Edgefront Real Estate Investment Trust

Consolidated Financial Statements

December 31, 2015 and 2014

March 10, 2016

Independent Auditor's Report

To the Unitholders of Edgefront Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Edgefront Real Estate Investment Trust and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of incomes and comprehensive income, unitholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Edgefront Real Estate Investment Trust and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with IFRS.

(Signed) "PricewaterhouseCoopers LLP "

Chartered Professional Accountants, Licensed Public Accountants

Edgefront Real Estate Investment Trust

Consolidated Statements of Financial Position

	December 31, 2015 $	December 31, 2014 $
Non-current Assets		
Investment properties (notes 3 and 4)	161,174,872	117,070,000
Other non-current asset	-	14,000
Deferred income tax assets (note 15)	121,000	21,802
	161,295,872	117,105,802
Current Assets		
Cash and cash equivalents	1,152,168	428,512
Tenant and other receivables	236,753	706,395
Prepaid expenses	266,725	26,357
Deposits	-	100,000
Other current assets	333,962	-
	1,989,608	1,261,264
Total Assets	163,285,480	118,367,066
Non-current Liabilities		
Mortgages payable (note 6)	25,847,976	2,864,623
Revolving credit facility (note 7)	55,683,324	54,393,110
Unit options (note 11)	126,000	99,000
Class B LP units (note 8)	9,398,202	673,200
	91,055,502	58,029,933
Current Liabilities		
Current portion of mortgages payable (note 6)	942,633	232,957
Distributions payable	456,683	379,373
Accounts payable and accrued liabilities (note 17)	1,406,799	1,309,152
Income taxes payable (note 15)	34,123	-
	2,840,238	1,921,482
Total Liabilities	93,895,740	59,951,415
Equity		
Unitholders' equity (note 9)	63,484,740	53,405,456
Retained earnings	5,905,000	5,010,195
Total Unitholders' Equity	69,389,740	58,415,651
Total Liabilities and Unitholders' Equity	163,285,480	118,367,066

Commitments and contingencies (note 13)

On behalf of the Board:

"Cody Church" Trustee

"Robert Dickson" Trustee

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

Edgefront Real Estate Investment Trust

Consolidated Statements of Income and Comprehensive Income

	For the year ended December 31, 2015 $	December 31, 2014 $
Net rental income		
Property revenue	11,985,001	8,588,356
Property expenses	(2,074,683)	(1,559,360)
Net rental income	9,910,318	7,028,996
General and administrative expense (note 16)	(1,564,638)	(1,175,271)
Loss on disposal of investment property (note 3)	(133,357)	-
Fair value adjustment of investment properties (note 4)	261,632	5,340,065
Fair value adjustment of Class B LP Units (note 8)	184,591	10,800
Fair value adjustment of unit options (note 11)	(27,000)	(67,000)
	8,631,546	11,137,590
Finance income (expense)		
Interest income	-	1,176
Interest expense (notes 6 and 7)	(2,532,939)	(1,909,074)
Distributions on Class B LP Units (note 8)	(357,820)	(55,457)
	(2,890,759)	(1,963,355)
Income before taxes	5,740,787	9,174,235
Income taxes (note 15)	63,175	21,802
Net income and comprehensive income for the year	5,803,962	9,196,037

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

Edgefront Real Estate Investment Trust

Consolidated Statements of Changes in Unitholders' Equity

	Unitholders' Equity $	Contributed Surplus $	Retained Earnings $	Total $
Balance – January 1, 2015	53,405,456	-	5,010,195	58,415,651
Units issued as acquisition consideration (note 9)	9,016,210	-	-	9,016,210
Unit issue costs (note 9)	(91,947)			(91,947)
Net income for the year	-	-	5,803,962	5,803,962
Distributions	-	-	(4,909,157)	(4,909,157)
Issue of units under distribution reinvestment plan (note 10)	150,958	-	-	150,958
Issue of units to Manager (note 17)	918,877	-	-	918,877
Issue of units to Trustees (note 17)	85,186			85,186
Balance – December 31, 2015	63,484,740	-	5,905,000	69,389,740

	Unitholders' Equity $	Contributed Surplus $	Retained Earnings (Deficit) $	Total $
Balance – January 1, 2014	4,947,451	271,000	(612,710)	4,605,741
Units issued for cash	17,500,000	-	-	17,500,000
Unit issue costs	(1,386,868)	-	-	(1,386,868)
Units issued as acquisition consideration (note 3)	32,300,000	-	-	32,300,000
Net income for the year	-	-	9,196,037	9,196,037
Common shares exchanged for Class B LP Units	(580,000)	-	-	(580,000)
Distributions	-	-	(3,708,132)	(3,708,132)
Issue of units under distribution reinvestment plan (note 10)	73,917	-	-	73,917
Issue of units to Manager (note 17)	489,081	-	-	489,081
Issue of units to trustees (note 17)	61,875	-	-	61,875
Fair value adjustment of Class B LP Units exchanged for common shares	-	-	(104,000)	(104,000)
Fair value adjustment on conversion of share options to unit options	-	(271,000)	239,000	(32,000)
Balance – December 31, 2014	53,405,456	-	5,010,195	58,415,651

