



**EDGEFRONT REAL ESTATE INVESTMENT TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2015**

**March 10, 2016**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of Edgefront Real Estate Investment Trust ("the REIT") for the year ended December 31, 2015 should be read in conjunction with the REIT's audited financial statements for the year ended December 31, 2015 and the restated audited consolidated financial statements for the year ended December 31, 2014.

The information contained in this MD&A reflects events up to March 10, 2016, 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](http://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 gains or losses on sales of investment properties, tax on gains or losses on disposal of properties, 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](http://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, Ontario, and Prince Edward Island, 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 a strategic relationship 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.

## HIGHLIGHTS

- The REIT acquired 2 industrial properties for \$12.1 million at a blended 7.9% capitalization rate in the fourth quarter of 2015, issuing 2,786,842 units valued at \$1.90 per unit as partial purchase consideration.
- Total of \$50.1 million of acquisitions in 2015, issuing 10,310,459 units at \$1.90 per unit; for a value of \$19,589,872; increasing the REIT's total assets to over \$160 million.
- The REIT continues to derive rental revenues under long-term leases with a weighted average 9.9 year remaining lease term from stable, strong-covenant tenants who are minimally impacted by the oil and gas industry.
- The REIT will benefit from contractual rent increases on 82 percent of its leasing revenues in 2016.
- AFFO per unit increases to \$0.053 for the fourth quarter
- AFFO payout Ratio of 78.4% for the three months and 78.4% for the year.
- Conservative debt to total assets ratio of 50.5%.

## 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.

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.

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.

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.

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 satisfied in cash.

On June 23, 2015, the REIT sold an investment property located in Miramichi, New Brunswick (the "Miramichi Property"), 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 disposition of the property generated a loss on sale of \$133,357, comprised primarily of transaction costs.

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.

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 DECEMBER 31, 2015**

<b>Property Address</b>	<b>Property Use</b>	<b>Year Built and/or Renovated</b>	<b>Rentable Area (Square Feet)</b>	<b>Occupancy</b>	<b>Lease Expiry</b>
<i><b>Northwest Territories</b></i>					
49 Kam Lake Rd., Yellowknife, NWT	Cement Facility	1978	7,674	100%	Nov. 14, 2025
348-352 Old Airport Rd., Yellowknife, NWT	Truck Maintenance Facility	Office: 1997 Other: 1977-1990	53,212	100%	Nov. 14, 2025
<i><b>British Columbia</b></i>					
965 McMaster Way, Kamloops, BC	Truck Maintenance Facility	2007	13,706	100%	Nov. 14, 2025
555 Adams Rd., Kelowna, BC	Multi-Tenant Manufacturing	1996 & 1990	94,594	100%	Dec. 31, 2018 to Jan. 31, 2020
988 Great St., Prince George, BC	Multi-Tenant Service, Warehousing, Retail	1978	53,126	100%	Dec. 31, 2020 to Aug. 31, 2024
<i><b>Alberta</b></i>					
4700 & 4750 - 102 Ave., SE, Calgary, AB	Cross Dock	2009	29,471	100%	Dec. 31, 2024
3780 & 4020 - 76 <sup>th</sup> Ave., SE, Calgary, AB	Truck Maintenance Facility	1973, 1975 & 1990	58,937	100%	Nov. 14, 2025
8001 - 99 St., Clairmont, AB	Office and Warehouse	2014	26,638	100%	July 14, 2024
12104 & 12110 - 17 <sup>th</sup> St., NE, Edmonton, AB	Truck Maintenance Facility and Headquarters	1973, 1980, 1991 & 2011	116,582	100%	Nov. 14, 2025
14801 - 97 <sup>th</sup> St., Grande Prairie, AB	Truck Loading and Warehouse Facility	1988	42,120	100%	Nov. 14, 2025
3501 Giffen Rd. North & 3711 - 36 St. North, Lethbridge, AB	Manufacturing Facility, Office and Storage Area	2008-2012	229,000	100%	July 14, 2029
5406 - 59 <sup>th</sup> Ave., Lloydminster, AB	Truck Maintenance Facility	1972, 1980 & 1995	12,425	100%	Nov. 14, 2025
4301 - 45 Ave., Rycroft, AB	Manufacturing Facility	1993 & 2014	22,110	100%	July 14, 2029
<i><b>Saskatchewan</b></i>					
110 - 71 <sup>st</sup> St., Saskatoon, SK	Truck Maintenance Facility and Warehouse	1984	74,796	100%	Nov. 14, 2025
15 Peters Ave., Saskatoon, SK	Warehouse Facility	1985	38,160	100%	Nov. 14, 2025
850 Manitoba St. East & 15 - 9 <sup>th</sup> Ave., NE, Moose Jaw, SK	Truck Maintenance and Storage Facility	1983	18,800	100%	Nov. 14, 2025
4271 - 5 Ave. East, Prince Albert, SK	Shop, Yard Storage and Office	2007	24,600	100%	Dec. 31, 2020
<i><b>Ontario</b></i>					
455 Welham Rd., Barrie, ON	Manufacturing Facility	1998 & 2015	109,366	100%	June 16, 2025
<i><b>Prince Edward Island</b></i>					
695 University Ave., Charlottetown PEI	Retail	2006	4,500	100%	June 30, 2021
<b>Total</b>			<b><u>1,029,817</u></b>		

