



EDGEFRONT REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three months ended March 31, 2015

May 22, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of Edgefront Real Estate Investment Trust ("the REIT") for the three months ended March 31, 2015 should be read in conjunction with the REIT's audited financial statements for the year ended December 31, 2014 and the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2015. The information contained in this MD&A reflects events up to May 22, 2015, the date on which this MD&A was approved by the REIT's Board of Trustees. Financial data included in this MD&A is presented in Canadian dollars, which is the functional currency of the REIT, and has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information about the REIT can be accessed at www.sedar.com.

FORWARD LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements which reflect the REIT's current expectations and projections about future results. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the REIT to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions that may prove to be incorrect.

While the REIT anticipates that subsequent events and developments may cause its views to change, the REIT specifically disclaims any obligation to update these forward-looking statements except as required by applicable law. These forward-looking statements should not be relied upon as representing the REIT's views as of any date subsequent to the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the REIT.

NON-IFRS FINANCIAL MEASURES

Net operating income ("NOI") is a measure of operating performance based on income generated from the properties of the REIT. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance. Funds from operations ("FFO") is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for other capital needs. Management considers this non-IFRS measure to be an important measure of the REIT's operating performance. Management considers adjusted funds from operations ("AFFO"), a non-IFRS measure, to be an important performance measure to determine the sustainability of future distributions paid to holders of Units after provision for maintenance capital expenditures. Gross Book Value is defined in the Declaration of Trust and is a measure of the value of the REIT's assets. Management considers this non-IFRS measure to be an important measure of the REIT's asset base and financial position. Indebtedness to Gross Book Value is a compliance measure in the Declaration of Trust and establishes the limit for financial leverage of the REIT. Total Debt to Gross Book Value Ratio is considered to be an important measure of the REIT's financial position.

NOI, FFO and AFFO are not measures defined by IFRS, do not have standardized meanings prescribed by IFRS and should not be construed as alternatives to net income/loss, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. NOI, FFO and AFFO as computed by the REIT may differ from similar measures as reported by other trusts or companies in similar or different industries.

NOI is used by industry analysts, investors and management to measure operating performance of Canadian real estate investment trusts. NOI represents rental revenue from properties less property operating expenses as presented in the statements of income prepared in accordance with IFRS. Accordingly, NOI excludes certain expenses included in the determination of net income (loss) such as general and administrative expense, transaction costs, unit-based compensation expense, fair value adjustments, interest income and expense and distributions on Class B LP Units.

The REIT calculates FFO in accordance with the whitepaper issued by the Real Property Association of Canada. FFO is defined as net income (loss) in accordance with IFRS, excluding fair value adjustments on investment properties, fair value adjustments on unit options, and fair value adjustments and other effects of redeemable units classified as liabilities and the Class B LP Units, if any.

AFFO is defined as FFO subject to certain adjustments, including: amortization of deferred financing and leasing costs, compensation expense related to deferred unit incentive plans, trustee and asset management fees contractually settled in units, differences resulting from recognizing ground lease payments on a straight-line basis, and reserves for normalized maintenance capital expenditures, tenant incentives and leasing costs, as determined by the Trustees. Other adjustments may be made to AFFO as determined by the Trustees in their discretion.

The diluted weighted average number of units used to calculate diluted FFO per unit and diluted AFFO per unit reflects conversion of all dilutive potential units, represented by unit options, assuming that unit options are exercised with the assumed proceeds (comprised of exercise price and any related unrecognized compensation cost) used to purchase units at the average market price during the period.

AFFO payout ratio is calculated as total distributions declared during the period (including distributions declared on Class B LP Units) divided by AFFO.

BUSINESS OVERVIEW AND STRATEGY

Edgefront Real Estate Investment Trust (the “REIT”) is the successor to Edgefront Realty Corp. (the “Corporation”) following the conversion of the Corporation to a real estate investment trust. The Corporation was incorporated under the Business Corporation Act (Ontario) on July 30, 2012. On January 6, 2014, shareholders of the Corporation voted to approve a plan of arrangement (the “Arrangement”) providing for the conversion of the Corporation into the REIT. The Arrangement became effective January 13, 2014. Further details of the Arrangement are contained in the information circular dated December 5, 2013 which can be found at www.sedar.com.

On January 14, 2014, the REIT acquired RW Real Estate Holdings Limited Partnership (“RW LP”), 17367366 Alberta Limited, which is the general partner of RW LP, and 1781339 Alberta Limited, which was the sole limited partner of RW LP immediately preceding the purchase of these entities by the REIT. Following the acquisition of these entities by the REIT, the REIT is the sole limited partner of RW LP. On July 15, 2014, the REIT, through its subsidiary RW LP, acquired Triple M Real Estate Ltd. (“TMRE”), which was amalgamated with 184829 Alberta Ltd., a corporation formed by the REIT on May 28, 2014.

The REIT was established under the laws of Ontario pursuant to its declaration of trust, as amended and restated effective April 28, 2014.

The REIT owns and operates commercial real estate properties in Western Canada and Atlantic Canada, with a primary focus on industrial properties.

The strategy of the REIT is to grow by acquiring industrial commercial real estate assets in jurisdictions, potentially including the United States, where opportunities exist to purchase assets on terms such that the acquisitions are expected to be accretive, on a per unit basis, to the AFFO of the REIT. The REIT will seek to identify potential acquisitions using investment criteria that focus on the security of cash flow, potential for capital appreciation, and potential for increasing value through more efficient management of the assets being acquired.

The REIT has formed a strategic partnership with TriWest Capital Partners (“TriWest”), one of Canada’s leading private equity firms. Through its relationship with TriWest the REIT has access to a pipeline of properties owned by TriWest’s current and former portfolio companies as well as the properties of many of the companies that TriWest meets with. The REIT may have the opportunity to acquire these properties through sale-and-leaseback transactions with strong tenants and long-term leases. The REIT views this non-marketed pipeline of potential acquisition properties as a key differentiator for the REIT, particularly as the REIT plans to gain considerable scale in its current phase of growth.

