



EDGEFRONT REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2014

November 18, 2015

RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

The following restated management's discussion and analysis ("MD&A") of Edgefront Real Estate Investment Trust ("the REIT") for the year ended December 31, 2014 has been restated to conform with the REIT's restated audited annual financial statements for the years ended December 31, 2014 and 2013 and should be read in conjunction with the REIT's restated audited financial statements for the years ended December 31, 2014 and 2013. The REIT has restated its previously issued audited consolidated financial statements for the year ended December 31, 2014 to adjust for the fair value of the REIT units issued as partial consideration for the acquisition of the RTL Westcan Properties. The restatement has no impact on cash from operating or financing activities, cash used in investing activities, or total unitholders' equity. Further, this change does not impact FFO or AFFO of the REIT. Refer to note 20 to the REIT's restated audited financial statements for the years ended December 31, 2014 and 2013 for further details.

The information contained in this restated MD&A reflects events up to November 18, 2015, the date on which this restated MD&A was approved by the REIT's Board of Trustees. Financial data included in this restated MD&A is presented in Canadian dollars, which is the functional currency of the REIT, and has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information about the REIT can be accessed at www.sedar.com.

FORWARD LOOKING STATEMENTS

Certain statements contained in this restated 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 restated 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 restated MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the REIT.

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

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

BUSINESS OVERVIEW AND STRATEGY

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

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

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

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

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

The REIT has 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.

ACQUISITIONS

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

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

On May 1, 2013, the Corporation acquired an office property located in Miramichi, New Brunswick (the “Miramichi Property”), for a purchase price of \$5,465,000. New mortgage financing with a ten year term, a 12 year amortization period, and bearing interest at a rate of 3.74% was arranged for the property by the Corporation. The property is comprised of a two-story office building constructed in 2012 with approximately 29,000 square feet of leasable area.

On March 8, 2013, the Corporation acquired the rights in a 66 year ground lease to a property located at 695 University Avenue, Charlottetown, Prince Edward Island (the “QT Property”). The purchase was approved by the TSX Venture Exchange as the Corporation’s qualifying transaction as defined in Policy 2.4 “Capital Pool Companies” of the TSX Venture Exchange Policies. The ground lease commenced May 1, 2006, and has two ten year options to renew. The property contains a building with approximately 4,500 square feet of gross leasable area, and is leased to a schedule I Canadian chartered bank. Prior to the acquisition of this property, the REIT did not have any commercial operations.

REIT PROPERTIES AS AT DECEMBER 31, 2014

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

SUMMARY OF RESULTS

	Three months ended December 31,		Year ended December 31,	
	2014	2013	2014	2013
Financial Highlights	\$	\$	\$	\$
Funds from operations (FFO) (1)	1,264,179	(231,435)	3,945,827	(761,835)
Adjusted funds from operations (AFFO) (1)	1,496,354	(231,252)	4,716,637	(760,808)
Distributions declared (2)	1,151,876	-	3,763,590	-
Weighted average units outstanding – basic (3)	28,756,188	2,750,000	23,331,925	2,750,000
Weighted average units outstanding – diluted (3)	28,756,188	2,750,000	23,331,925	2,750,000
Distributions per unit (2) (3) (4)	0.040	N/A	0.161	N/A
FFO per unit (1) (3)				
Basic	0.044	0.084	0.169	(0.277)
Diluted	0.044	0.084	0.125	(0.277)
AFFO per unit (1) (3)				
Basic	0.052	0.084	0.202	(0.277)
Diluted	0.052	0.084	0.202	(0.277)
AFFO payout ratio, basic (1) (2) (3)	77.0%	N/A	79.8%	N/A
Debt to total assets ratio	48.6%	38.4%	48.6%	38.4%

(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 and for December 31, 2013 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.

