

**WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST**



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION  
THREE MONTHS ENDED JUNE 30, 2013 AND THE PERIOD FROM  
MARCH 4, 2013 TO JUNE 30, 2013**

**August 12, 2013**

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## PART I

### BASIS OF PRESENTATION

This Management's Discussion and Analysis ("**MD&A**") is prepared as of August 12, 2013 and outlines WPT Industrial Real Estate Investment Trust's (the "**REIT**") operating strategies, risk profile considerations, business outlook and analysis of its financial performance and financial condition for the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013. Because the REIT had no operations prior to the completion of its Initial Public Offering ("**IPO**") on April 26, 2013, the discussion in this MD&A has been limited to the sixty-six day period from April 26, 2013 to June 30, 2013. The analysis provides a comparison to the REIT's financial forecast provided in the REIT's final prospectus dated April 18, 2013 (the "**Prospectus**"), prorated to correspond with the sixty-six day period from April 26, 2013 to June 30, 2013. The REIT was established on March 4, 2013 and had no material operations prior to April 26, 2013.

This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards ("**IFRS**") in thousands of United States dollars, unless otherwise stated.

This MD&A should be read in conjunction with the REIT's unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013, and with the unaudited pro forma condensed consolidated financial statements of the REIT as at and for the year ended December 31, 2012 and the financial forecast contained in the Prospectus.

### NON-IFRS MEASURES

Certain terms used in this MD&A such as funds from operations ("**FFO**"), adjusted funds from operations ("**AFFO**"), net operating income ("**NOI**") and earnings before interest, taxes, depreciation and amortization ("**EBITDA**") and any related per Unit amounts used by management to measure, compare and explain the operating results and financial performance of the REIT are not recognized terms under IFRS, and therefore should not be construed as alternatives to net income and comprehensive income or cash flow from operating activities calculated in accordance with IFRS. Management believes that these terms are relevant measures in comparing the REIT's performance to industry data and the REIT's ability to earn and distribute cash returns to holders of the REIT's trust units ("**REIT Units**"). These terms are defined below and are reconciled to the condensed consolidated interim financial statements of the REIT for the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013 in Part II. Such terms do not have a standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures presented by other issuers.

FFO is defined as net income in accordance with IFRS, (i) plus or minus fair value adjustments on investment properties; (ii) plus or minus gains or losses from sales of investment properties; (iii) plus or minus other fair value adjustments; (iv) plus amortization of tenant incentives; (v) plus transaction costs expensed as a result of the purchase of a property being accounted for as a business combination; (vi) plus distributions on redeemable or exchangeable units treated as interest expense; (vii) plus or minus any negative goodwill or goodwill impairment; and (viii) plus deferred income tax expense, after adjustments for equity accounted entities and joint ventures calculated to reflect FFO on the same basis as consolidated properties. FFO has been prepared consistently with the definition presented in the White Paper on funds from operations prepared by the Real Property Association of Canada for all periods presented.

AFFO is defined as FFO subject to certain adjustments, including: (i) amortization of fair value mark-to-market adjustments on long-term debt and amortization of financing costs; (ii) adjusting for any differences resulting from recognizing property rental revenues or expenses on a straight-line basis; (iii) amortization of grant date fair value related to compensation incentive plans; (iv) adjusting for any non-cash compensation expense; and (v) deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing commissions, as determined by the REIT. Other adjustments may be made to AFFO as determined by the board of trustees in their sole discretion.

NOI is used by industry analysts, investors and management to measure operating performance of real estate investment trusts. NOI represents revenue from properties less property operating expenses as presented in the consolidated statements of net income and comprehensive income prepared in accordance with IFRS.

### **FORWARD LOOKING STATEMENTS**

This MD&A contains “forward-looking information” as defined under Canadian securities laws (collectively, “forward-looking statements”) which reflect management’s expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance, business prospects and opportunities of the REIT. The words “plans”, “expects”, “does not expect”, “scheduled”, “estimates”, “intends”, “anticipates”, “does not anticipate”, “projects”, “believes”, or variations of such words and phrases or statements to the effect that certain actions, events or results “may”, “will”, “could”, “would”, “might”, “be achieved”, or “continue” and similar expressions identify forward-looking statements. Some of the specific forward-looking statements in this MD&A include, but are not limited to statements regarding the objectives and strategic direction of the REIT, management’s beliefs regarding investment opportunities in the U.S. Industrial real estate market, management’s beliefs regarding U.S. economic recovery and vacancy rate trends, statements regarding tenant demand in the warehouse and distribution sub-segment, including statements regarding demand for state-of-the-art distribution and logistics space, speculative development in distribution markets, management’s views on vacancy rates in the state-of-the-art distribution market and management’s beliefs regarding absorption of vacancy in distribution properties in major distribution markets in the U.S. over the past years, management’s beliefs regarding key trends and continued and increased demand within the industrial real estate market, statements regarding the REIT’s external growth strategy including statements regarding diversification, the REIT’s cost of capital, borrowing costs and opportunities to increase the cash flow and value of the existing portfolio of properties through initiatives designed to enhance operations, statements relating to the quality and future valuations of the REIT’s portfolio of properties, statements relating to lease terms, termination and future maintenance and leasing expenditures, statements regarding the REIT’s ability to meet all of its ongoing obligations with current cash generated from operations, draws on its revolving facility and new equity and debt issuances, statements regarding the REIT’s intentions to maintain total indebtedness levels at or below 55% of gross book value (as defined herein), management’s belief regarding the fair values of the REIT’s investment properties and statements regarding the REIT’s debt strategy, including statements regarding the REIT’s intention to maintain staggered debt maturities and the REIT’s intention to enter into long-term loans at fixed interest rates when borrowing conditions are favorable.