ACQUISITIONS

On July 15, 2014, the REIT acquired 3 industrial properties located in Rycroft, Clairmont (the Rycroft and Clairmont properties collectively, the “Northern Mat Properties”) and Lethbridge, Alberta (the “Triple M Property”), the Northern Mat Properties and the Triple M Property collectively, the “Acquisition Properties”. The total purchase price for the Acquisition Properties was \$36,744,000, which was satisfied with cash generated through new financing secured against the properties and cash generated through the prospectus offering of REIT units.

On January 14, 2014, the REIT acquired 10 industrial properties located in Western Canada (the “RTL Westcan Properties”). The purchase price for the RTL Westcan Properties was \$68,000,000, of which \$34,000,000 was satisfied through the issuance of 17,000,000 REIT units to the vendor, with the remainder settled primarily in cash generated through new financing secured against the RTL Westcan Properties.

The acquisition is considered a reverse take-over under securities regulations due to the vendors receiving units totaling more than 50 percent of the outstanding units of the REIT as consideration for the acquisition of the properties. For accounting purposes, the acquisition has been accounted for as an asset acquisition, and IFRS 2 has been applied in accounting for the units issued in connection with the acquisition.

In the context of a reverse takeover, the REIT concluded that it is the accounting acquirer, as it is the entity whose former management dominates the combined entity. Furthermore, the composition of the REIT’s board, in conjunction with the REIT’s nominating agreement, allow the REIT to nominate the majority of the members of the governing body of the combined entity, and the vendor is required to support the REIT’s nominees.

A list of the REIT properties is presented on the following page.

REIT PROPERTIES AS AT MARCH 31, 2015

| Property Address | Property Use | Year Built and/or Renovated | Rentable Area (Square Feet) | Occupancy | Lease Expiry |
|--|---|------------------------------------|------------------------------------|------------------|---------------------|
| <i>Western Canada</i> | | | | | |
| 12104 & 12110 - 17 th Street, NE, Edmonton, AB | Truck Maintenance Facility and Headquarters | 1973, 1980, 1991 & 2011 | 116,582 | 100% | Nov. 14, 2025 |
| 3780 & 4020 - 76 th Avenue, SE, Calgary, AB | Truck Maintenance Facility | 1973, 1975 & 1990 | 58,937 | 100% | Nov. 14, 2025 |
| 14801 - 97 th Street, Grande Prairie, AB | Truck Loading and Warehouse Facility | 1988 | 42,120 | 100% | Nov. 14, 2025 |
| 5406 - 59 th Avenue, Lloydminster, AB | Truck Maintenance Facility | 1972, 1980 & 1995 | 12,425 | 100% | Nov. 14, 2025 |
| 110 - 71 st Street, Saskatoon, SK | Truck Maintenance Facility and Warehouse | 1984 | 74,796 | 100% | Nov. 14, 2025 |
| 15 Peters Avenue, Saskatoon, SK | Warehouse Facility | 1985 | 38,160 | 100% | Nov. 14, 2025 |
| 850 Manitoba Street E & 15 - 9 th Avenue, NE, Moose Jaw, SK | Truck Maintenance and Storage Facility | 1983 | 18,800 | 100% | Nov. 14, 2025 |
| 965 McMaster Way, Kamloops, BC | Truck Maintenance Facility | 2007 | 13,706 | 100% | Nov. 14, 2025 |
| 49 Kam Lake Road, Yellowknife, NWT | Cement Facility | 1978 | 7,674 | 100% | Nov. 14, 2025 |
| 348-352 Old Airport Road, Yellowknife, NWT | Truck Maintenance Facility | Office: 1997 Other: 1977-1990 | 53,212 | 100% | Nov. 14, 2025 |
| 3501 Giffen Road North & 3711 - 36 Street North, Lethbridge, AB | Manufacturing Facility, Office and Storage Area | 2008-2012 | 229,000 | 100% | July 14, 2029 |
| 8001 - 99 Street, Clairmont, AB | Office and Warehouse | 2014 | 26,638 | 100% | July 14, 2024 |
| 4301 - 45 Avenue, Rycroft, AB | Manufacturing Facility | 1993 & 2014 | 22,110 | 100% | July 14, 2029 |
| <i>Eastern Canada</i> | | | | | |
| 695 University Avenue, Charlottetown, PEI | Retail | 2006 | 4,500 | 100% | June 30, 2016 |
| 139 Douglastown Boulevard, Miramichi, NB | Office | 2012 | <u>28,950</u> | 100% | September 30, 2022 |
| Total | | | <u>747,610</u> | | |

SUMMARY OF RESULTS

| | Three months ended March 31, | |
|--|---|-------------|
| | 2015 | 2014 |
| Financial Highlights | \$ | \$ |
| Funds from operations (FFO) (1) | 1,258,600 | 637,694 |
| Adjusted funds from operations (AFFO) (1) | 1,487,544 | 785,640 |
| Distributions (2) | 1,157,839 | 673,083 |
| Weighted average units outstanding – basic (3) | 28,910,053 | 17,134,655 |
| Weighted average units outstanding – diluted (3) | 28,910,053 | 17,134,655 |
| | | |
| Distributions per unit (2) (4) | 0.040 | 0.039 |
| FFO per unit (1) | | |
| Basic | 0.044 | 0.037 |
| Diluted | 0.044 | 0.037 |
| AFFO per unit (1) | | |
| Basic | 0.051 | 0.046 |
| Diluted | 0.051 | 0.046 |
| AFFO payout ratio, basic (1) (2) | 77.8% | 85.7% |
| Debt to total assets ratio | 48.2% | 46.8% |

(1) See Non-IFRS Measures

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

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

(4) On February 4, 2014, the REIT announced its initial distribution relating to the period from January 14, 2014 to January 31, 2014, which was paid on February 28, 2014.