(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,	
	2014	2013	2014	2013
Financial Results	\$	\$	\$	\$
Property revenue	2,717,232	226,698	8,588,356	627,308
Property expenses	<u>(512,723)</u>	<u>(100,021)</u>	<u>(1,559,360)</u>	<u>(285,725)</u>
Net operating income	2,204,509	126,677	7,028,996	341,583
General and administrative expenses	(350,962)	(314,126)	(1,175,271)	(784,083)
Transaction costs	-	(11,960)	-	(245,227)
Fair value adjustment of investment properties	-	-	5,340,065	438,900
Fair value adjustment of class B LP units	28,800	-	10,800	-
Fair value adjustment of unit options	<u>(22,000)</u>	<u>-</u>	<u>(67,000)</u>	<u>-</u>
	1,860,347	(199,409)	11,137,590	(248,827)
Net interest expense	(589,368)	(32,026)	(1,907,898)	(74,108)
Distributions on Class B LP Units	(14,396)	-	(55,457)	-
Deferred income taxes	<u>21,802</u>	<u>-</u>	<u>21,802</u>	<u>-</u>
Net income (loss)	<u>1,278,385</u>	<u>(231,435)</u>	<u>9,196,037</u>	<u>(322,935)</u>

Net income for the three month and year ended December 31, 2014 was increased by a fair value adjustment of investment properties of \$nil and \$5,340,065, respectively. Excluding this item, net income for the three months and year ended December 31, 2014 would have been \$1,278,385 and \$3,855,972, respectively.

The prospectus contained forecasted information covering the three months ended December 31, 2014 (the “Forecast”). The results for the three months ended December 31, 2014 are compared to the Forecast below.

	Three months ended December 31, 2014		
	Actual	Forecast	Variance
Property Revenue	\$	\$	
Miramichi and PEI properties	238,481	238,474	7
RTL Westcan properties	1,541,805	1,542,556	(751)
Acquisition properties	<u>936,946</u>	<u>937,224</u>	<u>(278)</u>
Total Property Revenue	2,717,232	2,718,254	(1,022)
Property Expenses			
Miramichi and PEI properties	(128,807)	(125,611)	(3,196)
RTL Westcan properties	(197,947)	(201,556)	3,609
Acquisition properties	<u>(185,969)</u>	<u>(186,309)</u>	<u>340</u>
Total Property Expenses	(512,723)	(513,476)	753
Net operating income	2,204,509	2,204,778	(269)
General and administrative expense	(350,962)	(348,929)	(2,033)
Fair value adjustment of investment properties	-	-	-
Fair value adjustment of class B LP units	28,800	-	28,800
Fair value adjustment of unit options	<u>(22,000)</u>	<u>(32,449)</u>	<u>10,449</u>
	1,860,347	1,823,400	36,947
Finance expense			
Net interest expense	(589,368)	(600,752)	11,384
Distributions on Class B LP Units	<u>(14,396)</u>	<u>(14,396)</u>	-
	(603,764)	(615,148)	11,384
Income before taxes	1,256,583	1,208,252	48,331
Deferred income taxes	<u>21,802</u>	<u>-</u>	<u>21,802</u>
Net income	<u>1,256,583</u>	<u>1,208,252</u>	<u>70,133</u>

For the year ended December 31, 2014, net operating income of \$7,028,996 was \$6,687,413 higher than net operating income in the same period of 2013 of \$341,583 primarily due to the impact of the REIT owning the QT Property, the Miramichi Property, the RTL Westcan Properties, and the acquisition properties for 365 days, 365 days, 352 days, and 170 days, respectively, during the year ended December 31, 2014 as compared to 299 days, 245 days, 0 days, and 0 days, respectively, during the year ended December 31, 2013. Approximately \$5,180,000 of net operating income was generated from the RTL Westcan Properties during the year ended December 31, 2014, and \$1,389,000 of net operating income was generated from the Acquisition Properties.

Net operating income for the three months ended December 31, 2014 was in line with the Forecast.