Forward-looking statements are necessarily based on a number of estimates, beliefs and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies which could cause actual results to differ materially from those that are disclosed in such forward-looking statements. While considered reasonable by management of the REIT as of the date of this MD&A, any of these estimates, beliefs or assumptions could prove to be inaccurate and, as a result,

the forward-looking statements based on those estimates, beliefs or assumptions could be incorrect. The REIT's estimates, beliefs and assumptions, which may prove to be incorrect, include the various estimates, beliefs and assumptions set forth herein, and include but are not limited to, the desirability of investment properties in the warehouse and distribution subsector of the U.S. industrial real estate market to investors, including the industrial properties in the REIT's portfolio, key trends in the industrial property real estate market, the REIT's future growth potential, anticipated amounts of expenses, results of operations, future prospects and opportunities, the demographic and industry trends remaining unchanged, no change in legislative or regulatory matters, future levels of indebtedness, the tax laws in both Canada and the United States as currently in effect remaining unchanged, current levels of volatility in the demand for space in the warehouse and distribution sub-segment remaining unchanged, the continued availability of capital, the current economic conditions remaining unchanged, increased tenant demand for industrial properties and declining vacancy rates in the markets in which the REIT's properties are located. When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including but not limited to those factors discussed under "Risk Factors" in the Prospectus, which is available under the REIT's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Certain statements included in this MD&A may be considered a "financial outlook" for purposes of applicable Canadian securities laws, and as such, the financial outlook may not be appropriate for purposes other than this MD&A. These forward-looking statements are made as of the date of this MD&A. Except as expressly required by applicable law, the REIT assumes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All forward-looking statements in this MD&A are qualified by these cautionary statements.

## OVERVIEW

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated March 4, 2013 (as amended and restated on April 26, 2013 and as may be amended and restated from time to time) (the "**Declaration of Trust**") under the laws of the Province of Ontario, when one REIT Unit was issued for ten dollars. A copy of the Declaration of Trust is available under the REIT's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com). The REIT's Units are listed and publicly traded on the Toronto Stock Exchange ("**TSX**") under the symbol "WIR.U". As at June 30, 2013, there were 11,430,000 units of the REIT outstanding.

The REIT has been formed to own and operate an institutional-quality portfolio of primarily industrial properties located in the U.S., with a particular focus on warehouse and distribution industrial real estate. As at June 30, 2013, the REIT indirectly owned a portfolio of properties consisting of 8,617,313 square feet of gross leasable area ("**GLA**"), comprised of 35 industrial properties and two office properties, located in 12 states in the U.S.

On April 26, 2013, the REIT completed an IPO of 10,000,000 REIT Units for gross proceeds of \$100,000 or approximately \$87,403 net of underwriters' fees and other transaction costs. In connection with the IPO, and pursuant to a contribution agreement dated as of such date (the "**Contribution Agreement**") the REIT, through WPT Industrial, LP (the "**Partnership**"), indirectly acquired from Welsh Property Trust, LLC ("**Welsh**"), a portfolio of properties consisting of 8,617,313 square feet, comprised of 35 industrial

properties and two office properties located in 12 states in the United States (collectively, the “**Initial Properties**”). The Initial Properties were acquired in partial consideration for 10,867,362 Class B Units of the Partnership (the “**Class B Units**”) and \$66,174 in cash. On completion of the IPO, the REIT assumed mortgages on 28 of the Initial Properties with an aggregate principal balance of approximately \$190,632 (including a mark-to-market premium of \$4,700), and refinanced and satisfied certain debt, including mortgages in the aggregate amount of \$68,013 on certain Initial Properties that were transferred to the REIT subject to such debt. The REIT also entered into a \$75,000 senior secured revolving credit facility (the “**Revolving Facility**”) upon completion of the IPO, of which \$38,000 was drawn and \$950 was outstanding under a letter of credit as at June 30, 2013.