| | Three months ended March 31, | |
|--|-------------------------------------|------------------|
| | 2015 | 2014 |
| Financial Results | \$ | \$ |
| Property revenue | 2,714,375 | 1,528,471 |
| Property expenses | <u>(511,282)</u> | <u>(264,032)</u> |
| Net operating income | 2,203,093 | 1,264,439 |
| General and administrative expenses | (368,430) | (262,098) |
| Fair value adjustment of investment properties | - | (915,346) |
| Fair value adjustment of class B LP units | 32,400 | - |
| Fair value adjustment of unit options | <u>(6,000)</u> | <u>1,000</u> |
| | 1,861,063 | 87,995 |
| | | |
| Net interest expense | (576,063) | (364,647) |
| Distributions on Class B LP Units | (14,396) | (12,269) |
| Deferred income taxes | <u>(51,268)</u> | <u>-</u> |
| Net income (loss) | <u>1,219,336</u> | <u>(288,921)</u> |

Net income for the three months ended March 31, 2014 was reduced by a fair value adjustment of investment properties, equal to the acquisition costs incurred in relation to the acquisition completed in the quarter of \$915,346. Excluding this item, net income would have been \$626,425.

The prospectus dated July 4, 2014 contained forecasted information covering the three months ended March 31, 2015 (the "Forecast"). The results for the three months ended March 31, 2015 are compared to the Forecast below.

| | Three months ended March 31, 2015 | | |
|---|--|------------------|-----------------|
| | Actual | Forecast | Variance |
| Property Revenue | \$ | \$ | |
| Miramichi and PEI properties | 238,482 | 238,583 | (101) |
| RTL Westcan properties | 1,538,947 | 1,546,236 | (7,289) |
| Acquisition properties | <u>936,946</u> | <u>940,801</u> | <u>(3,855)</u> |
| Total Property Revenue | 2,714,375 | 2,725,620 | (11,245) |
| Property Expenses | | | |
| Miramichi and PEI properties | (127,366) | (129,160) | 1,794 |
| RTL Westcan properties | (197,947) | (205,236) | 7,289 |
| Acquisition properties | <u>(185,969)</u> | <u>(189,886)</u> | <u>3,917</u> |
| Total Property Expenses | (511,282) | (524,282) | 13,000 |
| Net operating income | 2,203,093 | 2,201,338 | 1,755 |
| General and administrative expense | (368,430) | (329,355) | (39,075) |
| Fair value adjustment of class B LP units | 32,400 | - | 32,400 |
| Fair value adjustment of unit options | <u>(6,000)</u> | <u>-</u> | <u>(6,000)</u> |
| | 1,861,063 | 1,871,983 | (10,920) |
| Finance expense | | | |
| Net interest expense | (576,063) | (589,434) | 13,371 |
| Distributions on Class B LP Units | <u>(14,396)</u> | <u>(14,396)</u> | <u>-</u> |
| | (590,459) | (603,830) | 13,371 |
| Income before taxes | 1,270,604 | 1,268,153 | 2,451 |
| Deferred income taxes | <u>(51,268)</u> | <u>-</u> | <u>(51,268)</u> |
| Net income | <u>1,219,336</u> | <u>1,268,153</u> | <u>(48,817)</u> |

For the three months ended March 31, 2015, net operating income of \$2,203,093 was \$938,654 higher than net operating income in the same period of 2014 of \$1,264,439 primarily due to the impact of the REIT owning the RTL Westcan Properties for 13 days longer than in the same period of the prior year, and owning the Acquisition Properties for 90 days vs. zero days in the same period of 2014. The 13 additional days that the RTL Westcan Properties were owned in 2015 as compared to 2014 contributed approximately an additional \$187,000 of net operating income. The Acquisition Properties generated approximately \$751,000 of net operating income in the quarter as compared to \$nil in the same quarter of 2014.

Net operating income for the three months ended March 31, 2015 was in line with the Forecast.

For the three months ended March 31, 2015, general and administrative expense of \$368,430 was primarily related to asset management fees payable to the REIT's external manager (see the section below titled "related party transactions") in the amount of \$221,624, other professional fees of \$80,049, trustees fees of \$25,125, costs in relation to the filing of the REIT's annual financial statements of approximately \$12,000, TSX fees of approximately \$10,710, directors and officers insurance expense of approximately \$8,000, and other costs.

For the three months ended March 31, 2014, general and administrative expense of \$262,098 was primarily related to asset management fees payable to the REIT's external manager (see the section below titled "related party transactions") in the amount of \$125,735, costs in relation to the Arrangement of \$53,208, other professional fees of \$37,877, accrued trustees fees of \$25,125, and other costs. Costs in relation to the arrangement were primarily related to legal fees and stock exchange fees.

General and administrative expense for the three months ended March 31, 2015 was \$39,075 higher than the Forecast, primarily due to \$8,612 of due diligence costs related to investigating a potential acquisition which the REIT concluded would not be further pursued, \$11,300 of costs related to an investor relations firm engaged in February 2015 and \$17,500 of professional fees paid to engage consultants to investigate cost reduction opportunities. None of these expenses were included in the forecast.

The Forecast did not include any assumptions with respect to the unit trading price at March 31, 2015 which drove the fair value adjustment relating to Class B LP Units. The variance from the forecast with respect to the fair value of unit options arises from the fact that the options were issued with a 3 year vesting period as compared to a 6 month vesting period in the Forecast. This impacted the risk free interest rate, expected life, and volatility assumptions used in valuation.

For the three months ended March 31, 2015, net interest expense of \$576,063 was \$211,416 higher than net interest expense of \$364,647 during the three months ended March 31, 2014 due to higher borrowings in the period relating to debt incurred to acquire the RTL Westcan Properties and the Acquisition Properties. The RTL Westcan Properties were acquired on January 14, 2014, and accrued interest expense for the entire three months ended March 31, 2015. In connection with the acquisitions of the Acquisition Properties in the 3rd quarter of 2014, the REIT incurred \$20,350,000 of debt bearing interest at 3.63% per year, accounting for \$182,146 of interest expense in the three months ended March 31, 2015.