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

Edgefront Real Estate Investment Trust

Consolidated Statements of Cash Flows

	For the year ended December 31, 2015 $	December 31, 2014 $
Cash provided by (used in)		
Operating activities		
Net income for the year	5,803,962	9,196,037
Adjustment for items not involving cash:		
Asset management fees payable in REIT units (note 17)	977,378	712,663
Trustee fees payable in REIT units (note 17)	99,378	82,500
Amortization of deferred financing costs (notes 6 and 7)	135,758	118,511
Straight-line adjustments ground lease and rent	(54,237)	16,136
Loss on sale of investment property (note 3)	133,357	-
Fair value adjustment of investment properties (note 4)	(261,632)	(5,340,065)
Fair value adjustment of Class B LP Units (note 8)	(184,591)	(10,800)
Fair value adjustment of unit options (note 11)	27,000	67,000
Deferred income taxes (note 15)	(99,198)	(21,802)
Changes in non-cash working capital		
Tenant and other receivables	469,642	(706,395)
Prepaid expenses	(232,817)	(3,916)
Deposits	100,000	(100,000)
Other current assets	(5,686)	45,196
Accounts payable and accrued liabilities	(304,798)	98,322
Income taxes payable	34,123	-
Changes in other non-current assets	14,000	-
Total cash generated by operating activities	6,651,639	4,153,387
Investing activities		
Acquisition of investment properties (note 3)	(19,761,373)	(71,450,716)
Net proceeds on disposition of investment properties (note 3)	2,981,531	-
Total cash used in investing activities	(16,779,842)	(71,450,716)
Financing activities		
Issuance of units	-	17,500,000
Unit issuance costs (note 9)	(91,947)	(1,386,868)
Proceeds from new financing (note 3)	15,017,097	54,750,000
Financing costs (note 3)	(220,953)	(507,628)
Mortgage principal repayments	(345,027)	(224,436)
Net proceeds from borrowings on (repayments of) the credit facility	1,173,578	167,979
Distributions to unitholders	(4,680,889)	(3,254,842)
Total cash provided by financing activities	10,851,859	67,044,205
Change in cash and cash equivalents during the year	723,656	(253,124)
Cash and cash equivalents - beginning of year	428,512	681,636
Cash and cash equivalents - end of year	1,152,168	428,512

Supplemental cash flow information (note 18)

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

1 Organization

Edgefront Real Estate Investment Trust (the REIT) is the successor to Edgefront Realty Corp. (the Corporation) following the conversion of the Corporation into a real estate investment trust. The Corporation was incorporated under the Business Corporations 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. The conversion was accounted for as a continuity of interest, and accordingly, these consolidated financial statements are reflective as if the REIT had always carried on the business formerly carried on by the Corporation. Further details of the Arrangement are contained in the information circular dated December 5, 2013 which can be found at www.sedar.com. All references to the REIT within these consolidated financial statements refer to Edgefront Real Estate Investment Trust as of January 13, 2014.

The REIT owns and operates commercial real estate properties in western Canada, Ontario and Atlantic Canada.

On January 14, 2014, the REIT acquired RW Real Estate Holdings Limited Partnership (RW LP), 1767366 Alberta Limited (RW LP GP), 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 registered office of the REIT is located at Suite 4050, 525 8 Avenue S.W., Calgary, Alberta, T2P 1G1.

2 Summary of significant accounting policies

The consolidated financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, except for the revaluation of investment properties, Class B LP Units, and unit options, which are presented at fair value. These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the REIT. The consolidated financial statements were authorized for issue by the board of trustees of the REIT on March 10, 2016.

Principles of consolidation

The consolidated financial statements include the accounts of the REIT and its subsidiaries. Subsidiaries are all entities over which the REIT has control. The REIT controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All inter-entity transactions between the REIT and its subsidiaries have been eliminated in the consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less. As at December 31, 2015, there were no cash equivalents (December 31, 2014 - $nil).

Revenue recognition

The REIT accounts for tenant leases as operating leases given that it has retained substantially all of the risks and benefits of ownership of its investment properties. Revenue includes base rents earned from tenants under lease agreements, realty tax and operating cost recoveries, lease termination fees, parking revenue and other incidental income. Lease related revenue is recognized as revenue over the term of the underlying leases. Recoveries from tenants are recognized as revenue in the period in which the corresponding costs are incurred. Other revenue is recognized at the time the service is provided. The REIT follows the straight-line method of recognizing rental revenue, whereby the total amount of rental revenue to be received from leases is accounted for on a straight-line basis over the term of the lease. Accordingly, an accrued rent receivable is recorded for the difference, if any, between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenant.

Financial instruments

The REIT's financial instruments are initially recognized at fair value. Subsequent measurement depends on the nature and classification adopted for the financial instrument as follows:

Financial instrument	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Tenant and other receivables	Loans and receivables	Amortized cost
Other current assets	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Class B LP Units	Other liabilities	Amortized cost
Unit options	Other liabilities	Amortized cost
Revolving credit facility	Other liabilities	Amortized cost
Mortgages payable	Other liabilities	Amortized cost

The REIT determines the fair value measurement based on the following hierarchy:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

As at December 31, 2015 and December 31, 2014, investment properties, and the fair values disclosed relating to mortgages payable and the revolving credit facility are considered Level 3. There have been no transfers in or out of Level 3 during the reporting period.

Transaction costs relating to financial instruments measured at amortized cost are included in the carrying value of the financial instrument and amortized over the expected useful life of the instrument using the effective interest method. Financial assets are derecognized when contractual rights to the cash flow from the assets expire.

Investment properties

The REIT has selected the fair value method to account for its investment properties. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment properties are initially recognized at the purchase price, including directly attributable costs. Subsequent to initial recognition, investment properties are carried at fair value. Fair value is determined with reference to external valuations and internal valuations based on the direct income capitalization method, with gains or losses in the fair value of the investment properties recognized in the consolidated statement of income and comprehensive income in the period in which they arise. Internal valuations are prepared by the REIT's Chief Financial Officer, and are reviewed and approved by the REIT's Chief Executive Officer.

The application of the direct income capitalization method results in these measurements being classified as Level 3 in the fair value hierarchy. In applying the direct income capitalization method, the stabilized net operating income of each property is divided by a capitalization rate appropriate for the property based on the market in which the property is located and the specific details of the property. Investment properties are valued based on the highest and best use for the properties. For all of the REIT's investment properties, the current use is considered to be the highest and best use. The significant unobservable inputs used in the Level 3 valuation of the investment properties are the capitalization rate and the stabilized net operating income used in the calculations.

Current and deferred income taxes

The REIT currently qualifies as a "mutual fund trust" under the Income Tax Act (Canada). The REIT expects to distribute or designate all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, except for the REIT's subsidiaries, no provision for income taxes payable is required.