In connection with the completion of the IPO, the REIT entered into an asset management agreement (the “**Asset Management Agreement**”) with Welsh, under which Welsh became the external asset manager of the investment properties directly or indirectly owned by the REIT and agreed to provide certain advisory and investment management services. Per the terms of the Asset Management Agreement, Welsh is entitled to earn the following fees:

- (a) **Asset Management Fee.** An annual management fee, calculated and payable in cash on a monthly basis, equal to 0.25% of Gross Book Value (as defined in the Asset Management Agreement).
- (b) **Acquisition Fee.** An acquisition fee equal to: (i) 1.0% of the purchase price paid for the first \$100,000 of properties acquired by the REIT or any of its affiliates in each fiscal year; (ii) 0.75% of the purchase price paid for the next \$100,000 of properties acquired by the REIT or any of its affiliates in each fiscal year; and (iii) 0.50% of the purchase price paid in excess of \$200,000 for properties acquired by the REIT or any of its affiliates in each fiscal year.
- (c) **Construction Management Fee.** With respect to any capital project with costs in excess of \$100 undertaken by the REIT or any of its affiliates, a construction management fee equal to 5.0% of aggregate tenant improvements, capital expenditures and construction costs incurred in respect of such capital project, provided that such fee will not apply to repair and maintenance costs incurred in the ordinary course of business.

The Asset Management Agreement has an initial term of five years, subject to earlier termination and/or internalization, with internalization defined as the point in time when the REIT has achieved a fully-diluted market capitalization of \$750,000.

Also upon completion of the IPO, the REIT entered into a property management agreement (the “**Property Management Agreement**”) with Welsh, under which Welsh became the external property manager of the investment properties directly or indirectly owned by the REIT and agreed to administer the day-to-day operations of the REIT’s portfolio of investment properties. Per the terms of the Property Management Agreement, Welsh receives fees, calculated and payable in cash on a monthly basis, in an amount equal to 2.0%, 3.0% or 4.0% of the REIT’s annual gross revenues received in respect of the single-tenant industrial properties, multi-tenant industrial properties and office properties, respectively, directly or indirectly owned by the REIT.

The Property Management Agreement has an initial term of five years, subject to earlier termination and/or internalization, and may be renewed upon the approval of a majority of the independent members of the board of trustees for additional five year terms.

On May 16, 2013, in connection with the exercise of the underwriters' over-allotment option granted to the underwriters of the IPO, the REIT issued an additional 1,430,000 REIT Units for gross proceeds of \$14,300 or approximately \$13,439 net of underwriters' fees and other transaction costs. The net proceeds were used to reduce debt outstanding on the Revolving Facility.

The REIT declared and paid distributions for the thirty-six day period ended May 31, 2013 at a rate of \$0.0690 per unit and declared distributions for the month ended June 30, 2013 at the monthly rate of \$0.0583 per unit.

On June 28, 2013, the REIT Units were approved for trading in the United States on the OTCQX marketplace ("OTCQX") under the symbol "WPTIF".

## **OBJECTIVES**

The objectives of the REIT are to:

- provide Unitholders with an opportunity to invest in a portfolio of institutional-quality industrial properties in attractive U.S. markets, with a particular focus on warehouse and distribution industrial real estate;
- provide Unitholders with predictable, sustainable and growing cash distributions on a tax-efficient basis. The REIT pays its cash distributions in U.S. dollars;
- enhance the value of the REIT's portfolio and maximize the long-term value of the units through the active management of the REIT's properties; and
- expand the asset base of the REIT through strategic acquisitions of stabilized, high quality industrial properties located in attractive U.S. markets.

## **STRATEGIC DIRECTION**

The REIT provides investors with exposure to the industrial segment of the U.S. real estate market through the ownership of a portfolio of institutional-quality properties located in attractive U.S. markets. Management believes that a focus on the warehouse and distribution sub-segment of the U.S. industrial real estate market provides investors with a compelling investment opportunity by providing them with, among other things: (i) exposure to the dynamic and growing U.S. economy; (ii) the opportunity to invest in an attractive real estate segment with compelling relative fundamentals; and (iii) the opportunity to earn attractive risk-adjusted returns.

The U.S. industrial real estate market experienced a significant increase in both domestic and foreign capital investment over the last 24 months. Historically low interest rates, positive economic indicators and increasing demand for well-located, high quality and functional properties are all elements that suggest the existence of attractive opportunities in the U.S. industrial real estate market, particularly for recently constructed warehouse and distribution properties.

The evolution of global economics and the global supply chain are transforming the U.S. industrial real estate landscape and creating compelling opportunities. The industrial real estate sector currently benefits from stable, healthy demand and an increasingly constrained supply of high-quality space. The national warehouse vacancy rate has slowly declined from a peak of 10% in 2010 to 8.1% as of second

quarter 2013, a level not achieved since early 2008. Management believes that as the U.S. economic recovery continues, the vacancy rate will continue to trend toward pre-recession levels, which were approximately 7.5%.

Tenant demand has steadily increased, as evidenced by three consecutive years of positive net absorption. This increase in demand for state-of-the-art distribution and logistics space (specifically properties with 400,000 square feet of space or greater) has resulted in speculative development in attractive distribution markets where vacancy has decreased significantly for this specific property type. Additionally, renewed confidence from large companies has supported a meaningful increase in build-to-suit development activity. In management's view, the vacancy rate in the state-of-the-art distribution market is less than 3% in a number of the major distribution markets in the U.S. Management believes that over the last two years, strong demand has led to the absorption of much of the vacancy in distribution properties in these locations.