Net interest expense for the three months ended March 31, 2015 was lower than the Forecast by \$13,371. Approximately half of the difference was due to lower than forecast interest rates on borrowings made to finance the purchase of the Acquisition Properties (an actual interest rate of 3.63% compared to the forecast interest rate of 3.90%), and approximately half was due lower than forecast borrowings.

Deferred income taxes arise from timing difference with respect to the loss carry-forwards of the subsidiary corporations of the REIT, and with respect to the un-deducted balances of eligible capital expenditures of those subsidiary corporations for tax purpose, net of the impact from the differences between the accounting and tax depreciation of the Canadian subsidiary corporations. No deferred income taxes were forecast in the prospectus.

| Select Balance Sheet Data | As at March 31, 2015 | As at December 31, 2014 |
|--|---------------------------------|------------------------------------|
| | \$ | \$ |
| Investment properties | 117,070,000 | 117,070,000 |
| Cash and cash equivalents | 432,270 | 428,512 |
| Total Assets | 118,880,165 | 118,367,066 |
| Current liabilities | 2,246,394 | 1,921,482 |
| Non-current portion of mortgages payable | 2,807,516 | 2,864,623 |
| Revolving credit facility | 54,307,717 | 54,393,110 |
| Deferred income tax liabilities | 29,466 | - |
| Unit options | 105,000 | 99,000 |
| Class B LP Units | <u>640,800</u> | <u>673,200</u> |
| Total non-current liabilities | 57,890,499 | 58,029,933 |
| Total Unitholders' equity | 58,743,272 | 58,415,651 |
| Debt to total assets ratio | 48.2% | 48.6% |

Debt to Total Assets

The REIT's debt to total assets at March 31, 2015 was 48.2%, as compared to 48.6% at December 31, 2014. The REIT's targeted debt to total assets ratio is between 45% and 55%. The REIT's calculation of debt for the quarter includes mortgages payable and revolving credit facility balances at the amounts carried on the REIT's statement of financial position.

SUMMARY OF QUARTERLY RESULTS⁽¹⁾

| | | Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 |
|---|----|------------------|---------------------|---------------------|---------------------|
| Property income | \$ | 2,714,375 | \$ 2,717,232 | \$ 2,571,558 | \$ 1,771,095 |
| Property expenses | \$ | <u>(511,282)</u> | \$ <u>(512,723)</u> | \$ <u>(472,234)</u> | \$ <u>(310,371)</u> |
| Net operating income (NOI) | \$ | 2,203,093 | \$ 2,204,509 | \$ 2,099,324 | \$ 1,460,724 |
| Net income | \$ | 1,219,336 | \$ 1,278,385 | \$ 2,566,808 | \$ 699,765 |
| Weighted average number of units, basic | | 28,910,053 | 28,756,188 | 27,297,317 | 19,810,711 |
| Weighted average number of units, diluted | | 28,910,053 | 28,756,188 | 27,297,317 | 19,827,129 |

| | | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 |
|--|----|------------------|---------------------|--------------------|--------------------|
| Property income | \$ | 1,528,471 | \$ 226,698 | \$ 225,889 | \$ 164,223 |
| Property expenses | \$ | <u>(264,032)</u> | \$ <u>(100,021)</u> | \$ <u>(91,599)</u> | \$ <u>(89,464)</u> |
| Net operating income (NOI) | \$ | 1,264,439 | \$ 126,677 | \$ 134,290 | \$ 74,759 |
| Net income (loss) | \$ | (288,921) | \$ (231,435) | \$ 39,814 | \$ (89,247) |
| Weighted average number of units, basic and diluted* | | 17,134,655 | 2,750,000 | 2,750,000 | 2,750,000 |

(1) The quarterly results fluctuate based on timing related to pursuing and completing acquisitions and corporate activities.

* Weighted average number of units has been adjusted to reflect the 20 for 1 exchange of shares of the Corporation for units of the REIT in connection with the plan of arrangement completed January 13, 2014.

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

| | Three Months Ended March 31, | |
|---|---|-----------------|
| | 2015 | 2014 |
| | \$ | \$ |
| <u>FFO</u> | | |
| Net income (loss) | 1,219,336 | (288,921) |
| Adjustments: | | |
| Fair value adjustment of investment properties | - | 915,346 |
| Fair value adjustment of Class B LP Units | (32,400) | - |
| Fair value adjustment of unit options | 6,000 | (1,000) |
| Distributions on Class B LP Units expensed | 14,396 | 12,269 |
| Deferred income taxes | <u>51,268</u> | <u>-</u> |
| Funds from operations (FFO) | 1,258,600 | 637,694 |
| <u>AFFO</u> | | |
| FFO | 1,258,600 | 637,694 |
| Adjustments: | | |
| Non-cash asset management fees to be settled in units | 221,624 | 125,735 |
| Non-cash trustee fees to be settled in units | 20,625 | 20,625 |
| Amortization of deferred financing fees | 31,661 | 27,552 |
| Straight-line ground lease | 4,034 | 4,034 |
| Capital reserve (1) | <u>(49,000)</u> | <u>(30,000)</u> |
| Adjusted funds from operations (AFFO) | 1,487,544 | 785,640 |

(1) Based on an estimate of \$0.26 per square foot of gross leasable area per year for 2015. Capital reserve includes capital expenditures, tenant inducements and leasing costs.