The legislation relating to the federal income taxation of a Specified Investment Flow Through (SIFT) trust or partnership was enacted on June 22, 2007. Under the SIFT rules, certain distributions from a SIFT will not be deductible in computing the SIFT's taxable income and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as a return of capital should generally not be subject to tax. Under the SIFT rules, the taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the REIT Conditions). The REIT has reviewed the SIFT rules and has assessed its interpretation and application to the REIT's assets and revenue. While there are uncertainties in the interpretation and application of the SIFT rules, the REIT believes it meets the REIT Conditions and accordingly, no net current income tax expense or deferred income tax expense has been recorded in the consolidated statements of income and comprehensive income in respect of the REIT.

However, certain of the REIT's subsidiaries are incorporated companies. For these companies, the REIT follows the asset and liability method of accounting for income taxes. Under this method, income tax is recognized in the consolidated statement of income and comprehensive income except to the extent it relates to items recognized in equity, in which case the income tax is also recognized in equity. Current tax assets and liabilities are recognized at the amount expected to be paid or received from tax authorities using rates enacted or substantively enacted at the date of the consolidated statement of financial position. Deferred tax assets and liabilities are recognized at the tax rates enacted or substantively enacted at the date of the consolidated statement of financial position for the years that an asset is expected to be realized or a liability is expected to be settled. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be generated and available for the asset to be utilized against.

Unit equity

The REIT is an open-ended real estate investment trust, and units of the REIT are redeemable (puttable) at the option of the REIT's unitholders. IAS 32 requires puttable instruments to be accounted for as financial liabilities, except where certain conditions as detailed in IAS 32 are met. This exemption is known as the Puttable Instrument Exemption. The units of the REIT meet the Puttable Instrument Exemption criteria and, accordingly, are classified and presented as equity in the consolidated statement of financial position. In addition to the REIT units, Class B LP units may be issued. These units do not qualify for the Puttable Instrument Exemption, and are classified as liabilities on the consolidated statement of financial position. They are remeasured at each reporting date at their amortized cost, which approximates fair value.

Unit options are recorded as a liability and compensation expense is recognized over the vesting period (if any) at amortized cost based on the fair value of the unit options.

Distributions

Distributions to unitholders are recognized as a liability in the period in which the distributions are approved by the Board of Trustees and are recorded as a reduction of retained earnings.

Unit-based compensation

The fair value method is used to account for all options issued under Edgefront's unit-based plans. Fair value at the date of grant is established through the application of the Black-Scholes option valuation model. The REIT accounts for the options as an expense over the vesting period of the options using the fair value of the underlying units, as determined by the closing price of the REIT's publicly traded units on the reporting date. Changes in the REIT's liability subsequent to the vesting date of the award and prior to the settlement date, resulting from changes in the market value of the REIT's units, are recorded as a charge to income in the period incurred.

Segment reporting

The REIT owns and operates investment properties in Canada. In measuring performance, the REIT does not distinguish its operations on a geographic or any other basis and, accordingly, the REIT has a single reportable segment for disclosure purposes.

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and the reported amount of 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 critical assumptions and estimates used when determining the fair value of investment properties are stabilized net operating income and capitalization rates (see note 4). 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.

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.

Standards issued but not yet effective

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

IFRS 16, Leases, was published on January 13, 2016 and replaces IAS 17, Leases, IRFIC 4, Determining Whether an Arrangement Contains a Lease, SIC 15, Operating Leases – Incentives, and SIC 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 applies to all leases, except those specifically exempted in the standard and specifies how leases will be recognized, measured and disclosed. IFRS 16 requires lessees to recognize right of use assets and lease liabilities for all leases, with the exception of leases with a term of less than 12 months where no purchase option exists and leases where the leased asset, when new, has a low value. Lessors are required to classify leases as operating or finance. A lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset are classified as a finance lease. Other leases are classified as operating leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and must be applied retrospectively.
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, 2018 and must be applied retrospectively.

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 for annual periods beginning on or after January 1, 2018.

IFRS 7, Financial Instruments: Disclosures, has been amended by the IASB to require additional disclosures on transition from IAS 39 to IFRS 9. The amendment to IFRS 7 is effective for periods beginning on or after January 1, 2018.

IAS 1, Presentation of Financial Statements, was amended by the IASB to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and disclosure of accounting policies. The amendment gives guidance that information within the consolidated balance sheets and statements of income and comprehensive income should not be aggregated or disaggregated in a manner that obscures information, and that disaggregation may be required in the statements of income and comprehensive income in the form of additional subtotals as they are relevant to understanding the entity's financial position or performance. The amendments to IAS 1 are effective for periods beginning on or after January 1, 2016.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the REIT.

3 Acquisitions and dispositions

On July 17, 2015, the REIT acquired an industrial property located in Barrie, Ontario (the Barrie Property) for a contractual purchase price of $8,494,872. The purchase price was satisfied through the issuance of 3,470,985 Class B LP Units and 1,000,000 REIT Units at a deemed value of $1.90 per unit. The Barrie Property was initially recorded at $7,868,934, the fair value, on the date of issuance, of the REIT and Class B LP Units issued as purchase consideration, measured at the closing price of the REIT's units on July 17, 2015 of $1.76 per unit. The carrying amount of the Barrie Property was subsequently adjusted to its fair value of $8,494,872.

On August 4, 2015, the REIT acquired an industrial property located in Kelowna, British Columbia (the Kelowna Property) for a contractual purchase price of $7,500,000. The purchase price was satisfied through the issuance of 2,000,000 REIT Units at a deemed value of $1.90 per unit, with the balance, net of closing adjustments, satisfied in cash. The Kelowna Property was initially recorded at $7,380,000, the fair value of the purchase consideration paid. The fair value of the REIT units issued as purchase consideration was measured at the closing price of the REIT's units on August 4, 2015 of $1.84 per unit. The carrying amount of the Kelowna Property was subsequently adjusted to its fair value of $7,500,000.

