)	(81)
Changes in restricted cash	(8)	20	37	28
Changes in other non-current liabilities	(98)	194	(831)	17
Total changes in other non-cash operating items	(4,623)	4,975	(5,219)	(8,426)

Nexus Industrial REIT

Notes to Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

(Unaudited)

The following details the non-cash items included in investing and financing activities:

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	\$	\$	\$	\$
Interest paid	15,574	10,786	39,685	30,227
Income taxes paid (received)	(6)	5	17	1
Non-cash investing and financing activities:				
REIT Units issued under distribution reinvestment plan	1,679	676	4,178	2,070
Class B LP Units issued as purchase price consideration	-	-	19,918	19,364
Class B LP Units issued in settlement of contractual obligations	-	-	-	4,305

22 Subsequent events

On November 1, 2023, the REIT acquired an industrial property located in London, Ontario from 1803299 for a contractual purchase price of \$55,794. The purchase price was partially satisfied through the issuance of 2,394,774 Class B LP Units at a deemed value of \$11.30 per unit which are convertible into REIT Units on a one-to-one basis, with the balance, net of closing adjustments, satisfied in cash.

Subsequent to September 30, 2023, the REIT entered into a series of 5-year interest rate swap agreements which are effective October 31, 2023 to swap a total of \$150,000 of variable rate debt drawn on its Credit Facilities in the form of bankers' acceptances for a weighted average fixed interest rate of 4.13%, excluding the applicable spread on borrowings. The counterparties to the swaps have a one-time option to cancel the swaps on November 1, 2024.