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

| | Three Months Ended March 31, | |
|--|---|-----------------|
| | 2015 | 2014 |
| | \$ | \$ |
| Cash flows from operating activities | 1,288,853 | 289,554 |
| Adjustments: | | |
| Changes in non-cash working capital | 233,295 | 513,817 |
| Distributions on Class B LP Units expensed | 14,396 | 12,269 |
| Capital reserve | <u>(49,000)</u> | <u>(30,000)</u> |
| AFFO | 1,487,544 | 785,640 |

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The REIT's principal source of liquidity is cash and cash equivalents on hand and the undrawn borrowing capacity on its revolving credit facility. As at March 31, 2015, the REIT had cash and cash equivalents of \$432,270 (December 31, 2014 - \$428,512) and working capital deficit of \$450,229 (December 31, 2014 - \$660,218). Management of the REIT believes that sufficient cash from operations will be generated to meet the working capital deficit, and the REIT has the ability to draw funds on the revolving credit facility if required. The REIT has sufficient liquidity to maintain and expand its business.

The following table details the changes in cash and cash equivalents for the three months ended March 31, 2015 and 2014.

| | Three months ended March 31, | |
|---|-------------------------------------|-------------------|
| | 2015 | 2014 |
| Cash provided by (used in): | \$ | \$ |
| Operating activities | 1,288,853 | 289,554 |
| Investing activities | - | (34,076,127) |
| Financing activities | <u>(1,285,095)</u> | <u>33,241,762</u> |
| Change in cash and cash equivalents | 3,758 | (544,811) |
| Cash and cash equivalents – beginning of period | <u>428,512</u> | <u>681,636</u> |
| Cash and cash equivalents – end of period | <u>432,270</u> | <u>136,825</u> |

Cash generated from operating activities for the three months ended March 31, 2015 of \$1,288,853 is primarily comprised of net income of \$1,219,336. Cash used in changes in working capital was \$233,295, which is approximately equal to items included in net income not involving cash of \$302,812.

Cash used in financing activities for the three months ended March 31, 2015 includes distributions paid of \$1,113,115, principal repayment of mortgages of \$57,428, and repayments of the Credit Facility in the amount of \$114,552.

The REIT believes that it has sufficient financial resources to operate its investment properties and to identify, investigate and complete potential acquisitions, and to fund further expenditures as required.

Mortgages Payable

On March 8, 2013, when the REIT acquired the QT Property, as partial consideration for the purchase, it assumed a mortgage secured by a charge against the QT Property, bearing interest at 4.0% and maturing September 1, 2017. On May 1, 2013, when the REIT acquired the Miramichi Property, new mortgage financing with a ten year term, a 12 year amortization period, and bearing interest at a rate of 3.74% was arranged by the REIT.

The mortgages payable are secured by charges against the PEI and Miramichi investment properties. At March 31, 2015, deferred financing costs of \$42,885 are netted against mortgages payable (December 31, 2014 - \$45,386). The weighted average interest rate, including deferred financing costs, on the mortgages payable is 4.07% and the weighted average term to maturity is 7.23 years. Interest expense recorded in the period includes the amortization of deferred financing costs relating to mortgages payable in the amount of \$2,501 (2014 - \$2,699).

The breakdown of future principal repayments, including mortgage maturity, is presented in the following table:

| | Scheduled Repayments | Principal Maturities | Total |
|------------|---------------------------------|---------------------------------|------------------|
| | \$ | \$ | \$ |
| 2015 | 175,529 | - | 175,529 |
| 2016 | 241,800 | - | 241,800 |
| 2017 | 245,901 | 414,040 | 659,941 |
| 2018 | 239,685 | - | 239,685 |
| 2019 | 248,733 | - | 248,733 |
| Thereafter | 922,869 | 596,981 | 1,519,850 |
| Total | <u>2,074,517</u> | <u>1,011,021</u> | <u>3,085,538</u> |

Revolving Credit Facility

On January 14, 2014, through the acquisition of a limited partnership the REIT assumed the rights and obligations of a revolving credit facility (the "Credit Facility"). On July 15, 2014, the Credit Facility was amended to increase the revolving credit limit under the Credit Facility to \$52,500,000 and to add a \$7,500,000 term facility. The amended Credit Facility matures July 15, 2019.

The Credit Facility is secured against the 10 RTL Westcan Properties, the Northern Mat Properties and the Triple M Property and allows the REIT to draw against the facility in the form of prime advances, bankers' acceptance advances, or fixed rate and term advances. Prime rate advances bear interest at 125 basis points per annum over the Canadian prime borrowing rate. Banker's acceptance advances bear interest at 225 basis points per annum over the floating bankers' acceptance rate. Total financing costs in the amount of \$497,666 were incurred in connection with the establishment of the Credit Facility, and financing costs in the amount of \$135,288 were incurred in connection with the amendment to the Credit Facility.

At March 31, 2015, a total of \$54,803,427 was drawn against the Credit Facility (December 31, 2014 - \$54,917,979). Of the total drawn at March 31, 2015, \$50,350,000 (December 31, 2014 - \$50,350,000) was drawn in the form of fixed rate and term borrowings, \$4,300,000 (December 31, 2014 - \$3,300,000) was drawn in the form of bankers' acceptance borrowings, at an interest rate, including the applicable 2.25% stamping fee, of 3.24% (December 31, 2014 - 3.53%), and \$153,427 (December 31, 2014 - \$1,267,979) was drawn in the form of prime rate borrowings. Of the fixed rate and term borrowings, \$30,000,000 bears interest at a rate of 3.90% and matures on January 10, 2019, and \$20,350,000 bears interest at a rate of 3.63% and matures on July 15, 2019. At March 31, 2015, deferred financing costs of \$495,710 (December 31, 2014 - \$524,869) are netted against the Credit Facility. Interest expense recorded in the period includes the amortization of deferred financing costs relating to the Credit Facility in the amount of \$29,159 (2014 - \$24,883).