Management believes the following are a few of the key trends that suggest that there will be continued and increased demand within the industrial real estate market:

- **Global Supply Chain Trends.** A physical manufacturing presence in the U.S. is becoming increasingly important for most large companies as a result of increasing labor costs in Asia and volatile global fuel costs. This macroeconomic and geopolitical landscape has forced companies to re-evaluate their supply chain networks. Recognizing that the U.S. is a vast consumer market, companies need to be in close proximity to their customers to remain competitive, as shipping currently represents the largest single cost factor in the global supply chain. These critical supply chain considerations make the U.S. increasingly more attractive from a manufacturing, distribution and sourcing perspective.
- **U.S. Infrastructure.** The U.S. has a world-class supply chain infrastructure across all transportation sectors. Rail, seaports, highways and airports all provide for a robust distribution and logistics landscape, an important factor in attracting and retaining manufacturers. In the long-term, the U.S. supply chain infrastructure's proximity to the to-be-expanded Panama Canal is expected to result in growth and investment within the broader logistics universe impacting everything from shipping routes to freight rail infrastructure construction. Increasing shipping volumes experienced by U.S. seaports will also create the need to distribute goods directly to inland ports and will expand the utilization of intermodal hubs to alleviate distribution costs, creating additional opportunities in the U.S. industrial real estate market.
- **The Impact of the e-Commerce Industry.** The primary industries leading the demand for warehouse and distribution space are food-and-beverage, e-commerce and traditional retailers. Currently, one-third of all demand for state-of-the-art space is tied to multi-channel e-commerce retailers. E-commerce supply chain design and distribution has revolutionized the retail sector. Retailers utilizing multiple channels to sell their merchandise are finding it more cost-effective to increase online operations rather than open more traditional stores, resulting in an entirely different and evolving distribution model.

Industrial properties are generally single-story properties located in or near major cities. Industrial properties typically house such activities as warehousing, distribution, storage and a number of other

similar uses. Leases entered into with industrial tenants are frequently “triple-net”, meaning that tenants are responsible for paying the majority of the costs associated with operating a property, including real estate taxes, insurance, common area maintenance and capital repairs. Tenant responsibility for costs results in greater cash flow predictability and certainty for the REIT relative to other segments of the real estate market.

Management believes that tenant demand for space in the warehouse and distribution sub-segment is less volatile than demand for space in the overall industrial real estate market. Goods distributed through warehouse and distribution facilities are frequently non-discretionary products characterized by relatively inelastic consumer demand. Inelasticity in consumer demand for these products gives rise to stability in tenants’ operations which, in turn, results in more stable occupancies and rental incomes. In addition, the re-tenanting costs associated with warehouse and distribution properties are often lower than the costs associated with properties within the overall industrial real estate market, reducing the costs associated with leasing vacant and renewal space.

In addition to providing investors with exposure to a portfolio of high-quality industrial properties in attractive U.S. markets, the REIT also benefits from Welsh’s significant experience acquiring, managing and disposing of industrial properties. Welsh also maintains an extensive network of relationships with brokers, tenants and institutional and private owners of industrial real estate in a number of attractive U.S. markets. Welsh leverages these relationships to promote tenant retention and source accretive acquisitions of new industrial properties for the REIT.

The REIT intends to pursue a disciplined external growth strategy, targeting acquisitions of state-of-the-art warehouse and distribution properties in major distribution markets throughout the U.S. The objective of the REIT’s external growth initiatives are to expand the REIT’s portfolio in order to enhance geographic diversity, improve the sustainability of cash flow and mitigate risks associated with concentrated exposure to any one market. Management anticipates that such diversification will reduce the REIT’s cost of capital, further facilitating growth and reducing borrowing costs. External growth will be facilitated by the following: (i) a right of first opportunity to acquire additional properties from Welsh; (ii) the reputation and experience of Welsh’s acquisitions team; (iii) a disciplined acquisition program; (iv) strategic market analysis; and (v) extensive investment due diligence and oversight.

Management believes there are opportunities to increase the cash flow and value of the existing portfolio through initiatives designed to enhance operations. The REIT continues to focus on optimizing the performance, value and long-term cash flow of its existing portfolio through a number of activities, including the following: (i) increasing rental rates; (ii) maximizing occupancies; (iii) capitalizing on expansion opportunities; (iv) leveraging continuity of management and strong tenant relationships; (v) continuing to implement active leasing programs; and (vi) maintaining cost management and maintenance programs.

