Nexus Industrial REIT

Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2024

Nexus Industrial REIT

Consolidated Statements of Financial Position
As at March 31, 2024 and 2023
(In thousands of Canadian dollars)
(Unaudited)

	Note(s)	March 31, 2024 $	December 31, 2023 $
Non-current assets			
Investment properties	3,4	2,326,398	2,364,027
Equity investment in joint venture		11,266	11,038
Restricted cash		1,453	1,444
Derivative financial instruments	14	12,996	10,194
Right-of-use assets		1,153	1,183
Other investment		7,950	7,950
Other assets		359	373
		2,361,575	2,396,209
Current assets			
Cash		8,830	5,918
Tenant and other receivables		7,591	11,142
Deposits		-	3,000
Prepaid expenses		2,407	2,713
Derivative financial instruments		1,156	1,747
Other assets		13,324	13,188
Assets held for sale	5	139,687	29,150
		172,995	66,858
Total assets		2,534,570	2,463,067
Non-current liabilities			
Mortgages payable	3,7	557,531	601,796
Credit Facilities	8	514,202	453,563
Lease liabilities		10,693	10,715
Derivative financial instruments		5,120	10,399
Class B LP Units	9	25,582	27,052
Unit-based compensation liabilities	10	348	300
Other liabilities		7,904	8,022
		1,121,380	1,111,847
Current liabilities			
Mortgages payable	3,7	44,725	57,508
Credit Facilities	8	64,987	64,981
Lease liabilities		82	64
Class B LP Units	9	162,695	172,053
Distributions payable		3,671	3,658
Accounts payable and other liabilities		36,016	37,822
Liabilities associated with assets held for sale	5,7	66,073	14,805
		378,249	350,891
Total liabilities		1,499,629	1,462,738
Equity			
Unitholders' equity	11	650,115	648,171
Retained earnings		384,826	352,158
Total unitholders' equity		1,034,941	1,000,329
Total liabilities and unitholders' equity		2,534,570	2,463,067

Subsequent event 17

On behalf of the Board:

"Benjamin Rodney" Trustee "Floriana Cipollone" Trustee

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

Nexus Industrial REIT

Consolidated Statements of Changes in Unitholders' Equity

For the three months ended March 31, 2024 and 2023
(In thousands of Canadian dollars, except unit amounts)
(Unaudited)

	Note(s)	For the three months ended March 31, 2024 $	March 31, 2023 $
Net rental income			
Property revenues	13	41,597	37,476
Property expenses		(12,060)	(11,748)
Net rental income		29,537	25,728
General and administrative expense		(2,430)	(2,405)
Fair value adjustment of investment properties	4,5	15,183	(2,715)
Fair value adjustment of Class B LP Units	9	10,828	(2,608)
Fair value adjustment of Incentive units	10	9	(9)
Fair value adjustment of derivative financial instruments	14	7,491	(3,829)
Income from equity accounted investment in joint venture		227	94
Unrealized foreign exchange (loss) gain		(130)	19
Other income		58	649
		60,773	14,924
Finance expense			
Net interest expense	7,8	(13,164)	(8,029)
Distributions on Class B LP Units	9	(3,938)	(3,178)
		(17,102)	(11,207)
Net income and comprehensive income		43,671	3,717

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

Nexus Industrial REIT

Consolidated Statements of Changes in Unitholders' Equity

For the three months ended March 31, 2024 and 2023
(In thousands of Canadian dollars, except unit amounts)
(Unaudited)

	Note	Units	Unitholders' Equity $	Retained Earnings $	Total $
Balance – January 1, 2024		68,589,606	648,171	352,158	1,000,329
Net income and comprehensive income		-	-	43,671	43,671
Distributions		-	-	(11,003)	(11,003)
Units issued under distribution reinvestment plan	12	179,368	1,395	-	1,395
Units issued under Incentive Plan	11	65,383	526	-	526
Units issued under Employee Purchase Plan	11	2,861	23	-	23
Balance – March 31, 2024		68,837,218	650,115	384,826	1,034,941