On August 25, 2015, the REIT acquired an industrial property located in Calgary, Alberta (the Calgary Property) for a contractual purchase price of $21,877,838. The purchase price was satisfied through the issuance of 1,052,632 REIT units at a deemed value of $1.90 per unit, the assumption of a mortgage with a principal balance of $11,500,000, and the remainder, net of closing adjustments, settled in cash. The Calgary

Property was initially recorded at $21,667,312, the fair value of the consideration paid. The fair value of the REIT units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on August 25, 2015 of $1.70. The carrying amount of the Calgary Property was subsequently adjusted to its fair value of $22,000,000.

On December 1, 2015, the REIT acquired an industrial property located in Prince George, British Columbia (the Prince George Property) for a contractual purchase price of $7,500,000. The purchase price was satisfied through the issuance of 1,697,369 Class B LP Units at a deemed value of $1.90 per unit, with the balance, net of closing adjustments, settled in cash. The Prince George Property was initially recorded at $7,075,659, the fair value of the consideration paid. The fair value of the Class B LP Units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on December 1, 2015 of $1.65. As at December 31, 2015, the carrying amount of the Prince George Property was adjusted to its fair value of $7,500,000.

On December 15, 2015, the REIT acquired an industrial property located in Prince Albert, Saskatchewan (the Prince Albert Property) for a contractual purchase price of $4,600,000. The purchase price was satisfied through the issuance of 1,089,473 REIT Units at a deemed value of $1.90 per unit, with the balance, net of closing adjustments, satisfied in cash. The Prince Albert Property was initially recorded at $4,316,736, the fair value of the purchase consideration paid. The fair value of the REIT units issued as purchase consideration was measured at the closing price of the REIT's units on December 15, 2015 of $1.64 per unit. As at December 31, 2015, the carrying amount of the Prince Albert Property was subsequently adjusted to its fair value of $4,600,000.

The impact of acquiring the properties is as follows:

	Barrie $	Kelowna $	Calgary $	Subtotal $
Investment properties acquired	7,868,934	7,380,000	21,667,312	36,916,246
Transaction costs	304,753	244,298	254,657	803,708
Assumption of mortgage	-	-	(11,500,000)	(11,500,000)
Working capital acquired	-	18,699	(291,370)	(272,671)
Net assets acquired	8,173,687	7,642,997	10,130,599	25,947,283
Consideration:				
Cash	304,753	3,962,997	8,341,125	12,608,875
Issuance of REIT units to the vendors	1,760,000	3,680,000	1,789,474	7,229,474
Issuance of Class B LP units to the vendors	6,108,934	-	-	6,108,934
Proceeds from new financing secured against the properties (see note below)	-	-	-	-
Deferred financing costs – new financing	-	-	-	-
	8,173,687	7,642,997	10,130,599	25,947,283

	Subtotal from previous table $	Prince George $	Prince Albert $	Total $
Investment properties acquired	36,916,246	7,075,659	4,316,736	48,308,641
Transaction costs	803,708	286,817	94,074	1,184,599
Assumption of mortgage	(11,500,000)	-	-	(11,500,000)
Working capital acquired	(272,671)	(33,394)	-	(306,065)
Net assets acquired	25,947,283	7,329,082	4,410,810	37,687,175
Consideration:				
Cash	12,608,875	68,104	2,624,074	15,301,053
Issuance of REIT units to the vendors	7,229,474	-	1,786,736	9,016,210
Issuance of Class B LP units to the vendors	6,108,934	2,800,659	-	8,909,593
Proceeds from new financing secured against the properties	-	4,500,000	-	4,500,000
Deferred financing costs – new financing	-	(39,681)	-	(39,681)
	25,947,283	7,329,082	4,410,810	37,687,175

On June 23, 2015, the REIT sold an investment property located in Miramichi, New Brunswick, for a selling price of $5,650,000. Net of selling costs and related mortgage debt with a principal amount of $2,570,026 assumed by the purchaser, the REIT received cash proceeds of $2,981,531 on the sale. The sale of the property generated a loss on sale of $133,357.

On July 15, 2014, the REIT acquired three industrial properties located in Rycroft, Clairmont (the Rycroft and Clairmont properties, collectively, the Northern Mat Properties) and Lethbridge, Alberta (the Triple M Property). The total purchase price for the properties was $36,744,000, which was satisfied in cash.

The impact of acquiring the properties is as follows:

	$
Investment properties acquired	36,744,000
Transaction costs	630,589
Net assets acquired	37,374,589
Consideration:	
Cash	17,159,877
Proceeds from new financing secured against the properties	20,350,000
Deferred financing costs – new financing	(135,288)
	37,374,589

On January 14, 2014, the REIT acquired ten 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, which for accounting purposes were recognized at fair value based on a price of $1.90 per unit at the date of issuance, with the remainder settled 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 totalling more than 50% of the outstanding units of the REIT as consideration for the acquisition of the properties.

In the context of a reverse take-over, 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.

The impact of acquiring the properties is as follows:

	RTL Westcan Properties $
Investment properties acquired	66,300,000
Transaction costs	915,346
Working capital acquired	(235,834)
Net assets acquired	66,979,512
Consideration:	
Cash	777,178
Issuance of REIT units to vendor	32,300,000
Proceeds from new financing secured against the RTL Westcan Properties	34,400,000
Deferred financing costs – new mortgage financing	(497,666)
	66,979,512

A total of $728,711, representing $403,385 of acquisition costs, $125,326 of financing costs, and a $200,000 deposit was advanced in connection with the RTL Westcan Properties acquisition in the year ended December 31, 2013, and was recorded in the REIT's consolidated statement of financial position as at December 31, 2013 under other current assets and deposits.