The Credit Facility includes, inter alia, covenants that RW LP, the subsidiary of the REIT which is party to the credit facility, (i) will not allow the Total Funded Debt to Real Property Ratio to exceed 60% at any time; and (ii) the Interest Coverage Ratio shall not be less than 2.25:1.00. As at March 31, 2015, RW LP was in compliance with both of these covenants. The Credit Facility also contains restrictions on, inter alia, change of business, sale of assets, and mergers and acquisitions without the consent of the lender and includes events of default such as failure to pay the principal loan, failure to observe covenants and involuntary insolvency.

Total Funded Debt to Real Property Ratio is a defined term contained in the Credit Facility. Total Funded Debt to Real Property Ratio is calculated as the total amount drawn against the Credit Facility divided by the fair market value of the investment properties of RW LP.

Interest Coverage Ratio is a defined term contained in the Credit Facility. Interest Coverage Ratio is calculated by the dividing the interest expense of RW LP by the result of the following as contained in the RW LP Statement of Income: net income plus interest expense, plus loss on fair value adjustment of investment properties, less gain on fair value adjustment of investment properties, plus depreciation and amortization.

Total Funded Debt to Real Property Ratio and Interest Coverage Ratio are not measures defined by IFRS, do not have standardized meanings prescribed by IFRS and should not be construed as alternatives to net income/loss, financial position, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. These covenant calculations are not used by the REIT as a measure of the REIT's future or historical financial performance, financial position or cash flow, but are used solely to determine RW Real Estate LP's compliance with its covenants set out in the Credit Facility Agreement.

SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

The estimates and judgements used in determining the recorded amount for asset, liabilities and equity in the financial statements include the following:

Investment Properties

The assumptions and estimates used when determining the fair value of investment properties are stabilized income and capitalization rates. Management determines fair value internally utilizing financial information, external market data and capitalization rates determined by reference to third party appraisals and reports published by industry experts including commercial real estate brokerages. The REIT also applies judgement in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. The REIT considers all the properties it has acquired to date

to be asset acquisitions. As at March 31, 2015, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$3,750,000 in the determination of the fair value of the investment properties. A 0.25% decrease in the weighted average capitalization rate would result in an increase of approximately \$4,000,000 in the determination of the fair value of the investment properties.

Unit options

The estimates used when determining the fair value of unit-based compensation are the average expected share option holding period, the average expected volatility rate, and the average risk-free interest rate. For vested options, the average expected unit option holding period used is estimated to be half of the life of the option. For unvested options, the average expected unit option holding period is estimated to be the period until the options vest plus half of the period from vesting to expiry. The average expected volatility rate is estimated based on the historical volatility of comparable companies over a period of time approximating the average expected unit option holding period. The average risk-free interest rate is based on government of Canada bonds with terms consistent with the average expected share option holding period.

FINANCIAL INSTRUMENTS AND RISKS AND UNCERTAINTIES

Real property ownership and tenant risk

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depends on the credit and financial stability of tenants and upon the vacancy rates of the property. The properties generate revenue through rental payments made by the tenants thereof. The ability to rent vacant property will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors.

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant will be replaced. The terms of any subsequent lease may be less favourable to the REIT than those of an existing lease. In the event of default by a tenant, the REIT may experience delays or limitations in enforcing its rights as landlord and incur substantial costs in protecting its investment. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of the lease of the tenant and, thereby, cause a reduction in the cash flows available to the REIT.

Competition

The real estate business is competitive. Numerous developers, managers and owners of properties compete with the REIT when seeking tenants. Some of the competing properties may be better located than the REIT's properties. The existence of competition could have an impact on the REIT's ability to lease its properties and could have an impact on the rents that can be charged. The REIT is subject to competition for suitable real property investments and a number of these competitors have greater financial resources than those of the REIT. There is a risk that continuing increased competition for real property acquisitions may increase purchase prices to levels that are not accretive.

Fixed costs and increased expenses

The REIT incurs a number of fixed costs which must be paid throughout its ownership of real property, regardless of whether its properties are producing income. Fixed costs include utilities, property taxes, maintenance costs, mortgage payments, insurance costs, and related costs.

General uninsured risks

The REIT carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with customary policy specifications, limits and deductibles. There can be no assurance, however, that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms.

Environmental and litigation risk

The REIT is subject to federal, provincial and local environmental regulations that apply generally to the ownership of real property and the operation of commercial properties. If it fails to comply with those laws, the REIT could be subject to significant fines or other governmental sanctions. Under various federal, provincial and local laws, ordinances and regulations, an owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at a facility and may be held liable to a governmental entity or to third parties for property

damage and for investigation and clean-up costs incurred by such parties in connection with contamination. Such liability may be imposed whether or not the owner or operator knew of, or was responsible for, the presence of these hazardous or toxic substances. The cost of investigation, remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to properly remediate such substances, may adversely affect the REIT's ability to sell or rent such facility or to borrow using such facility as collateral. In order to assess the potential for liabilities arising from the environmental condition at the REIT's properties, the REIT may obtain or examine environmental assessments prepared by environmental consulting firms. The environmental assessments received in respect of the investment properties have not revealed, nor is the REIT aware of, any environmental liability that the company believes will have a material adverse effect on it.

In addition, in connection with the ownership, operation and management of real properties, the REIT could potentially be liable for property damage or injuries to persons and property. In the normal course of the REIT's operations, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes.

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they become due. The REIT manages this risk by ensuring it has sufficient cash and cash equivalents on hand or borrowing capacity to meet obligations as they become due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at March 31, 2015, the REIT had cash and cash equivalents of \$432,270 (December 31, 2014 - \$428,512), mortgages payable of \$3,085,538 (December 31, 2014 - \$3,142,966), a revolving credit facility balance of \$54,803,427 (December 31, 2014 - \$54,917,979) and accounts payable and accrued liabilities of \$1,630,043 (December 31, 2014 - \$1,309,152). The REIT has negative working capital of \$450,229 at March 31, 2015 (December 31, 2014 - \$660,218), however, the REIT has access to funds under the Credit Facility and expects to generate sufficient cash from operations to satisfy its financial liabilities as they come due. The REIT is not subject to significant liquidity risk.