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. For the year ended December 31, 2013, general and administrative expense of \$784,083 was primarily comprised of professional and other fees of approximately \$455,000 related to the Arrangement. Costs related to the Arrangement include legal, tax, audit, stock exchange and other costs. The remainder of expenses relate to compensation expense of approximately \$197,000, professional fees of approximately \$41,000, listing fees of approximately \$17,000, communication expenses of approximately \$15,000 and other costs of approximately \$60,000.

General and administrative expense for the three months ended December 31, 2014 was in line with general and administrative expense per the Forecast.

Transaction costs of \$245,227 in year ended December 31, 2013 related to due diligence costs associated with properties the Corporation had intended to purchase, but ultimately abandoned which were expensed. The costs related to audited financial statements, environmental assessments, building condition reports, appraisals and other information about the properties during the due diligence period.

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.

The Forecast did not include any assumptions with respect to fair value adjustments in respect of the Acquisition Properties.

Fair value adjustment of income properties for the year ended December 31, 2013 of \$438,900 related primarily to the fair value adjustment recorded with respect to the Miramichi Property. A third party appraisal dated February 7, 2013, using the discounted cash flow method and applying a discount rate of 7.5% and a terminal capitalization rate of 7.0% arrived at an appraised value of \$6,170,000 for the Miramichi property. Based on the direct capitalization approach, applying a capitalization rate of 6.75%, the same appraisal valued the property at \$5,990,000.

The Forecast did not include any assumptions with respect to the unit trading price at December 31, 2014 which drove the fair value adjustment relating to Class B LP Units. The variance from the forecast with respect to the fair value of unit options arises from the fact that the options were issued with a 3 year vesting period as compared to a 6 month vesting period in the Forecast. This impacted the risk free interest rate, expected life, and volatility assumptions used in valuation.

For the year ended December 31, 2014, net interest expense of \$1,907,898 was \$1,833,790 higher than net interest expense of \$74,108 during the year ended December 31, 2013 due to higher borrowings in the period relating to debt incurred to acquire the RTL Westcan Properties and the Acquisition Properties, and more days interest relating to the QT Property and Miramichi Property during the year. In the year ended December 31, 2013, the REIT had excess cash invested in guaranteed investment certificates which generated net interest income of \$23,091 (for the year ended December 31, 2014 - \$1,176).

Net interest expense for the three months ended December 31, 2014 was lower than the Forecast by \$11,384, primarily due to lower than forecast interest rates on borrowings made to finance the purchase of the Acquisition properties. This accounted for approximately \$8,000 lower interest expense in the three months ended December 31, 2014 as compared to the Forecast.

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

Select Balance Sheet Data	As at December 31, 2014	As at December 31, 2013
	\$	\$
Investment properties	117,070,000	7,140,000
Cash and cash equivalents	428,512	681,636
Total Assets	118,367,066	8,631,984
Current liabilities	1,921,482	939,089
Non-current portion of mortgages payable	2,864,623	3,087,154
Revolving credit facility	54,393,110	-
Unit options	99,000	-
Class B LP Units	<u>673,200</u>	<u>-</u>
Total non-current liabilities	58,029,933	3,087,154
Total unitholders' equity	58,415,651	4,605,741
Debt to total assets ratio	48.6%	38.4%

Debt to Total Assets

The REIT's debt to total assets at December 31, 2014 was 48.6%, as compared to 38.4% at December 31, 2013 and 48.5% at September 30, 2014. The REIT's targeted debt to total assets ratio is between 45% and 55%. The REIT's calculation of debt for the quarter includes mortgages payable and revolving credit facility balances at the amounts carried on the REIT's statement of financial position.