## SUMMARY OF RESULTS

	Three months ended December 31,		Year ended December 31,	
	2015	2014	2015	2014
<b>Financial Highlights</b>	\$	\$	\$	\$
Funds from operations (FFO) (1)	1,727,136	1,264,179	5,818,718	3,945,827
Adjusted funds from operations (AFFO) (1)	1,934,492	1,496,354	6,719,995	4,716,637
Distributions (2)	1,516,293	1,151,876	5,266,977	3,763,590
Weighted average units outstanding – basic (3)	36,788,732	28,756,188	32,621,783	23,331,925
Weighted average units outstanding – diluted (3)	36,788,732	28,756,188	32,621,783	23,331,925
Distributions per unit (2) (4)	0.041	0.040	0.161	0.161
FFO per unit, basic and diluted (1)	0.047	0.044	0.178	0.169
AFFO per unit, basic and diluted (1)	0.053	0.052	0.206	0.202
AFFO payout ratio, basic (1) (2)	78.4%	77.0%	78.4%	79.8%
Debt to total assets ratio	50.5%	48.6%	50.5%	48.6%

(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 December 31,		Year ended December 31,	
	2015	2014	2015	2014
<b>Financial Results</b>	\$	\$	\$	\$
Property revenue	3,585,247	2,717,232	11,985,001	8,588,356
Property expenses	<u>(649,792)</u>	<u>(512,723)</u>	<u>(2,074,683)</u>	<u>(1,559,360)</u>
Net operating income	2,935,455	2,204,509	9,910,318	7,028,996
General and administrative expenses	(458,503)	(350,962)	(1,564,638)	(1,175,271)
Loss on disposal of investment property	-	-	(133,357)	-
Fair value adjustment of investment properties	326,714	-	261,632	5,340,065
Fair value adjustment of class B LP units	(84,868)	28,800	184,591	10,800
Fair value adjustment of unit options	<u>(6,000)</u>	<u>(22,000)</u>	<u>(27,000)</u>	<u>(67,000)</u>
	2,712,798	1,860,347	8,631,546	11,137,590
Net interest expense	(744,690)	(589,368)	(2,532,939)	(1,907,898)
Distributions on Class B LP Units	(175,827)	(14,396)	(357,820)	(55,457)
Income taxes	<u>5,043</u>	<u>21,802</u>	<u>63,175</u>	<u>21,802</u>
Net income	<u>1,797,324</u>	<u>1,278,385</u>	<u>5,803,962</u>	<u>9,196,037</u>
Net income excluding fair value adjustments	1,561,478	1,271,585	5,384,739	3,912,172

For the three months ended December 31, 2015, net operating income of \$2,935,455 was \$730,946 higher than NOI in the same period of 2014 of \$2,204,509 primarily due to the impact of the REIT acquiring the Barrie, Calgary and Kelowna Properties during the third quarter and Prince George and Prince Albert Properties in the fourth quarter. These acquisitions generated approximately \$790,000 of net operating income in the quarter. The disposal of the Miramichi Property on June 23, 2015 had the impact of reducing net operating income for the three months ended December 31, 2015 as compared to the same period of 2014 when the Miramichi Property was owned and generated NOI for the full three-month period.