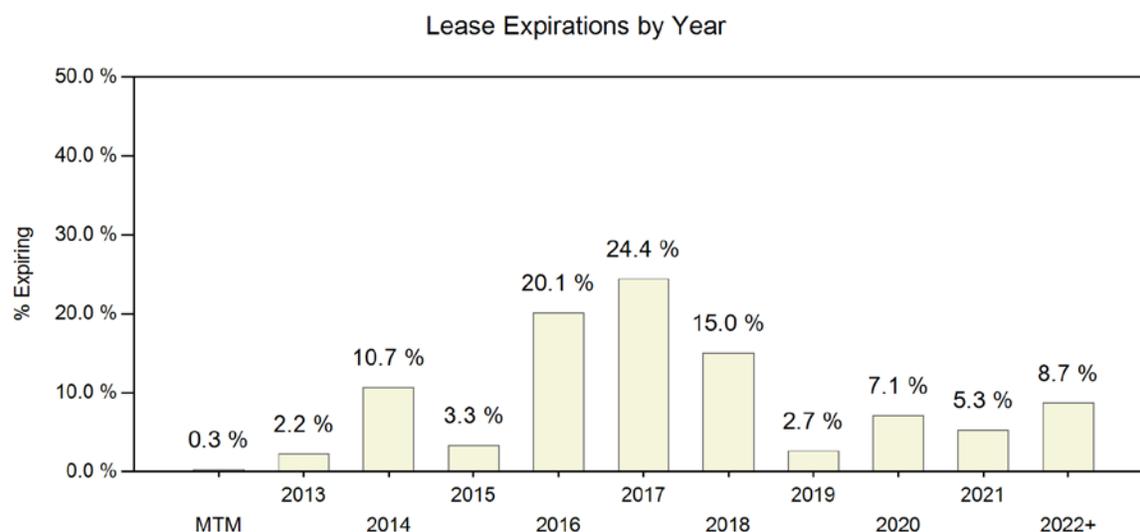
## **ASSETS**

The REIT owns and operates an institutional-quality portfolio of primarily industrial properties located in the U.S., with a particular focus on warehouse and distribution industrial real estate. The IPO of the REIT was completed on April 26, 2013, with a portfolio of 35 industrial and two office properties totaling 8,617,313 square feet and an occupancy rate across the portfolio of 96.3%.

The Initial Properties were constructed relatively recently, and the portfolio has a weighted average age of approximately 12 years. As a result, management believes that the Initial Properties will, on average,

require less maintenance expenditures and be more attractive to prospective tenants than comparable older properties. Furthermore, the Initial Properties are highly functional, with a weighted average clear ceiling height of approximately 31 feet (industrial properties only). High clear ceiling heights are an important feature to many industrial tenants, as this provides tenants with additional vertical space which can house additional racking and equipment, allowing the tenant to maximize storage space.

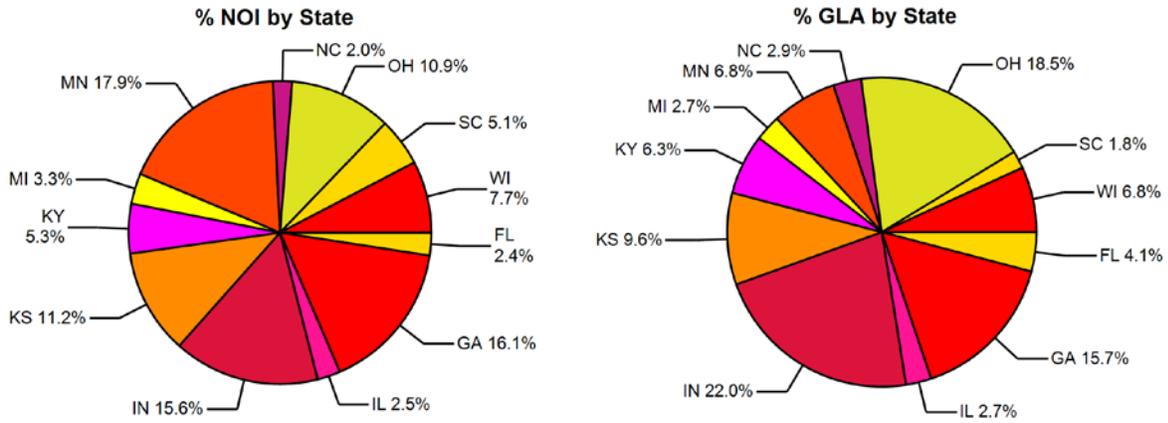
Future lease expirations are shown in the chart below, starting with those leases which are month-to-month (“MTM”):



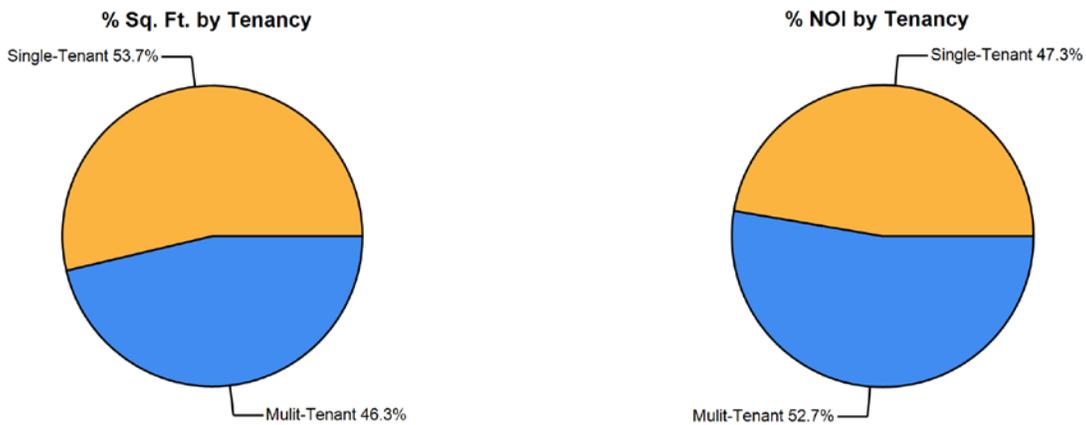
These investment properties are geographically diversified as follows (GLA in thousands):