An amount of $300,000 has been placed in escrow by the vendors of the RTL Westcan Properties to fund anticipated environmental monitoring and sampling costs at those RTL Westcan Properties where environmental consultants have recommended monitoring and sampling programs (the Monitored Properties). The funds will be held in escrow for two years, after which time they will be released to the REIT provided the REIT continues to own the Monitored Properties and provided that environmental consultants do not conclude that monitoring and sampling may be discontinued at any of the Monitored Properties. Should environmental consultants determine that, at the end of the two-year escrow period, monitoring and sampling activities at any of the Monitored Properties may be discontinued, or if any of the Monitored Properties are sold during the two-year escrow period, the REIT will negotiate with the vendors, in good faith, an amount by which the funds to be released to the REIT will be reduced, with any funds not released to the REIT being returned to the vendors. At the time of acquisition, management was unable to determine the probability that funds will be released to the REIT, nor was management able to quantify the amount of the escrowed funds, if any, that may be released to the REIT. Therefore, no amount was recognized in the consolidated financial statements with respect to the amount held in escrow as part of the purchase accounting.

4 Investment properties

	December 31, 2015 $	December 31, 2014 $
Balance, beginning of year	117,070,000	7,140,000
Acquisition of investment properties, including acquisition costs of $803,708 (2014 - $1,545,935)	49,493,240	104,589,935
Fair value adjustment	261,632	5,340,065
Disposition of investment property	(5,650,000)	-
Balance, end of year	161,174,872	117,070,000

The fair value adjustment for the year ended December 31, 2015 was determined as follows:

	Barrie $	Kelowna $	Calgary $	Subtotal $
Fair value of assets acquired	8,494,872	7,500,000	22,000,000	37,994,872
Less: Initial recognition amount	(7,868,934)	(7,380,000)	(21,667,312)	(36,916,246)
Less: Transaction costs	(304,753)	(244,298)	(254,657)	(803,708)
Fair value adjustment	321,185	(124,298)	78,031	274,918

	Subtotal $	Prince George $	Prince Albert $	Total $
Fair value of assets acquired	37,994,872	7,500,000	4,600,000	50,094,872
Less: Initial recognition amount	(36,916,246)	(7,075,659)	(4,316,736)	(48,308,641)
Less: Transaction costs	(803,708)	(286,817)	(94,074)	(1,184,599)
Fair value adjustment	274,918	137,524	189,190	601,632
Fair value adjustment Miramichi (see below)				(340,000)
Total fair value adjustment				261,632

For the year ended December 31, 2015, the total fair value adjustment of $261,632 includes a fair value adjustment of ($340,000) relating to the Miramichi Property, which was carried at $5,990,000 prior to the REIT completing an agreement to sell the property for $5,650,000.

The fair value of the investment properties as at December 31, 2015 was determined primarily through the application of the direct capitalization method, with certain adjustments for excess land. The key valuation metrics used in determining the fair value of the investment properties are as detailed below:

	December 31, 2015	December 31, 2014
Weighted average capitalization rate	7.41%	7.40%
Range of capitalization rates	6.25% - 11.0%	6.25% - 11.0%
Stabilized net operating income	11,909,000	8,468,000

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at December 31, 2015, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately $5,240,000 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 $5,610,000 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 Tenant and other receivables

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

	December 31, 2015 $
2016	12,431,785
2017 – 2020	48,988,048
2021 – 2030	61,781,756
	123,201,589

6 Mortgages payable

On disposition of the Miramichi investment property on June 23, 2015, the acquirer assumed the mortgage secured against the Miramichi investment property. On acquisition of the Calgary Property, new mortgages were placed on the Barrie and Kelowna Properties in the combined principal amount of $10,775,000, and a mortgage with an outstanding principal amount of $11,500,000 was assumed. On acquisition of the Prince George property, a new mortgage in the principal amount of $4,500,000 was placed on the property.

As at December 31, 2015, the mortgages payable are secured by charges against the PEI investment property, the Kelowna Property, the Barrie Property, the Calgary Property, and the Prince George Property. The weighted average interest rate, including deferred financing costs, on the mortgages payable is 3.37% and the weighted average term to maturity is 5.47 years. Interest expense recorded in the period includes the amortization of deferred financing costs relating to mortgages payable in the amount of $19,120 (2014 - $10,427).

	December 31, 2015 $	December 31, 2014 $
Mortgages payable	27,002,914	3,142,966
Less: Deferred financing costs	(212,305)	(45,386)
	26,790,609	3,097,580
Less: Current portion	(942,633)	(232,957)
	25,847,976	2,864,623

	Scheduled Repayments $	Principal Maturities $	Total $
2016	942,633	-	942,633
2017	968,229	414,040	1,382,269
2018	984,168	-	984,168
2019	1,016,052	-	1,016,052
2020	949,354	12,562,444	13,511,798
Thereafter	822,496	8,343,498	9,165,994
Total	5,682,932	21,319,982	27,002,914

7 Revolving credit facility

The REIT has a revolving credit facility of $52,500,000 and a $7,500,000 term facility (together the Credit Facility). The Credit Facility matures on July 15, 2019.

The Credit Facility is secured against the ten 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. Bankers' 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 addition of the $7,500,000 term facility to the Credit Facility.

	December 31, 2015 $	December 31, 2014 $
Fixed rate and term borrowing	50,350,000	50,350,000
Bankers' acceptance borrowings	5,500,000	3,300,000
Prime rate advances	241,557	1,267,979
	56,091,557	54,917,979
Less: Deferred financing costs	(408,233)	(524,869)
	55,683,324	54,393,110

Details of amounts drawn on the revolving credit facility at December 31, 2015 were as follows:

	Principal Amount $	Interest Rate	Repricing Date
Fixed rate and term borrowing 1	30,000,000	3.90%	Janaury 10, 2019
Fixed rate and term borrowing 2	20,350,000	3.63%	July 15, 2019
Bankers' acceptances	5,500,000	3.11%	January 15, 2016
Prime rate advances	241,557	3.95%	July 15, 2019

Interest expense recorded in the year includes the amortization of deferred financing costs relating to the Credit Facility in the amount of $116,637 (2014 - $108,084).