For the year ended December 31, 2015, net operating income of \$9,910,318 was \$2,881,322 higher than NOI in the same period of 2014 of \$7,028,996 primarily due to the impact of the REIT owning the RTL Westcan Properties and the Acquisition Properties for 365 days during the year ended December 31, 2015 as compared to 352 days and 170 days, respectively, during the year ended December 31, 2014. The additional 13 days of ownership of the RTL Westcan Properties in the year ended December 31, 2015 as compared to the prior year generated approximately \$190,000 of NOI and the additional 195 days of ownership of the Acquisition Properties generated approximately \$1,600,000 of NOI. Additionally, the acquisitions of the Barrie, Kelowna, Calgary, Prince George and Prince Albert Properties generated approximately \$1,225,000 of NOI in the year ended December 31, 2015. Partially offsetting the incremental operating income generated by these acquisitions in the year ended December 31, 2015 was the sale of the Miramichi Property on June 23, 2015, resulting in the Miramichi Property generating 192 days less revenue during the year ended December 31, 2015 as compared to the year ended December 31, 2014.

For the three months ended December 31, 2015, general and administrative expense of \$458,503 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 \$280,064, other professional fees of \$99,687, trustees fees and associated employer payroll taxes of \$42,754, directors and officers insurance expense of approximately \$6,000 and other costs.

General and administrative expense for the three months ended December 31, 2014 of \$350,962 was primarily related to accrued asset management fees payable to the REIT's external manager (see the section below titled "related party transactions") in the amount of \$212,152, accrued trustees fees of \$20,425, other professional fees of \$72,173, and other costs.

For the year ended December 31, 2015, general and administrative expense of \$1,564,638 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 \$981,436, other professional fees of \$343,181, trustees fees and associated employer payroll taxes of \$138,516, costs in relation to the filing of the REIT's annual financial statements of approximately \$12,000, TSX fees of approximately \$13,000, directors and officers insurance expense of approximately \$28,000, and other costs. Included in other professional fees are investor relations consultant costs in the amount of \$50,850. The REIT engaged the services of an investor relations consultant in the first quarter of 2015 and terminated the arrangement October 2015.

For the year ended December 31, 2014, general and administrative expense of \$1,175,271 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 \$712,663, other professional fees of \$188,515, trustees fees of \$100,400, costs related to the plan of arrangement of \$53,208, costs in relation to the filing of the REIT's annual information form and financial statements of approximately \$15,000, directors and officers insurance expense of approximately \$21,000, and other costs

The loss on disposal of investment property of \$133,357 for the year ended December 31, 2015 relates to transaction costs associated with the sale of the Miramichi Property, and the expensing of unamortized deferred financing costs relating to the mortgage secured against the property.

Fair value adjustment of investment properties in the amount of \$326,714 for the three months ended December 31, 2015 is determined as the difference between the fair value of the Prince George and Prince Albert Properties, less the initial recognition amount for the properties, net of acquisition costs of \$380,891.

Fair value adjustment of investment properties in the amount of \$261,632 for the year ended December 31, 2015 is determined as the difference between the fair value of the Barrie, Kelowna, Calgary, Prince George and Prince Albert Properties, less the initial recognition amount for the properties, net of acquisition costs of \$1,184,599 and also includes an amount of \$340,000 related to the disposal of the Miramichi Property. The Miramichi Property was carried at \$5,990,000 prior to the REIT completing an agreement to sell it for \$5,650,000, resulting in the \$340,000 fair value adjustment.