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

| | Accounts payable and accrued liabilities | Credit facility principal repayment | Interest on fixed portion of credit facility | Mortgage payable | Mortgage interest | Total |
|--------------|---|--|---|-------------------------|--------------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| 2015 | 1,630,043 | - | 1,438,065 | 175,529 | 84,598 | 3,328,235 |
| 2016 | - | - | 1,908,705 | 241,800 | 105,035 | 2,255,540 |
| 2017 | - | - | 1,908,705 | 659,941 | 91,767 | 2,660,413 |
| 2018 | - | - | 1,908,705 | 239,685 | 70,481 | 2,218,871 |
| 2019 | - | 54,803,427 | 423,500 | 248,733 | 61,433 | 55,537,093 |
| Thereafter | - | - | - | 1,519,850 | 136,866 | 1,656,716 |
| Total | 1,630,043 | 54,803,427 | 7,587,680 | 3,085,538 | 550,180 | 67,656,868 |

Interest rate risk

Interest rate risk is the risk that the fair value of 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 mortgage at maturity on terms as favourable as the existing mortgage payable. At March 31, 2015, there was a total of \$4,453,427 (December 31, 2014 - \$4,567,979) drawn against the Credit Facility which bears 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 become due for repayment in any one particular year. The REIT may also convert borrowings under the Credit Facility from floating rate to fixed rate borrowings as part of its interest rate risk management strategy.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss to another party by failing to pay for its obligations. The REIT is subject to credit risk with respect to its cash and cash equivalents and tenant and other receivables. The REIT mitigates credit risk by depositing cash with and investing in guaranteed investment certificates of a Canadian schedule I chartered bank and monitoring the bank's credit ratings.

As at March 31, 2015, the REIT had six tenants, with one tenant accounting for approximately 57 percent of the REIT's rental income, resulting in concentration of credit risk. The REIT monitors the credit worthiness of the tenants on an ongoing basis.

PENDING CLAIMS

A REIT tenant has commenced court and arbitration proceedings against the REIT and others for breach of contract, alleging certain environmental issues involving, and foundation issues at that tenant's Saskatoon location as well as an environmental issue at that tenant's Yellowknife property. The tenant is claiming damages in the amount of at least \$2,200,000 in the proceedings. The REIT intends to vigorously defend these proceedings and believes the damages claimed are without basis and excessive.

There are also serious substantive deficiencies in the claims advanced against the REIT, and the REIT has numerous good arguments available in its defense. As a result, at this early stage and subject to the vagaries inherent to litigation, after discussions with counsel for the REIT, it appears that the risk that the REIT will be subject to material liability in respect of these claims is unlikely. Additionally, the REIT is fully indemnified by third parties concerning the environmental claims of at least \$0.7 million involving both properties. As a result, the REIT's maximum exposure should effectively be limited to the foundation issues, in the unlikely event that all its available defenses to that claim fail.

COMMITMENTS

The REIT has a leasehold interest in a property subject to a 66 year land lease which commenced May 1, 2006, and has two ten year options to renew. The land lease provides for annual base rent and additional rent comprised of the property's proportionate share of common area maintenance and property tax expense. The full annual ground lease payment is due in advance each May 1st. As at March 31, 2015, annual future minimum ground lease payments on account of base rent are as follows:

| | Remainder of 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter |
|---------------------|------------------------------|-------------|-------------|-------------|-------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Minimum annual rent | 48,000 | 52,800 | 52,800 | 52,800 | 52,800 | 3,476,114 |

OUTSTANDING UNIT / SHARE DATA

| | Units | Amount \$ |
|---|--------------|----------------------|
| Unitholders' equity, December 31, 2014 | 28,460,081 | 58,345,456 |
| Units issued as consideration for management services | 121,183 | 223,242 |
| Units issued under distribution reinvestment plan | 16,961 | 28,486 |
| Unitholders' equity, March 31, 2015 | 28,598,225 | 58,597,184 |

On January 14, 2014, the REIT issued 17,000,000 REIT units to the vendor of the RTL Westcan Properties as partial satisfaction of the purchase price for the properties acquired, with the remainder of the purchase price settled with \$34,000,000 in cash. The fair values of the RTL Westcan Properties were determined by reference to appraisal reports prepared by qualified third party appraisers. The aggregate appraised value of the RTL Westcan Properties is \$71,240,000. The carrying amount of the REIT Units issued as partial consideration for the acquisition was determined in accordance with IFRS 2 by reference to the fair value of the assets acquired in exchange for the units. On July 15, 2014, 8,750,000 REIT units were issued at \$2.00 per unit in a Prospectus offering. Gross proceeds of the offering were \$17,500,000, and net proceeds were \$16,113,132.

As at May 22, 2015, a total of 28,732,458 REIT units and 360,000 Class B LP Units were issued and outstanding.

DISTRIBUTIONS

On February 4, 2014, the REIT declared its initial distribution of \$0.00742 per unit, for the period from January 14, 2014 to January 31, 2014, payable on February 28, 2014 to unitholders of record on February 14, 2014. At the same time the REIT declared a regular monthly distribution for the period from February 1, 2014 to February 28, 2014 in the amount of \$0.01333 per unit, representing \$0.16 per unit on an annualized basis. The REIT currently continues to pay a monthly distribution of \$0.01333 per unit. Total distributions declared with respect to REIT units in the three months ended March 31, 2015 amounted \$1,143,443 (2014 -\$660,814).