8 Class B LP units

Pursuant to the Arrangement completed on January 13, 2014, 7,200,000 common shares of the Corporation were exchanged for Class B LP Units of the LP on the basis of 1 Class B LP Unit for every 20 common shares of the Corporation, resulting in 360,000 Class B LP Units being issued at a value of $580,000, which represented the carrying value of these units at the date of the Arrangement.

On July 17, 2015, 3,470,985 Class B LP Units of a newly created subsidiary of the REIT were issued as partial purchase consideration to the vendors of the Barrie Property. The Class B LP Units issued were valued at $1.76 per unit, the July 17, 2015 closing price of the REIT units on the TSXV.

On December 1, 2015, 1,697,369 Class B LP Units of a newly created subsidiary of the REIT were issued as partial purchase consideration to the vendors of the Prince George Property. The Class B LP Units issued were valued at $1.65 per unit, the December 1, 2015 closing price of the REIT units on the TSXV.

The Class B LP Units are exchangeable, on a one for one basis, for REIT units at the option of the holder, and have economic and voting rights equivalent, in all material respects, to the REIT units.

The following table summarizes the changes in Class B LP Units for the year ended December 31, 2015.

	Class B LP Units	Amount $
December 31, 2014	360,000	673,200
Issuance of Class B LP Units as purchase consideration	5,168,354	8,909,593
Fair value adjustment during the year	-	(184,591)
December 31, 2015	5,528,354	9,398,202

During the year ended December 31, 2015, distributions in the amount of $357,820 (2014 - $55,457) were declared payable to holders of Class B LP Units. These amounts have been recognized as finance expense in the consolidated statement of income and comprehensive income. Distributions payable in the amount of $73,693 were accrued at December 31,2015 (2014 - $4,799).

The following table summarizes the changes in Class B LP Units for the year ended December 31, 2014.

	Class B LP Units	Amount $
December 31, 2013	-	-
Issuance of Class B LP Units – Plan of Arrangement	360,000	580,000
Fair value adjustment on initial recognition	-	104,000
Fair value adjustment during the year	-	(10,800)
December 31, 2014	360,000	673,200

The fair value adjustment on initial recognition has been recognized in retained earnings (deficit) in the consolidated statement of financial position.

9 Unitholders' equity

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

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

On July 17, 2015, the REIT issued 1,000,000 REIT units to the vendor of the Barrie Property as partial satisfaction of the purchase price for the property acquired. The fair value of the REIT units issued as purchase consideration, on the date of issuance, was determined by the closing price of the REIT units on July 17, 2015 of $1.76. Refer to note 3.

On August 4, 2015, the REIT issued 2,000,000 REIT units to the vendors of the Kelowna Property as partial satisfaction of the purchase price for the property acquired. The fair value of the REIT units issued as purchase consideration, on the date of issuance, was determined by the closing price of the REIT units on August 4, 2015 of $1.84. Refer to note 3.

On August 25, 2015, the REIT issued 1,052,632 REIT units to the vendors of the Calgary Property as partial satisfaction of the purchase price for the property acquired. The fair value of the REIT units issued as purchase consideration, on the date of issuance, was determined by the closing price of the REIT units on August 25, 2015 of $1.70. Refer to note 3.

On December 15, 2015, the REIT issued 1,089,473 REIT units to the vendors of the Prince Albert Property as partial satisfaction of the purchase price for the property acquired. The fair value of the REIT units issued as purchase consideration, on the date of issuance, was determined by the closing price of the REIT units on December 15, 2015 of $1.64. Refer to note 3.

The following table presents the changes in units for the year ended December 31, 2015.

	Units	Amount $
Unitholders' equity, December 31, 2014	28,460,081	53,405,456
Units issued as purchase price consideration	5,142,105	9,016,210
Unit issuance costs	-	(91,947)
Units issued as consideration for management services	518,398	918,877
Units issued as consideration for Trustee services	48,138	85,186
Units issued under distribution reinvestment plan	91,041	150,958
Unitholders' equity, December 31, 2015	34,259,763	63,484,740

The following table presents the changes in common shares and Units for the year ended December 31, 2014:

	Shares	Units	Amount $
Share Capital of the Corporation, December 31, 2013	55,000,000	-	4,947,451
Common Shares exchanged for REIT Units (One REIT unit for every 20 common shares)	(47,800,000)	2,390,000	-
Common Shares exchanged for Class B LP Units (One Class B LP unit for every 20 common shares) (note 9)	(7,200,000)	-	(580,000)
Units issued as consideration, purchase of Acquisition Properties (note 3)	-	17,000,000	32,300,000
Units issued for cash, net of $1,386,868 of issuance costs	-	8,750,000	16,113,132
Units issued as consideration for management services	-	248,698	489,081
Units issued as consideration for trustee services	-	31,730	61,875
Units issued under distribution reinvestment plan	-	39,653	73,917
Unitholders' equity, December 31, 2014	-	28,460,081	53,405,456

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 REIT Units issued as partial consideration for the acquisition were recognized at fair value based on a price of $1.90 per unit at the date of issuance.

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.

10 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 or the five trading days immediately preceding the relevant distribution date. Commencing with the June 2015 distribution, 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 (3% prior to the June 2015 distribution). During the year ended December 31, 2015, 91,041 units (2014 – 39,653) were issued under the DRIP for a stated value of $150,958 (2014 - $73,917).

11 Unit options

The REIT has adopted a unit-based compensation plan (the Plan) effective January 13, 2014. Under the terms of the Plan, the Board of Trustees may from time to time, at its discretion, grant options to purchase units in the REIT to trustees, officers and employees of the REIT and its affiliates, agents in connection with equity offerings and other consultants. The maximum number of options that may be reserved under the plan is 10% of the outstanding units of the REIT.

Awards of options are fair valued applying the Black-Scholes option valuation method. The average expected volatility rate used in the valuation is estimated based on the historical volatility of comparable companies over a period of time approximating the average expected share option holding period. The average risk-free interest rate used is based on Government of Canada bonds with terms consistent with the average expected share option holding period. For vested options, the average expected unit option holding period used is estimated to be half of the life of the option. For unvested options, the average expected unit option holding period is estimated to be the period until the options vest plus half of the period from vesting to expiry.