SUMMARY OF QUARTERLY RESULTS⁽¹⁾

	Q4 2014	Q3 2014	Q2 2014	Q1 2014
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	\$ 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
	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Property income	\$ 226,698	\$ 225,889	\$ 164,223	\$ 10,498
Property expenses	\$ <u>(100,021)</u>	\$ <u>(91,599)</u>	\$ <u>(89,464)</u>	\$ <u>(4,641)</u>
Net operating income (NOI)	\$ 126,677	\$ 134,290	\$ 74,759	\$ 5,857
Net income (loss)	\$ (231,435)	\$ 39,814	\$ (89,247)	\$ (42,067)
Weighted average number of units, basic and diluted*	2,750,000	2,750,000	2,750,000	2,750,000

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

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

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

	Three Months Ended December 31,		Year ended December 31,	
	2014	2013	2014	2013
	\$	\$	\$	\$
<u>FFO</u>				
Net income (loss)	1,278,385	(231,435)	9,196,037	(322,935)
Adjustments:				
Fair value adjustment of investment properties	-	-	(5,340,065)	(438,900)
Fair value adjustment of Class B LP Units	(28,800)	-	(10,800)	-
Fair value adjustment of unit options	22,000	-	67,000	-
Distributions on Class B LP Units expensed	14,396	-	55,457	-
Deferred income taxes	<u>(21,802)</u>	<u>-</u>	<u>(21,802)</u>	<u>-</u>
Funds from operations (FFO)	1,264,179	(231,435)	3,945,827	(761,835)
<u>AFFO</u>				
FFO	1,264,179	(231,435)	3,945,827	(761,835)
Adjustments:				
Non-cash asset management fees to be settled in units	222,813	-	712,663	-
Non-cash trustee fees to be settled in units	20,625	-	82,500	-
Amortization of deferred financing fees	31,703	2,683	118,511	7,827
Straight-line ground lease	4,034	-	16,136	-
Capital reserve (1)	<u>(47,000)</u>	<u>(2,500)</u>	<u>(159,000)</u>	<u>(6,800)</u>
Adjusted funds from operations (AFFO)	1,496,354	(231,252)	4,716,637	(760,808)

(1) Based on an estimate of \$0.26 per square foot of gross leasable area per year. 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,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Cash flows from operating activities	651,909	(284,544)	4,153,387	(853,645)
Adjustments:				
Changes in non-cash working capital	877,049	55,792	666,793	85,637
Changes in other non-current assets	-	-	-	14,000
Distributions on Class B LP Units expensed	14,396	-	55,457	-
Capital reserve	<u>(47,000)</u>	<u>(2,500)</u>	<u>(159,000)</u>	<u>(6,800)</u>
AFFO	1,496,354	(231,252)	4,716,637	(760,808)

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, 2014, the REIT had cash and cash equivalents of \$428,512 (December 31, 2013 - \$681,636) and working capital deficit of \$660,218 (December 31, 2013 - \$538,895 of working capital). Management of the REIT believes that sufficient cash from operations will be generated to meet the working capital deficit, and the REIT has the ability to draw funds on the revolving credit facility if required. The REIT has sufficient liquidity to maintain and expand its business.

The following table details the changes in cash and cash equivalents for the three months and year ended December 31, 2014 and 2013.

	Three months ended December 31,		Year ended December 31,	
	2014	2013	2014	2013
Cash provided by (used in):	\$	\$	\$	\$
Operating activities	651,909	(284,544)	4,153,387	(853,645)
Investing activities	-	-	(71,450,716)	(6,211,146)
Financing activities	<u>(959,171)</u>	<u>(54,815)</u>	<u>67,044,205</u>	<u>2,806,709</u>
Change in cash and cash equivalents	(307,262)	(339,359)	(253,124)	(4,258,082)
Cash and cash equivalents – beginning of period	<u>735,774</u>	<u>1,020,995</u>	<u>681,636</u>	<u>4,939,718</u>
Cash and cash equivalents – end of period	<u>428,512</u>	<u>681,636</u>	<u>428,512</u>	<u>681,636</u>

Cash generated from operating activities for the year ended December 31, 2014 of \$4,153,387 is primarily comprised of net income of \$4,256,037. Cash used in changes in working capital was \$666,793.