	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		-	-	3,717	3,717
Distributions		-	-	(10,864)	(10,864)
Units issued under distribution reinvestment plan	12	107,706	1,075	-	1,075
Units issued under Incentive Plan		61,107	607	-	607
Units issued under Employee Purchase Plan		422	4	-	4
Units cancelled		(375)	-	-	-
Class B LP Units exchanged for REIT Units		455,481	4,814	-	4,814
Balance – March 31, 2023		67,946,985	643,276	228,617	871,893

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

Nexus Industrial REIT

Consolidated Statements of Cash Flows
For the three months ended March 31, 2024 and 2023
(In thousands of Canadian dollars)
(Unaudited)

	Note(s)	For the three months ended March 31, 2024 $	March 31, 2023 $
Operating activities			
Net income for the period		43,671	3,717
Adjustment for items not involving cash:			
Incentive unit expense	10	785	699
Share of net income from equity accounted investment in joint venture		(227)	(94)
Amortization of deferred financing costs		366	255
Amortization of mortgage fair value adjustments	7	(8)	(29)
Amortization of right-of-use assets		30	23
Amortization of tenant incentives and leasing costs	4	273	296
Straight-line adjustments of rent		(1,164)	(1,017)
Fair value adjustments		(33,511)	9,161
Unrealized foreign exchange loss (gain)		130	(19)
Changes in non-cash operating items	16	5,160	(6,177)
Total cash generated by operating activities		15,505	6,815
Investing activities			
Acquisition of income-producing investment properties	3,4	(36,831)	(119,329)
Additions to investment properties under development	4	(17,836)	(2,070)
Capital expenditures, tenant incentives and leasing costs	4	(4,104)	(2,470)
Total cash used in investing activities		(58,771)	(123,869)
Financing activities			
Financing costs	7, 8	(770)	(1,286)
Lease principal repayments		(4)	(15)
Mortgage principal repayments	7	(4,683)	(5,056)
Net borrowing on the Credit Facilities	8	61,230	132,269
Distributions to unitholders		(9,595)	(9,755)
Total cash generated by financing activities		46,178	116,157
Change in cash during the period		2,912	(897)
Cash - beginning of period		5,918	11,533
Cash - end of period		8,830	10,636
Supplemental cash flow and non-cash information	16		

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

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 105-586 Argus Road, Oakville, ON, L6J 3J3.

2 Material 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 as issued by the International Accounting Standards Board ("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, 2023.

Basis of presentation

The condensed consolidated interim financial statements have been prepared on a going concern basis and under the historical cost convention, except for the revaluation of investment properties, unit options, restricted share units and financial instruments classified as fair value through profit or loss ("FVTPL"), which are presented at fair value. These condensed consolidated interim financial statements are presented in thousands of Canadian dollars, which is the functional currency of the REIT. The condensed consolidated interim financial statements were authorized for issue by the board of trustees of the REIT on May 14, 2024.

Certain comparative figures have been re-classified to conform to the current period presentation.

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ materially from these estimates. The estimates and judgments used in determining the recorded amount for assets, liabilities and equity in these condensed consolidated interim financial statements are based on information available to the REIT as at the end of the reporting period.

New accounting standards adopted by the REIT

The accounting policies used in the preparation of the consolidated financial statements are consistent with those of the year ended December 31, 2023, except for the adoption of new standards and interpretations effective January 1, 2024, as follows:

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 adopted the amendments to IAS 1described above on January 1, 2024. The amendments resulted in the REIT re-classifying certain Class B Units from non-current to current liabilities on the Condensed Statements of Financial Position. Those Class B Units where the holder has unrestricted rights to convert the Class B Units to REIT Units, or where such unrestricted rights will be become available within 12 months of the balance sheet date, are classified as current liabilities. See note 9 for further details.