The fair value adjustment of investment properties 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	<u>321,185</u>	<u>(124,298)</u>	<u>78,031</u>	<u>274,918</u>
	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	<u>274,918</u>	<u>137,524</u>	<u>189,190</u>	<u>601,632</u>
Fair value adjustment Miramichi (see below)				(340,000)
Total fair value adjustment				<u><u>261,632</u></u>

Fair value adjustment of investment properties for the year ended December 31, 2014 of \$5,340,065 is equal to the fair value adjustment relating to the RTL Westcan Properties and the Acquisition Properties. The RTL Westcan Properties were initially recognized at \$66,300,000 plus transaction costs of \$915,346, and were subsequently revalued to their fair value, as determined by third party appraisal, of \$71,240,000, generating a fair value adjustment of investment properties in the amount of \$4,024,654. The Acquisition Properties were initially recognized at \$36,744,000 plus transaction costs of \$630,589, and were subsequently revalued to their value, as determined by third party appraisals, of \$38,690,000, generating a fair value adjustment of \$1,315,411.

For the three months ended December 31, 2015, net interest expense of \$744,690 was \$155,322 higher than net interest expense of \$589,368 during the three months ended December 31, 2014 primarily due to higher borrowings in the period relating to \$26,775,000 of new mortgage debt on the Barrie, Kelowna, Calgary and Prince George Properties. Partially offsetting the impact of these items was lower interest expense incurred as a result of the sale of the Miramichi Property in the second quarter of the year, as the purchaser assumed the mortgage on the Miramichi Property, and lower interest rates on bankers' acceptance and prime rate borrowings.

For the year ended December 31, 2015, net interest expense of \$2,532,939 was \$625,041 higher than net interest expense of \$1,907,898 during the year ended December 31, 2014 due to higher borrowings in the period. On July 15, 2014, the REIT borrowed \$20,350,000 of debt bearing interest at 3.63% per year to acquire the Acquisition Properties. This debt was in place for the entire 365 days of the year ended December 31, 2015 as compared to 190 days in the same period of 2014, resulting in approximately \$354,000 of higher interest costs as compared to the year ended December 31, 2014. Additionally, the REIT incurred interest expense associated with \$26,775,000 of new mortgage debt secured against the Calgary, Barrie, Kelowna and Prince George Properties during the year, increasing interest expense by approximately \$271,000.

In the three-month period ended December 31, 2015, deferred income tax recovery totaled \$10,169 (2014 - \$nil), and current income tax expense totaled \$5,126 (2014 - \$nil). Deferred income tax recovery for the year ended December 31, 2015 totaled \$99,198 (2014 - \$nil), and current tax expense totaled \$36,023. 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 undeducted 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. In June of 2015, Edgefront Realty Corp., a Canadian subsidiary corporate disposed of the Miramichi Property. Subsequent to this disposal, the amount of taxable activity in the Canadian subsidiary corporations of the REIT was significantly reduced.

<b>Select Balance Sheet Data</b>	<b>As at December 31, 2015</b>	<b>As at December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Investment properties	161,174,872	117,070,000
Cash and cash equivalents	1,152,168	428,512
Total Assets	163,285,480	118,367,066
Current liabilities	2,840,238	1,921,482
Non-current portion of mortgages payable	25,847,976	2,864,623
Revolving credit facility	55,683,324	54,393,110
Unit options	126,000	99,000
Class B LP Units	<u>9,398,202</u>	<u>673,200</u>
Total non-current liabilities	91,055,502	58,029,933
Total unitholders' equity	69,389,740	58,415,651
Debt to total assets ratio	50.5%	48.6%

#### **Debt to Total Assets**

The REIT's debt to total assets at December 31, 2015 was 50.5%, 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 consolidated statement of financial position.