Cash generated from financing activities in the year ended December 31, 2014 includes distributions paid of \$3,254,842, principal repayment of mortgages of \$224,436, borrowings against the Credit Facility in the amount of \$54,750,000 to fund the acquisitions of the RTL Westcan Properties and the Acquisition Properties, net borrowings against the Credit Facility not directly used to finance acquisitions, in the amount of \$167,979 and cash raised through the issuance of units of \$16,113,132 net of issuance costs.

Cash used in investing activities of \$71,450,716 for the year ended December 31, 2014 related to the acquisition of the RTL Westcan Properties and the Acquisition Properties.

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

Mortgages Payable

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

The mortgages payable are secured by charges against the investment properties. At December 31, 2014, the weighted average interest rate, including deferred financing costs, on the mortgages payable is 4.07% and the weighted average term to maturity is 7.49 years. As at December 31, 2014, unamortized deferred financing costs of \$45,386 (December 31, 2013 - \$55,813) are netted against mortgages payable. Interest expense recorded in the year includes the amortization of deferred financing costs relating to mortgages payable in the amount of \$10,427 (2013 - \$7,827).

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

	Scheduled Repayments	Principal Maturities	Total
	\$	\$	\$
2015	232,957	-	232,957
2016	241,800	-	241,800
2017	245,901	414,040	659,941
2018	239,685	-	239,685
2019	248,733	-	248,733
Thereafter	922,869	596,981	1,519,850
Total	<u>2,131,945</u>	<u>1,011,021</u>	<u>3,142,966</u>

Revolving Credit Facility

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

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

At December 31, 2014, a total of \$54,917,979 was drawn against the Credit Facility. Of the total drawn, \$50,350,000 was drawn in the form of fixed rate and term borrowings, \$3,300,000 was drawn in the form of bankers' acceptance borrowings, at an interest rate, including the applicable 2.25% stamping fee, of 3.53%, and \$1,267,979 was drawn in the form of prime rate borrowings. Of the fixed rate and term borrowings, \$30,000,000 bears interest at a rate of 3.90% and matures on January 10, 2019, and \$20,350,000 bears interest at a rate of 3.63% and matures on July 15, 2019.

At December 31, 2014, deferred financing costs of \$524,869 (2013 - \$nil) are netted against the Credit Facility. Interest expense recorded in the year includes the amortization of deferred financing costs relating to the Credit Facility in the amount of \$108,084 (2013 - \$nil).

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, 2014, 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

A summary of significant accounting policies and accounting estimates can be found in note 2 to the REIT's condensed consolidated interim financial statements.

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, 2014, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$3,750,000 in the determination of the fair value of the investment properties. A 0.25% decrease in the weighted average capitalization rate would result in an increase of approximately \$4,000,000 in the determination of the fair value of the investment properties.

Unit options

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

CHANGES IN ACCOUNTING POLICIES

The REIT has retrospectively adopted the following new accounting guidance effective January 1, 2014.

IFRS Interpretation Committee (IFRIC) 21, “Levies” (IFRIC 21) provides an interpretation on the accounting for levies imposed by governments. IFRIC 21 clarifies that the obligating event that gives rise to liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The adoption of IFRIC 21 did not have any impact on the consolidated financial statements of the REIT.

IAS 32, “Financial Instruments: Presentation” (IAS 32) clarifies requirements for offsetting of financial assets and financial liabilities. The adoption of IAS 32 did not have any impact on the consolidated financial statements of the REIT.

IAS 36, “Impairment of Assets” addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The adoption of IAS 36 did not have any impact on the consolidated financial statements of the REIT.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2014 are not material to the consolidated financial statements of the REIT.