(In thousands of Canadian dollars, except unit amounts)

3 Acquisitions and dispositions

Acquisition of income-producing properties

The impact of the acquisitions of income-producing properties completed during the three months ended March 31, 2024, is as follows:

Property location	Acquisition date	Contractual purchase price $	Fair value adjustment (1) $	Transaction costs $	Income-producing properties acquired $	Working capital acquired $	Mortgages assumed (2) $	Net assets acquired $
Rocky View, AB	January 3rd	35,060	-	267	35,327	-	-	35,327
Dorval, QC	February 7th	1,463	-	32	1,495	9	-	1,504
		36,523	-	299	36,822	9	-	36,831

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

Consideration:	
Cash	36,831
	36,831

The impact of the acquisitions of income producing properties completed during the year ended December 31, 2023, is as follows:

Property location	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	November 1st	55,794	(11,112)	1,237	45,919	(324)	-	45,595
Burlington, ON	July 4th	48,370	-	2,218	50,588	(545)	-	50,043
London, ON	June 15th	56,358	(3,791)	1,290	53,857	(358)	(32,379)	21,120
Laval, QC	June 1st	64,701	-	2,553	67,254	(2,167)	-	65,087
London, ON	April 21st	36,000	-	808	36,808	(87)	-	36,721
Casselman, ON	March 7th	116,516	-	2,599	119,115	214	-	119,329
		377,739	(14,903)	10,705	373,541	(3,267)	(32,379)	337,895

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

Consideration:	
Cash	302,028
Class B LP Units issued	35,867
	337,895

Acquisitions of properties held for development

There were no acquisitions of properties held for development during the three months ended March 31, 2024.

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.

(In thousands of Canadian dollars, except unit amounts)

4 Investment properties

	March 31, 2024 $	December 31, 2023 $
Income-producing properties	2,192,781	2,256,677
Properties held for development	133,617	107,350
Balance, end of period	2,326,398	2,364,027

	Note	Income-producing properties $	Properties held for development $	Investment properties $
Balance – January 1, 2024		2,256,677	107,350	2,364,027
Acquisitions	3	35,327	-	35,327
Additions – capital expenditures		2,875	-	2,875
Additions – tenant incentives and leasing costs		1,229	-	1,229
Additions – development		-	17,836	17,836
Amortization of tenant incentives and leasing costs		(273)	-	(273)
Investment properties reclassified as assets held for sale	5	(112,306)	-	(112,306)
Fair value adjustment		9,252	8,431	17,683
Balance – March 31, 2024		2,192,781	133,617	2,326,398

	Note	Income-producing properties $	Properties held for development $	Investment properties $
Balance - January 1, 2023		1,797,109	25,530	1,822,639
Acquisitions	3	373,541	4,600	378,141
Additions - capital expenditures		14,354	-	14,354
Additions - tenant incentives and leasing costs		4,579	-	4,579
Additions - development		-	53,511	53,511
Amortization of tenant incentives and leasing costs		(1,171)	-	(1,171)
Investment properties reclassified as properties held for development		(8,600)	8,600	-
Investment properties reclassified as assets held for sale	5	(12,288)	-	(12,288)
Fair value adjustment		89,153	15,109	104,262
Balance – December 31, 2023		2,256,677	107,350	2,364,027

Acquisitions of income-producing properties include $299 of transaction costs (December 31, 2023 - $10,705).

During the three months ended March 31, 2024, the REIT capitalized $933 of borrowing cost (December 31, 2023 - $2,315) to qualifying development properties.

The fair value of the investment properties as at March 31, 2024, represents the REIT's best estimate based on available information as at the end of the reporting period.

(In thousands of Canadian dollars, except unit amounts)

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

	March 31, 2024	**December 31, 2023**
Weighted average capitalization rate	5.84%	5.89%
Range of capitalization rates	4.35% - 10.0%	4.35% - 10.00%
Stabilized net operating income	$132,132	$136,278

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at March 31, 2024, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately $92,931 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 $101,245 in the determination of the fair value of the investment properties. Further, an increase (decrease) of 1% in stabilized net operating income would result in an increase (decrease) of approximately $22,400 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 March 31, 2024, 27 investment properties with a combined fair value of $139,687 are classified as assets held for sale. The mortgages associated with these properties are classified as liabilities associated with assets held for sale, totaling $60,567. During the three months ended March 31, 2024, a fair value adjustment loss of $2,500 was recognized directly in the statements of income and comprehensive income for the properties classified as assets held for sale.