<b>June 30, 2013</b>				
<b>State</b>	<b>Number of Properties</b>	<b>Number of Tenants</b>	<b>Owned GLA (sq ft.)</b>	<b>% of Owned GLA</b>
Indiana	3	6	1,896.5	22.0%
Ohio	4	4	1,590.5	18.5%
Georgia	7	15	1,355.7	15.7%
Kansas	4	6	827.1	9.6%
Wisconsin	4	8	589.7	6.8%
Minnesota	6	23	586.3	6.8%
Kentucky	1	1	543.5	6.3%
Florida	3	4	356.3	4.1%
North Carolina	1	1	252.5	2.9%
Michigan	1	2	233.9	2.7%
Illinois	2	3	229.5	2.7%
South Carolina	1	5	155.8	1.8%
<b>Total</b>	<b>37</b>	<b>78</b>	<b>8,617.3</b>	<b>100.0%</b>

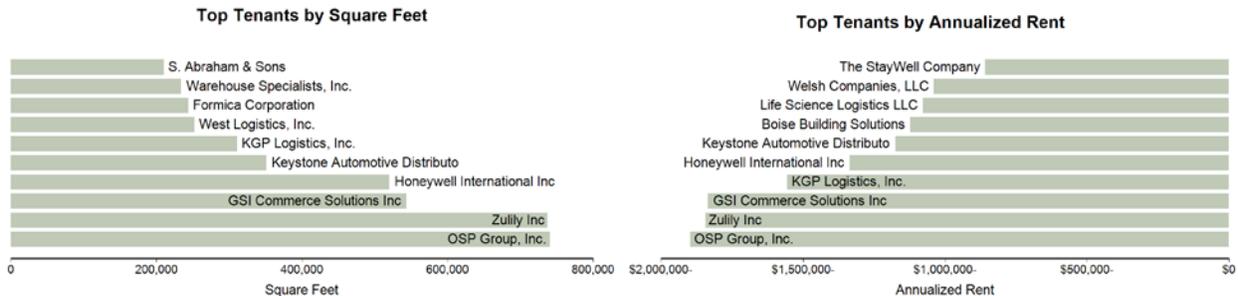
The following charts show both the net operating income and gross leasable area of the REIT's portfolio as of June 30, 2013:



The following charts show the breakout of the REIT's portfolio between single and multi-tenant buildings on both a percentage of square feet and percentage of NOI basis as at June 30, 2013:



The following charts highlight the top ten tenants by square feet and annualized rent (shown in whole dollars):



## FINANCIAL AND OPERATIONAL HIGHLIGHTS

Sixty-six days ended  
June 30, 2013

(In thousands of USD, except where noted)

<b>Operational Information:</b>		
Number of properties		37
GLA		8,617,313
Occupancy		96.3%
Average remaining lease term (years)		4.7
<b>Operating Results:</b>		
Investment properties revenue	\$	8,433
NOI <sup>(1), (2)</sup>	\$	6,263
FFO <sup>(1), (3)</sup>	\$	3,988
AFFO <sup>(1), (4)</sup>	\$	2,957
Fair value adjustment to investment properties	\$	589
<b>Distributions:</b>		
Distributions declared	\$	2,838
Distributions paid in cash	\$	1,538
REIT Units outstanding at period end		11,430,000
Class B Units outstanding at period end		10,867,362
Welsh ownership interest at period end (assuming all Class B Units are redeemed for REIT Units, otherwise on a non-diluted basis)		48.7%
<b>Financing:</b>		
Weighted-average effective interest rate <sup>(5)</sup>		4.3%
Variable rate debt as percentage of total debt <sup>(6)</sup>		17.0%
Debt-to-gross book value		51.3%
Interest coverage ratio (times) <sup>(7)</sup>		3.25
Fixed charge coverage ratio (times)		2.92
Debt to EBITDA (times) <sup>(8)</sup>		7.11
<b>Per unit amounts <sup>(9)</sup>:</b>		
<b>Basic</b>		
FFO <sup>(1)</sup>	\$	0.18
AFFO <sup>(1)</sup>	\$	0.14
Distributions per unit	\$	0.13

(1) NOI, FFO and AFFO are key measures of performance used by real estate operating companies; however, they are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or trusts.

(2) NOI is defined as investment properties revenue, less investment properties expenses.

(3) The reconciliation of FFO to net income can be found later in this MD&A.

(4) The reconciliation of AFFO to FFO can be found later in this MD&A.

(5) Includes market adjustments and financing costs.

(6) Includes \$38,000 outstanding under the Revolving Facility, subject to an interest rate cap.

(7) Calculated as EBITDA divided by interest expense on mortgages and bank indebtedness.

(8) EBITDA is defined as NOI, less G&A.

(9) A description of the determination of per unit amounts can be found later in this MD&A.