As at December 31, 2013, 5,740,000 share options, which had been granted to officers, trustees, and the REIT's agents in connection with the Corporation's initial public offering were outstanding. On January 13, 2014, pursuant to the Plan of Arrangement entered into between the Corporation and the REIT, shareholders exchanged common shares of the Corporation for units of the REIT on the basis of 1 REIT unit for every 20 common shares of the Corporation. On January 13, 2014, options were also exchanged on a 20 for 1 basis, with the 5,740,000 share options being exchanged for 287,000 unit options which have terms identical to the share options, and are fully vested. As part of this exchange of share options for unit options, the unit options were fair valued as at January 13, 2014, with the fair value adjustment on conversion of $32,000 being recorded through equity. On April 5, 2014, 5,000 of these unit options, which were held by a former director of the Corporation, were cancelled. On November 22, 2014, 12,000 of these unit options expired. As at December 31, 2015, 270,000 (December 31, 2014 - 270,000) of these unit options remained outstanding.

These unit options expire November 22, 2017 and have an exercise price of $2.00. Fair value was computed as at January 13, 2014 using a weighted average expected unit option life of 1.93 years, a volatility rate of 25%, a risk free-interest rate of 1.04%, and a distribution yield of 8.42% based on the trading price at that date. As at December 31, 2015, fair value of $9,315 (2014 - $25,094) was calculated using an expected unit option life of 0.95 years (December 31, 2014 - 1.45 years), a volatility rate of 25% (December 31, 2014 - 25%), a risk free interest rate of 0.49% (December 31, 2014 - 1.00%), and a distribution yield of 9.41% (December 31, 2014 - 8.56%), based on the trading price at that date.

On July 16, 2014, 850,000 unit options were issued to officers and directors of the REIT at an exercise price of $2.00 per unit, expiring July 16, 2019. These unit options vest one-third on the first anniversary of the grant date, and one-third on each of the second and third anniversaries of the grant date. The total fair value of the options on the grant date was $298,875. The total fair value of the options as at December 31, 2015 was $165,861 (December 31, 2014 - $258,904).

The fair value of these unit options as at December 31, 2015 was determined using an expected unit option life of 2.04 years (December 31, 2014 – 3.04 years), a weighted average volatility rate of 45% (December 31, 2014 - 45%), a risk free interest rate of 0.48% (December 31, 2014 - 1.06%) and a distribution yield of 9.41% (December 31, 2014 - 8.56%) based on the trading price on that date.

On March 10, 2015, 40,000 unit options with an exercise price of $2.00 per unit, and expiring March 10, 2018, were issued to a consultant performing investor relation services to the REIT. These unit options vested one-quarter three months from the grant date, one-quarter six months from the grant date, one-quarter nine months from the grant date and one-quarter twelve months from the grant date. On October 1, 2015, the contract under which these unit options were issued was cancelled, and 20,000 of these unit options were cancelled. The total fair value of the options on the grant date was $2,562. The total fair value of the remaining 20,000 options as at December 31, 2015 was $687.

The fair value of these unit options as at December 31, 2015 was determined using an expected unit option life of 0.94 years, a volatility rate of 25%, a risk-free interest rate of 0.49% and a distribution yield of 9.41% based on the trading price on that date.

For the year ended December 31, 2015, the number of options outstanding changed as follows:

	Number of unit options	Weighted average exercise price $
Balance, January 1, 2015	1,120,000	2.00
Options granted	40,000	2.00
Options cancelled	(20,000)	2.00
Total, December 31, 2015	1,140,000	2.00

Of the 1,140,000 unit options outstanding as at December 31, 2015, 573,333 had vested and were exercisable (December 31, 2014 - 270,000).

For the year ended December 31, 2014, the number of options outstanding changed as follows:

	Number of share options	Number of unit options	Weighted average exercise price $
Balance, January 1, 2014	5,740,000	-	2.00
Exchange of share options for unit options	(5,740,000)	287,000	
Options granted	-	850,000	2.00
Options cancelled	-	(17,000)	2.00
Total, December 31, 2014	-	1,120,000	2.00

12 Financial instruments

Fair value

The REIT's financial instruments consist of cash and cash equivalents, tenant and other receivables, other receivables (included in other current assets), and accounts payable and accrued liabilities, the fair value of which approximates carrying values due to the short-term nature of these instruments. The fair value of the mortgages payable as at December 31, 2015 is approximately $27,570,000 (2014 - $3,260,000).

The fair value of prime rate and bankers' acceptance advances under the Credit Facility approximates carrying value due to the short-term nature of these instruments. The fair value of the fixed rate and term borrowings under the Credit Facility as at December 31, 2015 is approximately $50,352,000 (2014 - $49,810,063).

The fair value of the mortgages payable and the fixed rate and term borrowings under the Credit Facility has been calculated using Level 3 inputs by discounting the expected cash flows of each debt using a discount rate based on the Government of Canada benchmark bond yield for instruments of similar maturity, adjusted for the risk profile specific to the REIT and the investment properties. Changes in benchmark bond yields for instruments of similar maturity are applied to the interest rates of the mortgages to maintain an appropriate risk adjustment factor when selecting a discount rate.