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

	Note	**March 31, 2024 $**	**December 31, 2023 $**
Balance, beginning of period		29,150	70,885
Acquisition	3	1,496	-
Investment properties reclassified as assets held for sale	4	112,306	12,288
Fair value adjustment		(2,500)	(8,125)
Disposal of an investment property		-	(46,002)
Other adjustments [1]		(765)	104
Balance, end of period		139,687	29,150

[1] Other adjustments comprise the reclassification of straight-line rent relating to assets held for sale from other current assets. The adjustment for the three months ended March 31, 2024, also includes the termination of a ground lease asset of $1,348, which was terminated on acquisition of the leased land on February 7, 2024.

(In thousands of Canadian dollars, except unit amounts)

6 Tenant and other receivables

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

	March 31, 2024 $
Remainder of 2024	79,487
2025	107,643
2026	100,066
2027	89,851
2028	84,784
Thereafter	467,728
Balance as at March 31, 2024	930,559

7 Mortgages payable

As at March 31, 2024, the mortgages payable are secured by charges against 73 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 3.37% (December 31, 2023 – 3.37%) and the weighted average term to maturity is 5.59 years (December 31, 2023 – 5.84 years). The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

	Scheduled repayments $	Principal maturities $	Total $
Remainder of 2024	13,411	40,034	53,445
2025	17,101	48,642	65,743
2026	14,978	89,123	104,101
2027	12,609	51,727	64,336
2028	11,820	18,577	30,397
Thereafter	78,340	273,461	351,801
Total	148,259	521,564	669,823

(In thousands of Canadian dollars, except unit amounts)

The following table summarizes the changes in mortgages payable for the three months ended March 31, 2024, and year ended December 31, 2023:

	Note	March 31, 2024 $	December 31, 2023 $
Mortgages payable, beginning of period		674,506	738,359
Mortgages refinanced/repaid		-	(58,849)
Principal assumed/repaid on disposal of investment properties	3	-	(17,476)
Mortgages assumed	3	-	31,780
Principal repayments		(4,683)	(19,308)
Mortgages payable, end of period		669,823	674,506
Less: Deferred financing costs, beginning of period		(2,138)	(2,664)
Less: Additions to deferred financing costs		(8)	(83)
Plus: Amortization of deferred financing costs		190	609
Plus: Fair value adjustment of mortgages, beginning of period		470	(57)
Plus: Additions to fair value adjustment of mortgages	3	-	599
Less: Amortization of fair value adjustments		(8)	(72)
Balance, end of period		668,329	672,838
Less: Current portion		(44,725)	(57,508)
Less: Mortgage payable associated with an asset held for sale		(66,073)	(13,534)
Non-current balance, end of period		557,531	601,796

(In thousands of Canadian dollars, except unit amounts)

8 Credit Facilities

As at March 31, 2024, the REIT had the following credit facilities (the "Credit Facilities"):

Facility	Interest Rate	Maturity Date	Security	Facility Limit $	Amount Drawn $
Secured Credit Facility 1:					
Revolving facility [1]	Prime rate + 1.25% or 30-day bankers' acceptance rate + 1.50%	September 15, 2024	12 investment properties	57,500	57,500
Term facility	Prime rate + 1.25% or 30-day bankers' acceptance rate + 1.50%	September 15, 2024	12 investment properties	7,500	7,500
Operating facility	Prime rate + 1.00% or floating bankers' acceptance rate +2.00%	September 15, 2024	12 investment properties	5,000	Undrawn
Secured Credit Facility 2:					
Revolving facility	Prime rate + 1.00%	-	4 investment properties	500	Undrawn
Secured Credit Facility 3:					
Term construction facility[3]	Prime rate + 1.25% or floating CORRA + 2.85%	August 31, 2025	1 investment property	15,048	3,255
Unsecured Credit Facilities:					
Revolving facility	Prime rate + 0.70% or floating CORRA + fixed CORRA adjustment spread +1.70% [1]	March 1, 2027	Unsecured	440,000[2]	330,000
Term loan facility	Prime rate + 0.70% or floating CORRA + fixed CORRA adjustment spread +1.70% [1]	March 1, 2027	Unsecured	175,000	175,000
Swingline facility	Prime rate + 0.70% or floating CORRA + fixed CORRA adjustment spread +1.70% [1]	March 1, 2027	Unsecured	10,000	8,100
				710,548	581,355

(Secured Credit Facility 1, Secured Credit Facility 2, Secured Credit Facility 3, and Unsecured Credit Facilities, collectively "the Credit Facilities")

(1) Represents the spreads in effect as at March 31, 2024. The CORRA adjustment spread is fixed at 0.29547% for an interest period of one and is fixed at 0.32138% for an interest period of 3 months. 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 March 11, 2024, the revolving facility limit was increased from $340,000 to $440,000.