FINANCIAL INSTRUMENTS AND RISKS AND UNCERTAINTIES

Real property ownership and tenant risk

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

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

Competition

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

Fixed costs and increased expenses

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

General uninsured risks

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

Environmental and litigation risk

The REIT is subject to federal, provincial and local environmental regulations that apply generally to the ownership of real property and the operation of commercial properties. If it fails to comply with those laws, the REIT could be subject to significant fines or other governmental sanctions. Under various federal, provincial and local laws, ordinances and regulations, an owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at a facility and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with contamination. Such liability may be imposed whether or not the owner or operator knew of, or was responsible for, the presence of these hazardous or toxic substances. The cost of investigation, remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to properly remediate such substances, may adversely affect the REIT's ability to sell or rent such facility or to borrow using such facility as collateral. In order to assess the potential for liabilities arising from the environmental condition at the REIT's properties, the REIT may obtain or examine environmental assessments prepared by environmental consulting firms. The environmental assessments received in respect of the investment properties have not revealed, nor is the REIT aware of, any environmental liability that the company believes will have a material adverse effect on it.

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

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they become due. The REIT manages this risk by ensuring it has sufficient cash and cash equivalents on hand or borrowing capacity to meet obligations as they become due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at December 31, 2014, the REIT had cash and cash equivalents of \$428,512 (December 31, 2013 - \$681,636), mortgages payable of \$3,142,966 (December 31, 2013 - \$3,367,404), a revolving credit facility balance of \$54,917,979 (December 31, 2013 - \$nil) and accounts payable and accrued liabilities of \$664,585 (December 31, 2013 - \$714,652). The REIT has negative working capital of \$660,218 at December 31, 2014 (December 31, 2013 – positive working capital of \$538,895), however, the REIT has access to funds under the Credit Facility and expects to generate sufficient cash from operations to satisfy its financial liabilities as they come due. The REIT is not subject to significant liquidity risk.

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

	Accounts payable and accrued liabilities	Credit facility principal repayment	Interest on fixed portion of credit facility	Mortgage payable	Mortgage interest	Total
	\$	\$	\$	\$	\$	\$
2015	1,309,152	-	1,908,705	232,957	113,878	3,564,692
2016	-	-	1,908,705	241,800	105,035	2,255,540
2017	-	-	1,908,705	659,941	91,767	2,660,413
2018	-	-	1,908,705	239,685	70,481	2,218,871
2019	-	54,917,979	423,500	248,733	61,433	55,651,645
Thereafter	-	-	-	1,519,850	136,866	1,656,716
Total	1,309,152	54,917,979	8,058,320	3,142,966	579,460	68,007,877

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. There is a risk that the REIT may not be able to renegotiate its mortgages at maturity on terms as favourable as the existing mortgages payable. At December 31, 2014, there was a total of \$4,567,979 drawn against the REIT's revolving 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 gross book value and aims to structure new debt to stagger the maturities to ensure that the majority of debt does not become due for repayment in any one particular year. The REIT may also convert borrowings under the revolving 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. 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, 2014, the REIT had six tenants, with one tenant accounting for approximately 57 percent of the REIT's rental income, resulting in concentration of credit risk. The REIT monitors the credit worthiness of the tenants on an ongoing basis.

COMMITMENTS

The REIT has a leasehold interest in a property subject to a 66 year land lease which commenced May 1, 2006, and has two ten year options to renew. The land lease provides for annual base rent and additional rent comprised of the property's proportionate share of common area maintenance and property tax expense. The full annual ground lease payment is due in advance each May 1st. As at December 31, 2014, annual future minimum ground lease payments on account of base rent are as follows:

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

OUTSTANDING UNIT / SHARE DATA

	Shares	Units	Amount \$
Share Capital of the Corporation, January 1, 2013 and 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)	(7,200,000)	-	(580,000)
Units issued as consideration, purchase of Acquisition Properties	-	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.

As at November 18, 2015, a total of 33,143,708 REIT units and 3,830,985 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 year ended December 31, 2014 amounted \$3,763,590. No distributions were declared or paid during the year ended December 31, 2013.