#### **SUMMARY OF QUARTERLY RESULTS<sup>(1)</sup>**

	<b>Q4 2015</b>	<b>Q3 2015</b>	<b>Q2 2015</b>	<b>Q1 2015</b>
Property income	\$ 3,585,247	\$ 2,987,548	\$ 2,697,831	\$ 2,714,375
Property expenses	\$ <u>(649,792)</u>	\$ <u>(417,029)</u>	\$ <u>(496,580)</u>	\$ <u>(511,282)</u>
Net operating income (NOI)	\$ 2,935,455	\$ 2,570,519	\$ 2,201,251	\$ 2,203,093
Net income	\$ 1,797,324	\$ 1,930,614	\$ 856,688	\$ 1,219,336
Weighted average number of units, basic	36,788,732	34,690,473	29,049,258	28,910,053
Weighted average number of units, diluted	36,788,732	34,690,473	29,049,258	28,910,053
	<b>Q4 2014</b>	<b>Q3 2014</b>	<b>Q2 2014</b>	<b>Q1 2014</b>
Property income	\$ 2,717,232	\$ 2,571,558	\$ 1,771,095	\$ 1,528,471
Property expenses	\$ <u>(512,723)</u>	\$ <u>(472,234)</u>	\$ <u>(310,371)</u>	\$ <u>(264,032)</u>
Net operating income (NOI)	\$ 2,204,509	\$ 2,099,324	\$ 1,460,724	\$ 1,264,439
Net income (2)	\$ 1,278,385	\$ 2,566,808	\$ 699,765	\$ 4,651,079
Weighted average number of units, basic*	28,756,188	27,297,317	19,810,711	17,134,655
Weighted average number of units, diluted*	28,756,188	27,297,317	19,827,129	17,134,655

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

(2) Net income for the first quarter of 2014 has been restated. See note 20 to the restated audited consolidated financial statements for the year ended December 31, 2104.

\* 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 December 31,		Year Ended December 31,	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b><u>FFO</u></b>				
Net income	1,797,324	1,278,385	5,803,962	9,196,037
Adjustments:				
Loss on disposal of investment properties	-	-	133,357	-
Tax on disposal of investment properties	-	-	42,000	-
Fair value adjustment of investment properties	(326,714)	-	(261,632)	(5,340,065)
Fair value adjustment of Class B LP Units	84,868	(28,800)	(184,591)	(10,800)
Fair value adjustment of unit options	6,000	22,000	27,000	67,000
Distributions on Class B LP Units expensed	175,827	14,396	357,820	55,457
Deferred income taxes	<u>(10,169)</u>	<u>(21,802)</u>	<u>(99,198)</u>	<u>(21,802)</u>
Funds from operations (FFO)	1,727,136	1,264,179	5,818,718	3,945,827
<b><u>AFFO</u></b>				
FFO	1,727,136	1,264,179	5,818,718	3,945,827
Adjustments:				
Non-cash asset management fees to be settled in units	276,006	222,813	977,378	712,663
Non-cash trustee fees to be settled in units	27,105	20,625	99,378	82,500
Amortization of deferred financing fees	39,108	31,703	135,758	118,511
Straight-line adjustments ground lease and rent	(42,863)	4,034	(54,237)	16,136
Capital reserve (1)	<u>(92,000)</u>	<u>(47,000)</u>	<u>(257,000)</u>	<u>(159,000)</u>
Adjusted funds from operations (AFFO)	1,934,492	1,496,354	6,719,995	4,716,637

(1) For the three months ended December 31, 2015, based on an estimate of \$0.35 per square foot of gross leasable area per full year the properties are owned. 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 December 31,		Year Ended December 31,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Cash flows from operating activities	2,142,465	651,909	6,651,639	4,153,387
Adjustments:				
Changes in non-cash working capital	(291,800)	877,049	(60,464)	666,793
Changes in other non-current assets	-	-	(14,000)	-
Distributions on Class B LP Units expensed	175,827	14,396	357,820	55,457
Tax on disposal of investment properties	-	-	42,000	-
Capital reserve	<u>(92,000)</u>	<u>(47,000)</u>	<u>(257,000)</u>	<u>(159,000)</u>
AFFO	1,934,492	1,496,354	6,719,995	4,716,637