(3) Balances presented are at the REIT's 80% interest. Includes a non-revolving letter of credit facility totalling $1,600.

(In thousands of Canadian dollars, except unit amounts)

Amounts drawn against the Credit Facilities are as follows:

	March 31, 2024 $	December 31, 2023 $
Bankers' acceptance borrowings	569,995	517,995
Prime rate borrowings	11,360	2,130
Total drawn against the Credit Facilities	581,355	520,125
Less: Deferred financing costs	(2,166)	(1,581)
Balance, end of period	579,189	518,544
Less: Current portion	(64,987)	(64,981)
Non-current balance, end of period	514,202	453,563

A new risk-free benchmark interest rate, the Canadian Overnight Repo Rate Average (CORRA) has been introduced as a fallback rate to the Canadian Dollar Offered Rate (CDOR), which will be eliminated under IBOR reform effective June 30, 2024. The REIT is in the process of transitioning its mortgages, credit facilities, and their respective interest rate hedging derivatives from CDOR to CORRA, which it expects to be completed before June 30, 2024.

Details of the amounts drawn under the Credit Facilities on March 31, 2024, are as follows:

	Total Principal amount $	Weighted Average Interest rate	Repricing date
Bankers' acceptance borrowings not covered by swaps	130,639	7.02%	Variable (1)
Bankers' acceptance borrowings covered by swaps	439,356	5.22% (2)	Variable (2)
Prime rate borrowings	11,360	7.90 %	Variable
Total drawn against the Credit Facilities	581,355		

(1) Dates between April 15, 2024, and April 30, 2024.

(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:

Effective date	30-day bankers' acceptance rate	Applicable spread	Effective fixed interest rate	Maturity date	Original notional amount $	Current notional amount $
September 2019	1.65%	1.50%	3.15%	September 13, 2024	65,000	65,000
December 2020	1.01%	1.70%	2.71%	December 1, 2025	18,500	16,928
November 2021	4.26%	1.70%	5.96%	June 1, 2028	8,272	7,428
March 2023	3.26%	1.70%	4.96%	February 29, 2028	50,000	50,000
August 2023	4.18%	1.70%	5.88%	August 31, 2028	100,000	100,000
September 2023	4.045%	1.70%	5.745%	September 29, 2028	50,000	50,000
October 2023	4.14%	1.70%	5.84%	October 31, 2028	25,000	25,000
October 2023	4.156%	1.70%	5.856%	October 31, 2028	50,000	50,000
October 2023	4.11%	1.70%	5.81%	October 31, 2028	25,000	25,000
October 2023	4.14%	1.70%	5.84%	October 31, 2028	25,000	25,000
October 2023	4.055%	1.70%	5.755%	October 31, 2028	25,000	25,000
					441,772	439,356

(In thousands of Canadian dollars, except unit amounts)

The following table summarizes the changes in the Credit Facilities for the three months ended March 31, 2024, and year ended December 31, 2023:

	March 31, 2024 $	**December 31, 2023 $**
Drawn against Credit Facilities, beginning of period	520,125	113,000
Net borrowings	61,230	407,125
Drawn against Credit Facilities, end of period	581,355	520,125
Less: Deferred financing costs, beginning of period	(1,580)	(468)
Less: Deferred financing costs incurred	(762)	(1,689)
Plus: Amortization of deferred financing costs	176	576
Balance, end of period	579,189	518,544

The primary financial covenants of the REIT's Credit Facilities are interest coverage, distribution, and loan to value covenants, for which non-compliance would result in an event of default, allowing the lender to demand repayment of amounts outstanding under the Credit Facilities. As at March 31, 2024, the REIT was in compliance with all of the financial covenants contained within the Credit Facilities and the mortgages.