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

	Three months ended December 31, 2014 \$	Year ended December 31, 2014 \$	Year ended December 31, 2013 \$	Period from July 30, 2012 to December 31, 2012 \$
Cash flows from operating activities	651,909	4,153,387	(853,645)	(15,233)
Net income (loss)	1,278,385	9,196,037	(322,935)	(289,775)
Actual cash distributions paid or payable during the period	1,137,479	3,708,132	-	-
Excess (shortfall) of cash flows from operating activities over cash distributions paid	(485,570)	445,255	N/A	N/A
Excess (shortfall) of net income (loss) over cash distributions paid	140,906	5,487,905	N/A	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, 2014, \$29,028 and \$84,338, respectively was settled through the issuance of REIT units under the distribution reinvestment program.

	Three months ended December 31, 2014 \$	Three months ended September 30, 2014 \$	Three months ended June 30, 2014 \$	Three months ended March 31, 2014 \$
Cash flows from operating activities	651,909	2,817,185	394,739	289,554
Net income (loss)	1,278,385	2,566,808	699,765	4,651,079
Actual cash distributions paid or payable during the period	1,137,479	1,131,472	778,367	660,814
Excess (shortfall) of cash flows from operating activities over cash distributions paid	(485,570)	1,685,713	(383,628)	(371,260)
Excess (shortfall) of net income (loss) over cash distributions paid	140,906	1,435,336	(78,602)	3,990,265

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.

Cash flow from operating activities for the three months ended December 31, 2014 includes cash used by changes in non-cash working capital of \$877,049. This use of cash in the fourth quarter primarily related to the payment of legal and other professional costs incurred in the third quarter related to the July 15, 2014 prospectus raise and acquisitions. Additionally, a \$100,000 refundable deposit was paid in respect of a conditional agreement of purchase and sale entered into with respect to an investment property in the fourth quarter. Net of the impact of these transactional items, cash flows from operating activities exceeded distributions paid or payable during the three months ended December 31, 2014. Net income for the three months ended December 31, 2014 exceeded distributions paid or payable during the period. The REIT expects that it will generate sufficient cash from operations to cover future distributions and believes that the current level of distributions paid is sustainable.

Net income for the year ended December 31, 2014 includes non-cash fair value adjustments amounting to \$5,283,865. Net income, and net income excluding these non-cash fair value adjustments, both exceed distributions paid or payable during the year. Cash flows from operating activities for the year also exceeded distributions paid or payable.

DISTRIBUTION REINVESTMENT PLAN

The REIT adopted a distribution reinvestment plan (DRIP) on February 20, 2014, pursuant to which resident Canadian holders of not less than 1,000 units are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional units at a price per unit calculated by reference to the weighted average of the trading price for the units on the relevant stock exchange or marketplace for the five trading days immediately preceding the relevant distribution date. Eligible unitholders who so elect will receive a bonus distribution of units equal to 3% of each distribution that was reinvested by them under the DRIP. For the year ended December 31, 2014, 39,653 units (2013 – nil) were issued under the DRIP for a stated value of \$73,917 (2013 - \$nil).

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are pending changes to IFRS which are not yet effective for the period ended December 31, 2014 which have not been applied in the preparation of the REIT's financial statements. The REIT is currently considering the impact that these standards changes will have on the financial statements. The standards issued or amended but not yet effective at December 31, 2014 include the following:

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. The REIT is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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

IFRS 15, Revenue from Contracts with Customers, is a new standard providing accounting guidance on the recognition, measurement and disclosure of revenue from contracts with customers. IFRS 15 does not apply to contracts within the scope of the standard on leases. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively.

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 comprehensive income should not be aggregated or disaggregated in a manner that obscures information, and that disaggregation may be required in the statements of 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. The REIT is currently evaluating the impact of adopting this standard on the consolidated financial statements.

RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

During the year ended December 31, 2014, acquisition fees in the amounts of \$523,720 were paid to the manager (2013 - \$nil). Annual asset management fees in the amount of \$712,663 were expensed during the year (2013 - \$nil) and \$489,082 of these fees were settled during the year (2013 - \$nil) through the issuance of 248,698 REIT Units to the Manager (2013 - nil) at an average price of \$1.97 per unit. Subsequent to year end, 121,183 units at an average price per unit of \$1.84 were issued to the manager in settlement of asset management fees for the fourth quarter of the year.