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

| | Three months ended March 31, 2015 \$ | Year ended December 31, 2014 \$ | Year ended December 31, 2013 \$ |
|---|---|--|--|
| Cash flows from operating activities | 1,288,853 | 4,153,387 | (853,645) |
| Net income (loss) | 1,219,336 | 4,256,037 | (322,935) |
| Actual cash distributions paid or payable during the period | 1,143,443 | 3,708,132 | - |
| Excess of cash flows from operating activities over cash distributions paid | 145,410 | 445,255 | N/A |
| Excess of net income over cash distributions paid | 75,893 | 547,905 | N/A |

Actual cash distributions paid or payable includes all distributions declared payable to holders of REIT units and excludes distributions declared payable to holders of Class B LP Units during the period. Actual cash distributions paid or payable is unadjusted for distributions settled through the issuance of REIT units under the distribution reinvestment program. Of distributions declared in the three months ended March 31, 2015, \$27,490 was settled through the issuance of REIT units under the distribution reinvestment program.

Net income and cash flows from operating activities exceeded actual cash distributions paid or payable for the three month period ended March 31, 2015.

Net income for the year ended December 31, 2014 includes non-cash fair value adjustments amounting to \$343,865. Net income, and net income excluding these non-cash fair value adjustments, both exceed distributions paid or payable during the year. Cash flows from operating activities for the year also exceeded distributions paid or payable.

DISTRIBUTION REINVESTMENT PLAN

The REIT adopted a distribution reinvestment plan (DRIP) on February 20, 2014, pursuant to which resident Canadian holders of not less than 1,000 units 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 on the relevant stock exchange or marketplace 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 3% of each distribution that was reinvested by them under the DRIP. For the three months ended March 31, 2015, 16,691 units (2014 – 213) were issued under the DRIP for a stated value of \$28,486 (2014 - \$395).

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are pending changes to IFRS which are not yet effective for the period ended March 31, 2015 which have not been applied in the preparation of the REIT's financial statements. The REIT is currently considering the impact that these standards changes will have on the financial statements. The standards issued or amended but not yet effective at March 31, 2015 include the following:

IFRS 9, Financial Instruments, is a new standard which will replace IAS 39, Financial Instruments: Recognition and Measurement, and addresses classification and measurement of financial assets, as well as providing guidance on financial liabilities and derecognition of financial instruments and a single forward-looking expected loss impairment model. IFRS 9 provides a single approach, based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. In November 2013, amendments were made to IFRS 9 which include new hedge accounting guidelines. In July 2014, further amendments were made to include an effective date of annual periods beginning on or after January 1, 2018.

IFRS 15, Revenue from Contracts with Customers, is a new standard providing accounting guidance on the recognition, measurement and disclosure of revenue from contracts with customers. IFRS 15 does not apply to contracts within the scope of the standard on leases. IFRS 15 is effective for annual periods beginning on or after January 1, 2017 and must be applied retrospectively.

RELATED PARTY TRANSACTIONS

On January 14, 2014, pursuant to an asset management agreement (the Management Agreement) entered into between the REIT and Edgefront Realty Advisors (the Manager), the REIT engaged the Manager to provide management services to the REIT, including providing the services of a chief executive officer and a chief financial officer to the REIT. The Manager is owned by a group including the chief executive officer and chief financial officer of the REIT, who collectively own 50 percent of the Manager, as well as a group which owns or controls a significant number of Units of the REIT.

In performing its obligations under the Management Agreement, the Manager will be entitled to receive the following fees from the REIT or its subsidiaries:

i) An annual asset management fee in the amount of:

0.75% of the gross book value, as defined in the Management Agreement, up to \$150 million, to be paid in Units;

0.65% of the gross book value, as defined in the Management Agreement, between \$150 million and \$300 million, to be paid 50% in Units and 50% in cash; and

0.50% of the gross book value, as defined in the Management Agreement, over \$300 million, to be paid 50% in Units and 50% in cash.

ii) An acquisition fee in the amount of 0.50% of the purchase price of any property acquired by the REIT payable in cash on completion of each acquisition.

iii) A construction management fee payable on capital projects in an amount equal to 5% of all hard construction costs incurred on a project, excluding any maintenance capital expenditures. The construction management fee will be paid in cash upon substantial completion of each capital project.

iv) A property management fee, being the fee payable in respect of such services provided by the Manager that is deemed recoverable and recovered from the tenants, payable in cash on a cost recovery basis.

During the three months ended March 31, 2015, acquisition fees in the amounts of \$nil were paid to the manager (2014 - \$340,000). Asset manager fees in the amount of \$221,624 were expensed during the period (2014 - \$125,735). During the period, 121,183 units at an average price per unit of \$1.84 were issued to the manager in settlement of asset management fees in the amount of \$223,242 which were accrued at December 31, 2014. Subsequent to March 31, 2015, 123,234 units at an average price per unit of \$1.80 were issued to the manager in settlement \$221,624 of asset management fees for the period then ended.

Trustee retainer fees in the amount of \$20,625 were expensed during the three months ended March 31, 2015 (2014 - \$20,625). Trustee retainer fees in the amount of \$41,250 were accrued at March 31, 2015 (December 31, 2014 - \$20,625). Trustee meeting fees in the amount of \$4,500 were expensed in the period (2014 - \$4,500) and meeting fees in the amount of \$4,500 were accrued at March 31, 2015 (December 31, 2014 - \$nil).

On July 15, 2014, the REIT acquired the Northern Mat and Triple M properties (see note 3) from companies which are controlled by funds associated with TriWest Capital Partners (TriWest). TriWest also controls RTL-Westcan LP, which holds an approximately 38 percent economic and voting interest in the REIT. Two members of TriWest are trustees of the REIT. The transaction was completed for a negotiated purchase price of \$36,744,000, which was supported by third party appraisals. The transaction was approved by the REIT's independent Trustees and by a vote of the REIT's Unitholders. The REIT received lease payments related to the Northern Mat and Triple M properties totaling \$750,977 during the three months ended March 31, 2015.

As at March 31, 2015, the amount of \$644,567 was recorded as receivable from the vendors of the RTL-Westcan Properties, one of which vendors is RTL-Westcan LP. The receivable relates to costs of remediating an environmental issue which was identified at one of the RTL Westcan Properties prior to the REIT purchasing the properties. The vendors have committed to covering the costs of the remediation.