## PART II

### RESULTS OF OPERATIONS

#### Comparison to Financial Forecast

Results for the period are not directly comparable to the three month financial forecast included in the Prospectus, as the REIT commenced operations on April 26, 2013 rather than April 1, 2013 as contemplated in the Prospectus. Pro rata allocation of the three month financial forecast was deemed appropriate for the sixty-six day period ending June 30, 2013 as there were no material operations of the REIT prior to the completion of the IPO. The following table compares actual results for the sixty-six day period from April 26, 2013 to June 30, 2013 to the prorated three month financial forecast included in the Prospectus:

<u>For the Sixty-six day Period Ended June 30, 2013</u>	<u>Actual</u>	<u>Pro-rated Forecast</u>	<u>Variance</u>
Investment properties revenue	\$ 8,433	\$ 8,293	\$ 140
<u>Investment properties operating expenses</u>	<u>2,170</u>	<u>2,181</u>	<u>(11)</u>
<b>Net operating income</b>	6,263	6,112	151
<b>Other (income) and expenses</b>			
General and administrative	577	420	157
Fair value adjustment to investment properties	589	-	589
<u>Finance costs</u>	<u>(1,266)</u>	<u>3,065</u>	<u>(4,331)</u>
<b><u>Net income and comprehensive income</u></b>	<b><u>\$ 6,363</u></b>	<b><u>\$ 2,627</u></b>	<b><u>\$ 3,736</u></b>

#### Investment properties revenue

Investment properties revenue includes base rents that each tenant pays in accordance with the terms of its respective lease, recoveries of operating expenses including property taxes and common area maintenance, lease termination fees, and other incidental income. The \$140 favorable variance is primarily due to differences in timing of certain tenant renewals when compared to the assumptions in the financial forecast, as well as favorable differences in actual recoverable expenses compared to amounts assumed in the financial forecast.

#### Investment properties operating expenses

Investment properties operating expenses consist primarily of building common area and maintenance expenses, real estate taxes, insurance, property management fees and other costs associated with the management and maintenance of the investment properties. The \$11 favorable variance is primarily due to differences in actual recoverable expenses compared to amounts assumed in the financial forecast, partially offset by differences in timing of certain repair costs when compared to the financial forecast.

#### NOI

NOI is used by industry analysts, investors and management to measure operating performance of real estate investment trusts. NOI represents revenue from investment properties less investment properties operating expenses as presented in the condensed consolidated interim financial statements

prepared in accordance with IFRS. Accordingly, NOI excludes certain expenses included in the determination of net income and comprehensive income such as interest expense. NOI is not a measure defined by IFRS and, accordingly, the term does not have any standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures presented by other publicly traded entities. The \$151 favorable variance is due to favorable variances in both investment properties revenue and investment properties expenses, as explained above.

#### General and administrative expense

General and administrative expenses consist of asset management fees, professional fees, trustee fees, and other miscellaneous expenses. Of the \$157 unfavorable variance, \$31 is due to non-cash compensation expense that was not assumed to have been issued in the financial forecast. The remaining difference is primarily due to the timing of expenses; in particular, professional fees are not incurred evenly throughout the period and are therefore not comparable to pro-rated forecast results. Management anticipates that annual levels of professional fees will be comparable to forecasted results.

#### Fair value adjustment to investment properties

Under IFRS, the REIT has elected to use the fair value model to account for its investment properties. Under the fair value model, the investment properties are carried on the condensed consolidated interim statement of financial position at fair value. During the sixty-six day period ended June 30, 2013, the REIT recognized a fair value loss of \$589 on investment properties, primarily due to amortization of straight-line rents. The financial forecast did not assume fair value adjustments to investment properties, due to their non-cash nature.

#### Finance Costs

Finance costs include interest expense on mortgages payable, interest expense on the Revolving Facility, distributions on Class B Units, and gain or loss on the change in fair value of financial liabilities designated as fair value through profit or loss, including Class B Units and other financial instruments, and amortization associated with the mark-to-market premium and deferred financing costs incurred in connection with obtaining long-term financings. Actual results were materially consistent with the pro-rated forecasted amounts with the exception of the fair value gain on the REIT's liability to Class B Unitholders in the amount of \$4,347. This amount is calculated by multiplying the number of Class B Units outstanding at the end of the reporting period by the change in market-close price on the last trading day of the reporting period as compared to the beginning of the reporting period or the date of issuance, whichever is later. The financial forecast did not assume fair value adjustments to the Class B Units, due to their non-cash nature.