9 Class B LP Units

The following table summarizes the changes in Class B LP Units for the three months ended March 31, 2024:

	Class B LP Units	**Amount $**
Balance – January 1, 2024	24,611,356	199,105
Fair value adjustment	n/a	(10,828)
Balance – March 31, 2024	24,611,356	188,277
Less: Current portion, end of period	(21,267,369)	(162,695)
Non-current portion, end of period	3,343,987	25,582

Distributions in the amount of $3,938 (2023 - $3,178) were declared payable to holders of Class B LP Units for the three months ended March 31, 2024. These amounts have been recognized as finance expense in the consolidated statement of income and comprehensive income. Distributions payable to holders of Class B LP Units in the amount of $1,313 were accrued as at March 31, 2024 (December 31, 2023 - $1,313).

Those Class B Units where the holder has unrestricted rights to convert the Class B Units to REIT Units, or where such unrestricted rights will be become available within 12 months of the balance sheet date, are classified as current liabilities. Conversion of certain Class B Units to REIT units is restricted by date, i.e., the holder of such Class B Units can only exercise the conversion option on or after a specified date.

10 Unit-based compensation

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

1) Incentive unit plan

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") or performance share units ("PSUs") of the REIT (collectively, the "Incentive Units") to trustees, officers and employees of the REIT and consultants. The REIT is authorized to issue up to 1,112,176 Incentive Units under the Incentive Plan. The maximum number of Incentive Units that may be reserved under the Incentive Plan is 10% of the outstanding units of the REIT.

(In thousands of Canadian dollars, except unit amounts)

On January 15, 2024, the REIT granted an aggregate of 12,422 RSUs to employees with a fair value at the grant date of $8.31. These RSUs vest one third on the date of issuance, one third on January 15, 2025 and one third on January 15, 2026.

On March 20, 2024, the REIT granted an aggregate of 160,988 Incentive Units, which comprised the following:

- 26,020 RSUs to trustees with a fair value at the grant date of $7.69. These RSUs vested on the date of issuance;
- 52,849 RSUs to an employee with a fair value at the grant date of $7.69. These RSUs vest one third on the date of issuance, one third on March 20, 2025 and one third on March 20, 2026;
- 29,270 RSUs to an employee with a fair value at the grant date of $7.69. These RSUs vest on July 8, 2025;
- 52,849 PSUs to an employee with a fair value at the grant date of $7.69. These PSUs vest on March 20, 2027.

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

During the three months ended March 31, 2024, a total of $785 (2023 - $699) of expense for Incentive Units granted under the plan was recognized in general and administrative expense.

11 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 summarizes the changes in unitholders' equity for the three months ended March 31, 2024:

	Note	Units	Amount $
Balance – January 1, 2024		68,589,606	648,171
Units issued under distribution reinvestment plan	12	179,368	1,395
Units issued under Incentive Plan	10	65,383	526
Units issued under Employee Unit Purchase Plan		2,861	23
Balance – March 31, 2024		68,837,218	650,115

(In thousands of Canadian dollars, except unit amounts)

12 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:

	For the three months ended	
	March 31, 2024	**March 31, 2023**
Number of units issued	179,638	107,706
Stated value ($)	1,395	1,075

13 Property revenues

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

	For the three months ended	
	March 31, 2024 $	**March 31, 2023 $**
Rental income	38,497	34,096
Revenue from services	2,867	3,150
Other revenue	233	230
Property revenues	41,597	37,476

14 Financial instruments

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand or borrowing capacity to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at March 31, 2024, the REIT had cash of $8,830 (December 31, 2023 - $5,918), mortgages payable of $669,823 (December 31, 2023 - $674,506), a Credit Facilities balance of $581,355 (December 31, 2023 - $520,125) and accounts payable and other liabilities of $43,920 (December 31, 2023 - $45,845). The REIT had a working capital deficit of $205,254 as at March 31, 2024 (December 31, 2023 – $111,980). Excluding the current portion of mortgages payable of $44,725, current portion of credit facilities of $64,987, current portion of Class B Units of $162,695, liabilities associated with assets held for sale of $66,073 and assets held for sale of $139,687, the working capital would be a deficit of $6,461. The Class B Units are settled in equity and may not be redeemed for cash. The REIT expects that it will be able to renew the mortgages on their maturities. The REIT has access to undrawn funds of $129,193 as at March 31, 2024, under the Credit Facilities and expects to generate sufficient cash from operations to satisfy its financial liabilities as they come due.