Trustee fees in the amount of \$82,500 in respect of annual trustee retainer fees were expensed during the year ended December 31, 2014 (2013 - \$nil). Of the total expensed, \$61,875 was settled during the year through the issuance of 31,730 REIT Units at a price of \$1.95 per unit. Trustee retainer fees in the amount of \$20,625 were accrued at December 31, 2014 (December 31, 2014 - \$nil). Trustee meeting fees in the amount of \$17,900 were expensed and paid in cash during the year ended December 31, 2014 (2013 - \$nil).

During the year ended December 31, 2014, cash bonuses totalling \$nil (2013 - \$190,000) were paid to the REIT's CEO and CFO.

On July 15, 2014, the REIT acquired the Northern Mat and Triple M properties (see note 3) from companies which are controlled by investment funds associated with TriWest Capital Partners (TriWest). TriWest also controls RTL-Westcan LP, which holds an approximately 38 percent economic and voting interest in the REIT. Three members of TriWest are trustees of the REIT. The transaction was completed for a negotiated purchase price of \$36,744,000, which was supported by third party appraisals. The transaction was approved by the REIT's independent Trustees and by a vote of the REIT's Unitholders. The REIT received lease payments related to the Northern Mat and Triple M properties totaling \$1,388,905 during the year ended December 31, 2014.

As at December 31, 2014, the amount of \$644,567 was recorded as receivable from the vendors of the RTL-Westcan Properties, one of which vendors is RTL-Westcan LP. The receivable relates to costs of remediating an environmental issue which was identified at one of the RTL Westcan Properties prior to the REIT purchasing the properties. The vendors have committed to covering the costs of the remediation.

SUBSEQUENT EVENTS

A REIT tenant has commenced court and arbitration proceedings against the REIT and others for breach of contract, alleging certain environmental issues involving, and foundation issues at that tenant's Saskatoon location as well, as an environmental issue at that tenant's Yellowknife property. The tenant is claiming damages in the amount of \$2,200,000 and additional unspecified costs. The REIT intends to defend these proceedings if required, and the REIT has numerous arguments available in its defense. At this stage, management does not believe the REIT will be subject to material liability in respect of these claims. Additionally, the REIT is indemnified by third parties concerning the environmental claims of \$700,000 involving both properties.

On November 4, 2015, the REIT announced that it had waived due diligence conditions to acquire a property located in Prince George, British Columbia for a purchase price of \$7,500,000. The purchase price will be partially satisfied through the issuance of 1,697,369 Class B LP Units, with the remainder of the purchase price to be paid in cash.

On August 25, 2015, the REIT acquired an industrial property located in Calgary, Alberta (the Calgary Property). The Calgary Property was initially recorded at \$21,667,312, the fair value of consideration exchanged for the property. Consideration included the issuance of 1,052,632 REIT units to the vendor, \$8,377,838 paid in cash, and the assumption of a mortgage with a principal balance of \$11,500,000, an interest rate of 3.5%, and a remaining term of seven years. 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 25, 2015, the REIT placed mortgage debt with an aggregate principal amount of \$10,775,000 on the Kelowna and Barrie Properties.

On August 4, 2015, the REIT acquired an industrial property located in Kelowna, British Columbia (the Kelowna Property). The Kelowna Property was initially recorded at \$7,380,000, the fair value of consideration paid to the vendor of \$3,700,000 in cash and the issuance of 2,000,000 REIT units. 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 acquired an industrial property located in Barrie, Ontario (the Barrie Property). The Barrie Property was initially recorded at \$7,868,934, the fair value of consideration paid through the issuance to the vendor of 1,000,000 REIT units and 3,470,985 Class B LP Units. 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.

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.