## 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 December 31, 2015, the REIT had cash and cash equivalents of \$1,152,168 (December 31, 2014 - \$428,512) and a working capital deficit of \$850,630 (December 31, 2014 - \$660,218). It is not unusual for the REIT to have a working capital deficit, as cash generated by the REIT is generally used to pay down the credit facility, and the REIT does not maintain a significant balance of cash on hand, but has access to the undrawn borrowing capacity on the credit facility to fund cash requirements. Management of the REIT believes that sufficient cash from operations will be generated to settle the REIT's liabilities as they come due, 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 and year ended December 31, 2015 and 2014.

	Three months ended December 31,		Year ended December 31,	
	2015	2014	2015	2014
<b>Cash provided by (used in):</b>	\$	\$	\$	\$
Operating activities	2,142,465	651,909	6,651,639	4,153,387
Investing activities	(7,152,497)	-	(16,779,842)	(71,450,716)
Financing activities	<u>5,382,479</u>	<u>(959,171)</u>	<u>10,851,859</u>	<u>67,044,205</u>
Change in cash and cash equivalents	372,447	(307,262)	723,656	(253,124)
Cash and cash equivalents – beginning of period	<u>779,721</u>	<u>735,774</u>	<u>428,512</u>	<u>681,636</u>
Cash and cash equivalents – end of period	<u>1,152,168</u>	<u>428,512</u>	<u>1,152,168</u>	<u>428,512</u>

Cash generated from operating activities for the year ended December 31, 2015 of \$6,651,639 is primarily comprised of net income net of non-cash items of \$6,577,175. Cash generated by changes in working capital was \$60,464. Included in cash generated from changes in working capital is cash used from changes in prepaids of \$232,817 primarily related to prepaid property taxes. Changes in other non-cash working capital items are driven by the timing of payments and receipts of funds.

Cash generated from financing activities for the year ended December 31, 2015 of \$10,851,859 includes distributions paid of \$4,680,889, principal repayment of mortgages of \$345,027, and net borrowings on the Credit Facility in the amount of \$1,173,578. The REIT drew approximately \$2,625,000 on the Credit Facility to finance the acquisition of the Prince Albert Property, which is not encumbered by a mortgage. Cash generated by the REIT throughout the year was used to pay down the Credit Facility, partially offsetting the funds drawn to finance acquisitions. The REIT placed mortgages on the Barrie and Kelowna Properties to generate cash required to acquire the Calgary Property. \$10,775,000 of mortgages were entered into, generating \$10,517,097 of cash. Additionally, a \$4,500,000 mortgage was placed on the Prince George Property at the time of acquisition, generating approximately \$4,460,000 of cash net of financing costs.

Cash used in investing activities of \$16,779,842 is related to the acquisitions of the Kelowna, Calgary, Prince George and Prince Albert Properties, and transaction costs relating to the acquisition of the Barrie Property. The Barrie Property purchase price was satisfied in full through the issuance of REIT Units and Class B LP Units, and did not use a significant amount of the REIT's available cash. Units were also issued as partial purchase price consideration for the other properties acquired during the year. See note 3 to the consolidated financial statements for further details.

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

## Mortgages Payable

On disposition of the Miramichi investment property on June 23, 2015, the acquirer assumed the mortgage secured against the Miramichi 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. Deferred financing costs of \$212,305 are netted against the mortgages payable (December 31, 2014 - \$45,386). 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.

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

	<b>Scheduled Repayments</b>	<b>Principal Maturities</b>	<b>Total</b>
	\$	\$	\$
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	<u>822,496</u>	<u>8,343,498</u>	<u>9,165,994</u>
Total	5,682,932	21,319,982	27,002,914

## 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.

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

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

	<b>Principal Amount \$</b>	<b>Interest Rate</b>	<b>Maturity Date</b>
Fixed rate and term borrowing 1	30,000,000	3.90%	January 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

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 December 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 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.