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 and cash equivalents 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 December 31, 2015, the REIT had cash and cash equivalents of $1,152,168 (December 31, 2014 - $428,512), mortgages payable of $27,002,914 (December 31, 2014 - $3,142,966), a revolving credit facility balance of $56,091,557 (December 31, 2014 - $54,917,979) and accounts payable and accrued liabilities of $1,406,799 (December 31, 2014 - $1,309,152). The REIT had a working capital deficit of $850,630 as at December 31, 2015 (December 31, 2014 – $660,218). The REIT has access to undrawn 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 $	Mortgages payable $	Mortgage interest $	Total $
2016	1,406,799	-	1,913,934	942,633	848,384	5,111,750
2017	-	-	1,908,705	1,382,269	813,621	4,104,595
2018	-	-	1,908,705	984,168	770,179	3,663,052
2019	-	56,091,557	423,500	1,016,052	738,295	58,269,404
2020	-	-	-	13,511,798	643,485	14,155,283
Thereafter	-	-	-	9,165,994	508,429	9,674,423
Total	1,406,799	56,091,557	6,154,844	27,002,914	4,322,393	94,978,507

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 revolving credit facility at maturity on terms as favourable as the existing mortgages payable and revolving credit facility. As at December 31, 2015, there was a total of $5,741,557 (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 come 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 December 31, 2015, the REIT had thirteen tenants, with one tenant accounting for approximately 44% of the REIT's rental income, resulting in concentration of credit risk. The REIT monitors the creditworthiness of the tenants on an ongoing basis.

13 Commitments and contingencies

The REIT has a leasehold interest in a property subject to a 66-year land lease, which commenced on 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 in May of each year.

As at December 31, 2015, annual future minimum ground lease payments on account of base rent are as follows:

	2016 $	2017 $	2018 $	2019 $	2020 $	Thereafter $
Minimum annual rent	52,800	52,800	52,800	52,800	52,800	3,423,314

A REIT tenant 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 REIT entered into a mutual release with the tenant and others dated November 11, 2015, which settled the environmental issues at the Saskatoon and Yellowknife locations. The REIT was reimbursed for legal costs with respect to these two matters. The only matter remaining unresolved is the foundation issue at the Saskatoon location. Work to repair the foundation is near completion and management does not believe the REIT will be subject to any material liability in respect of this remaining matter.

14 Capital management

The REIT defines its capital as its total unitholders' equity net of retained earnings or deficit, mortgages payable, Class B LP Units, and the Credit Facility. The REIT manages its capital to ensure that sufficient funds are available to fund operations, including the identification and acquisition of businesses or assets. The REIT ensures that it has sufficient capital to fund its operations as a going concern, and to identify, analyze, and finance further potential acquisitions. As part of the REIT's strategy for managing its capital, it may adjust the amount of distributions paid to unitholders, issue new units or debt, borrow against the Credit Facility, or repay debt. It is the REIT's current intention to maintain a ratio of debt to gross book value, as defined in the REIT's declaration of trust, of between 50% and 55%.

The REIT's Credit Facility contains 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 Facility. As at December 31, 2015, the REIT was in compliance with all of the financial covenants contained within the Credit Facility.

15 Income taxes

The REIT is subject to taxation in Canada on taxable income earned by its investment properties held through Canadian subsidiaries at a rate of approximately 29.6% (December 31, 2014 - 27.72%). A deferred tax asset arises from the loss carry-forwards of the Canadian subsidiary corporations, and the un-deducted balances of eligible capital expenditures for tax purposes. A deferred tax liability arises from the temporary differences between the carrying values and tax values of the investment properties held by the Canadian subsidiary corporations. The items giving rise to the recognition of deferred tax assets and liabilities are presented below:

	Year ended December 31, 2015 $	Year ended December 31, 2014 $
Deferred tax assets		
Intangible assets	130,805	125,837
Tax losses	-	50,787
Other	6,318	22,673
	137,123	199,297
Deferred tax liabilities		
Investment properties	16,123	177,495
Deferred tax asset, net	121,000	21,802

A deferred income tax recovery of $99,198 (2014 - $21,802) and a current tax expense of $36,023 (2014 - $nil) was recorded in the consolidated statement of income and comprehensive income for the year ended December 31, 2015.

16 General and administrative expense

General and administrative is comprised as follows:

	Year ended December 31, 2015 $	Year ended December 31, 2014 $
Annual asset management fees (note 17)	981,436	712,663
Professional and other fees in connection with the Arrangement	-	53,208
Investor relations	50,850	-
Trustee Fees	130,945	100,400
Other professional fees	292,331	188,515
Other	109,076	120,485
	1,564,638	1,175,271

17 Related party transactions

Pursuant to an asset management agreement (the Management Agreement) dated January 14, 2014 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% 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 year ended December 31, 2015, the REIT was charged acquisition fees in the amounts of $250,474 (2014 - $523,720).

During the year ended December 31, 2015, asset management fees in the amount of $981,436 were expensed (2014 - $712,663) and 518,398 units (2014 – 248,698) at an average price per unit of $1.77 (2014 - $1.97) were issued to the Manager in respect of asset management fees. Asset management fees in the amount of $286,140 were accrued as at December 31, 2015 (December 31, 2014 - $223,580).

During the year ended December 31, 2015, trustee retainer fees in the amount of $112,995 were expensed (2014 - $82,500), and 48,138 units (2014 – 31,730) at an average price per unit of $1.77 (2014 - $1.95) were issued to Trustees as payment of retainer fees. Trustee retainer fees in the amount of $33,125 were accrued as at December 31, 2015 (December 31, 2014 - $20,625).

During the year ended December 31, 2015, trustee meeting fees in the amount of $17,950 (2014 - $17,900) were expensed. Trustee meeting fees in the amount of $17,950 were accrued as at December 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 controlled by funds associated with TriWest Capital Partners (TriWest). TriWest also controls RTL-Westcan LP, which holds an approximately 27.5% economic and voting interest in the REIT as at December 31, 2015. 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 totalling $3,009,903 during the year ended December 31, 2015.

On December 15, 2015, the REIT acquired the Prince Albert Property (see note 3) from an arm's length party. The tenant of the Prince Albert Property is a company controlled by a fund associated with TriWest. The REIT received lease payments related to the Prince Albert property in the amount of $16,818 during the year ended December 31, 2015.

18 Supplemental cash flow disclosure

The REIT has not paid or received any cash in respect of income taxes. Cash interest paid and received is as follows:

	Year ended December 31, 2015 $	Year ended December 31, 2014 $
Cash interest paid	2,628,457	1,836,882
Cash interest received	-	6,060
Cash income taxes paid	1,900	-