(In thousands of Canadian dollars, except unit amounts)

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 2024	35,750	508	65,000	16,475	53,445	15,156	186,334
2025	1,080	524	-	20,670	65,743	18,695	106,712
2026	1,116	525	-	3,276	104,101	16,097	125,115
2027	1,154	526	516,355	-	64,336	13,088	595,459
2028	1,193	528	-	-	30,397	11,735	43,853
Thereafter	3,627	21,511	-	-	351,801	32,915	409,854
	43,920	24,122	581,355	40,421	669,823	107,686	1,467,327

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. There is a risk that the REIT may not be able to renegotiate its mortgages and Credit Facilities at maturity on terms as favourable as the existing mortgages payable and Credit Facilities. As at March 31, 2024, there was a total of $748,559 (December 31, 2023 - $690,300) of mortgage and Credit Facilities borrowings which bear interest at floating bankers' acceptance or Canadian prime rates plus a fixed spread. There is a risk that prevailing interest rates could increase, and those increases could be significant. The REIT mitigates interest rate risk by maintaining reasonable levels of debt to investment property value and aims to structure new debt to stagger the maturities to ensure that the majority of debt does not come due for repayment in any one particular year. As at March 31, 2024, the REIT has interest rate swap agreements totalling $600,345 (2023 - $299,117) 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, with the remaining agreements expiring through October 31, 2028.

It is estimated that, all else constant, a hypothetical increase of 1% in the variable interest rate would result in an increase in the fair value of the REIT's interest rate swaps and swaptions of $22,000 and a hypothetical decrease of 1% in the variable interest rate would result in a decrease in the fair value of the REIT's interest rate swaps and swaptions of $22,000.

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.

(In thousands of Canadian dollars, except unit amounts)

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

Effective date	Effective fixed interest rate paid	Maturity date	Original notional amount $	Current notional amount $	Fair value (gain) loss $
April 2019	3.67% (1)	April 24, 2024	12,000	10,706	(28)
April 2019	3.74% (1)	April 24, 2026	12,500	11,168	(488)
April 2019	3.87% (1)	April 24, 2029	12,500	11,195	(704)
September 2019	3.15% (1)	September 13, 2024	65,000	65,000	(1,128)
November 2020	2.82% (1)	November 2, 2027	7,650	6,971	(672)
December 2020	3.61% (1)	December 1, 2025	18,500	16,928	(1,002)
December 2020	3.35% (1)	December 30, 2030	18,000	16,627	(2,102)
April 2021	3.08% (1)	April 1, 2026	19,750	18,149	(1,020)
November 2021	3.69% (1)	June 1, 2028	22,600	20,809	(958)
February 2022	3.28% (1)	February 23, 2032	29,500	28,254	(2,140)
February 2022	3.28% (1)	February 23, 2032	20,000	19,155	(1,451)
March 2022	3.41% (1)	March 1, 2027	17,800	16,866	(930)
March 2022	3.76% (1)	April 1, 2025	1,500	1,089	(31)
March 2023	3.26%	February 29, 2028	50,000	50,000	(1,222)
August 2023	4.18% (2)	August 31, 2028	100,000	100,000	1,742
September 2023	4.045% (2)	September 29, 2028	50,000	50,000	720
October 2023	4.14% (4)	October 31, 2028	25,000	25,000	310
October 2023	4.156% (4)	October 31, 2028	50,000	50,000	655
November 2023	4.26% (1)(3)	June 1, 2028	8,272	7,428	(276)
October 2023	4.11% (4)	October 31, 2028	25,000	25,000	296
October 2023	4.14% (4)	October 31, 2028	25,000	25,000	328
October 2023	4.055% (4)	October 31, 2028	25,000	25,000	238
			615,572	600,345	(9,863)

(1) Effective fixed interest rate of mortgage debt and bankers' acceptance borrowings under the Credit Facilities, including the applicable spread.
(2) The counterparties to these swaps have one-time options to terminate the swaps one year after the effective date.
(3) Amortizing swap assumed November 1, 2023, as part of the 1040 Wilton Grove acquisition. The underlying BA debt was repaid with funds drawn on the unsecured facilities and the swap was maintained.
(4) The counterparties to these swaps have the right to offset through a swaption issued by the REIT in the counterparty's favour with an exercise date of November 1, 2024. See details in the table below:

In connection with entering the interest rate swaps in October 2023, the REIT granted the counterparties of the swaps a one-time option, exercisable on November 1, 2024, to economically offset the swap by entering equal and offsetting swaps (the "interest rate swaptions") for the remaining life of the original swap. The following table summarizes the interest rate swaptions that the REIT issued:

Effective date	Effective fixed interest rate received	Maturity date	Original notional amount $	Current notional amount $	Fair value (gain) loss $
October 2023	4.14%	October 31, 2028	25,000	25,000	141
October 2023	4.156%	October 31, 2028	50,000	50,000	136
October 2023	4.11%	October 31, 2028	25,000	25,000	133
October 2023	4.14%	October 31, 2028	25,000	25,000	156
October 2023	4.055%	October 31, 2028	25,000	25,000	265
			150,000	150,000	831

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss to another party by failing to settle its obligations. The REIT is subject to credit risk with respect to its cash deposited with financial institutions and tenant and other receivables. As at March 31, 2024, 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 1.0%. The REIT continues to assess the effect of economic conditions on the creditworthiness of its tenants. As part of this assessment, the REIT reviews contractual rent receivables on a regular basis and reduces carrying amounts using an allowance for expected credit losses recognizing the amount of any loss in the condensed consolidated interim statements of income and comprehensive income within property expenses. As at March 31, 2024, the REIT had an allowance for expected credit losses of $370 (December 31, 2023 – $370).

15 Related party transactions

Trustee and key management fees

For the three months ended March 31, 2024, trustee retainer fees in the amount of $119 were expensed (2023 - $119). Trustee retainer fees in the amount of $119 were accrued as at March 31, 2024 (December 31, 2023 - $269).

For the three months ended March 31, 2024, key management earned salaries and other short-term employee benefits in the amount of $758 (2023 - $705).

Transactions with RFA Capital Partners Inc. ("RFA"), an entity related to a trustee of the REIT

The REIT recognized $47 of guarantee fees during the three months ended March 31, 2024 (2023 - $38).

Fees to RFA related entities in respect of the RFA Development Properties totalled $152 for the three months ended March 31, 2024 (2023 - $157).

Transactions with 1803299 Ontario Inc. ("1803299")

The REIT has purchased several properties from 1803299 and issued Class B LP Units to 1803299 as purchase price consideration. 1803299 owns 18,209,828 Class B LP Units of a subsidiary limited partnership of the REIT, representing approximately 19.5% of the REIT's outstanding voting units as at March 31, 2024. 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 months ended March 31, 2024, the REIT incurred fees for property management services totalling $75 (2023 - $76). During the three months ended March 31, 2024, the REIT earned property revenues from an entity related to 1803299 totalling $786 (2023 - $785).

(In thousands of Canadian dollars, except unit amounts)

16 Supplemental cash flow and non-cash information

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

	For the three months ended March 31, 2024 $	2023 $
Changes in non-cash working capital:		
Tenant and other receivables	3,560	367
Prepaid expenses	306	(1,322)
Deposits	3,000	1,750
Other currents assets	522	246
Accounts payable and other liabilities	(2,115)	(7,025)
Total changes in non-cash working capital	5,273	(5,984)
Changes in other non-current assets	14	18
Changes in restricted cash	(9)	54
Changes in other non-current liabilities	(118)	(265)
Total changes in other non-cash operating items	5,160	(6,177)

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

	For the three months ended March 31, 2024 $	2023 $
Interest paid	17,770	11,120
Non-cash investing and financing activities:		
REIT Units issued under distribution reinvestment plan	1,395	1,075

17 Subsequent event

Subsequent to March 31, 2024, the REIT entered into a series of 5-year interest rate swap agreements which are effective June 1, 2024, to swap a total of $100,000 of variable rate debt drawn on its Credit Facilities in the form of CORRA for a weighted average fixed interest rate of 3.44%, excluding the applicable spread on borrowings. The counterparties to the swaps have a one-time option to cancel the swaps on April 29, 2025, and May 31, 2025.