## 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.

### *Outlook*

The economy in western Canada, and in particular, Alberta, continues to experience pressure from sustained lower oil prices. It is uncertain when or if oil prices may begin to increase, or economic conditions will improve significantly. In Calgary, Edmonton and Saskatoon, reported industrial vacancy rates have increased, and rental rates are under pressure. The REIT's properties in Alberta and Saskatchewan are primarily leased to tenants whose operations are not directly linked to the oil industry, and that are not expected to suffer significant financial deterioration as a result of low oil prices. The REIT properties in these markets are subject to leases with remaining terms of 9 years or more. The REIT does not expect to experience any significant negative impact to its revenue stream as a result of current economic conditions. While the REIT hasn't seen an increase in properties available for purchase or decreases in industrial property prices, market conditions may create buying opportunities in the future. The REIT carefully evaluates the creditworthiness of its current tenants and tenants of prospective acquisition properties.

### *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 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). It is not unusual for the REIT to have a working capital deficit, as cash generated by the REIT is generally used to pay down the credit facility, and the REIT does not maintain a significant balance of cash on hand, but has access to the undrawn borrowing capacity on the credit facility to fund cash requirements. The REIT 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:

	<b>Accounts payable and accrued liabilities</b>	<b>Credit facility principal repayment</b>	<b>Interest on fixed portion of credit facility</b>	<b>Mortgage payable</b>	<b>Mortgage interest</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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
<b>Total</b>	<b>1,406,799</b>	<b>56,091,557</b>	<b>6,154,844</b>	<b>27,002,914</b>	<b>4,322,393</b>	<b>94,978,507</b>

### *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.

#### **PENDING CLAIMS**

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.

#### **COMMITMENTS**

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 each May 1st. As at December 31, 2015, annual future minimum ground lease payments on account of base rent are as follows:

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Thereafter</b>
	\$	\$	\$	\$	\$	\$
Minimum annual rent	52,800	52,800	52,800	52,800	52,800	3,423,314

#### **OUTSTANDING UNIT / SHARE DATA**

	<b>Units</b>	<b>Amount</b>
		\$
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	<u>34,259,763</u>	<u>63,484,740</u>

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.

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.

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.

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 and Class B LP 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.

As at March 10, 2016, a total of 34,471,563 REIT units and 5,528,354 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 December 31, 2015 amounted to \$1,340,466 (2014 - \$1,131,479), and \$4,909,156 (2014 - \$3,708,132) for the year then ended.

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

	<b>Three months ended December 31, 2015 \$</b>	<b>Year Ended December 31, 2015 \$</b>	<b>Year ended December 31, 2014 \$</b>	<b>Year ended December 31, 2013 \$</b>
Cash flows from operating activities	2,142,465	6,651,639	4,153,387	(853,645)
Net income (loss)	1,792,281	5,798,919	9,196,037	(322,935)
Actual cash distributions paid or payable during the period	1,340,466	4,909,156	3,708,132	-
Excess of cash flows from operating activities over cash distributions paid	801,999	1,742,483	445,255	N/A
Excess of net income over cash distributions paid	451,815	889,763	5,487,905	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 and year ended December 31, 2015, \$64,767 and \$150,958, respectively was settled through the issuance of REIT units under the distribution reinvestment program.

For the three months and year ended December 31, 2015, cash flows from operating activities exceeded distributions paid or payable.

Net income for the three months ended December 31, 2015 includes non-cash fair value adjustments amounting to \$235,846, and non-cash asset management fees of \$282,072 that will be settled in units of the REIT. Net of these items, net income exceeded cash distributions paid or payable by \$498,041.

Net income for the year ended December 31, 2015 includes non-cash fair value adjustments amounting to \$419,223, a loss on disposal of investment properties in the amount of \$133,357, and non-cash asset management fees of \$983,444. Net of these items, net income for the year ended December 31, 2015 exceeded cash distributions paid or payable by \$1,587,341.

## **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. 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 \$150,985 (2014 - \$73,917).

## **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% 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 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 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.