### Reconciliation of Non-IFRS Measures

The reconciliation of non-IFRS measures to net income and comprehensive income for the sixty-six day period ended June 30, 2013 is presented below, as compared to the prorated financial forecast:

<u>For the Sixty-six day Period Ended June 30, 2013</u>	<u>Actual</u>	<u>Pro Rated Forecast</u>	<u>Variance</u>
Investment properties revenue	\$ 8,433	\$ 8,293	\$ 140
Investment properties operating expenses	2,170	2,181	(11)
<b>Net operating income</b>	<b>6,263</b>	<b>6,112</b>	<b>151</b>
General and administrative	577	420	157
<b>EBITDA</b>	<b>5,686</b>	<b>5,692</b>	<b>(6)</b>
Fair value adjustment to investment properties	589	-	589
Finance costs	(1,266)	3,065	(4,331)
<b>Net income and comprehensive income</b>	<b>6,363</b>	<b>2,627</b>	<b>3,736</b>
Add/(Deduct):			
Fair value adjustment to investment properties	589	-	589
Fair value adjustments to financial instruments	(4,347)	-	(4,347)
Distribution on Class B Units treated as interest expense	1,383	1,379	4
<b>FFO</b>	<b>3,988</b>	<b>4,006</b>	<b>(18)</b>
Add/(Deduct):			
Leasing cost reserve <sup>(1)</sup>	(435)	(435)	-
Capital expenditure reserve <sup>(2)</sup>	(154)	(154)	-
Amortization of mark-to-market debt premium	(136)	(149)	13
Amortization of deferred financing charges	85	75	10
Non-cash compensation expense	31	-	31
Amortization of straight-line rent	(422)	(440)	18
Amortization of tenant incentives	-	9	(9)
<b>AFFO</b>	<b>\$ 2,957</b>	<b>\$ 2,912</b>	<b>\$ 45</b>

(1) The leasing cost reserve is calculated as \$0.28 per square foot, based on a five-year average of expected leasing commissions and tenant improvements.

(2) The capital expenditure reserve is calculated as \$0.09 per square foot, based on a five year average of expected capital expenditures.

Both FFO and AFFO were not materially different from the financial forecast.

### FFO and AFFO per unit amounts

The basic weighted average number of units used to calculate FFO and AFFO per unit include the weighted average of all outstanding REIT Units and Class B Units, which amounted to 21,842,362 units as at June 30, 2013. For the period ended June 30, 2013, the FFO and AFFO per unit were \$0.18 and \$0.14, respectively.

### Distribution Policy

The REIT's Declaration of Trust provides the Board of Trustees with discretion to determine the percentage payout of income that would be in the best interest of the REIT. Amounts retained in excess

of the declared distributions are used to fund leasing costs and capital expenditure requirements. Given that working capital fluctuates over time and should not affect the REIT's distribution policy, it is disregarded when determining distributable income. The REIT also excludes the impact of leasing costs, which fluctuate with lease maturities, renewal terms and the type of asset being leased, and excludes the impact of transaction costs expensed on business combinations as these costs are considered to be non-recurring. The REIT's AFFO payout ratio (including the underwriters' over-allotment) for the sixty-six day period ended June 30, 2013 was 96.0%. Excluding the impact of the over-allotment, the REIT's AFFO payout ratio would have been 90.7%.

#### **LIQUIDITY AND CAPITAL RESOURCES**

The REIT's primary sources of capital are cash generated from operations, its revolving facility, mortgage financing and refinancing and equity and debt issues. The REIT's primary uses of capital include the payment of distributions, costs of attracting and retaining tenants, recurring property maintenance, major property improvements, debt principal repayments, interest payments and property acquisitions. The REIT expects to meet all of its ongoing obligations with current cash generated from operations, draws on its revolving facility and, as growth requires and when appropriate, new equity or debt issues. The REIT intends to maintain total indebtedness levels at or below 55% of GBV. The Declaration of Trust provides that the REIT cannot incur or assume any indebtedness that would cause the total indebtedness levels to exceed 60% of Gross Book Value (or 65% of Gross Book Value including convertible debentures). As at June 30, 2013, the REIT's debt-to-gross book value ratio was 51.3% (total outstanding principal amounts of \$223,650, divided by a gross book value of \$435,701). The REIT's capacity to issue additional debt without issuing new equity or breaching its targeted and mandated leverage ratios, discussed above, is as follows:

<b>Debt-to GBV Ratio</b>	<b>Maximum Additional Indebtedness</b>
55%	\$ 35,523
60%	\$ 94,426

The REIT uses cash flow performance and debt level indicators to assess its ability to meet its financing obligations. As at June 30, 2013, the REIT's interest coverage ratio is 3.25 times, demonstrating an ability to adequately cover interest expense requirements.

The following table details the changes in cash and cash equivalents during the period:

	<b>Sixty-six day Period Ended June 30, 2013</b>	
<b>Cash provided by/(used in):</b>		
Operating activities	\$	5,538
Investing activities	\$	(65,633)
Financing activities	\$	66,013
<b>Increase in cash and cash equivalents during the period</b>	<b>\$</b>	<b>5,918</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>\$</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$</b>	<b>5,918</b>

Cash flow activity for the sixty six day period ended June 30, 2013 primarily related to the completion of the REIT's IPO on April 26, 2013, the purchase of 37 investment properties, the assumption of mortgage debt, the collection of revenues and the draw on the Revolving Facility. These events have been detailed in the notes to the condensed consolidated interim financial statements for the same period.

Cash flows from operating activities of approximately \$5,538 primarily related to the collection of revenue from the investment properties.

Cash flows from financing activities of approximately \$66,013 primarily relate to the net proceeds from the issuance of REIT Units from the IPO and exercise of the underwriters' over-allotment of approximately \$100,842 and proceeds from the Revolving Facility of approximately \$51,000, partially offset by the pay down of debt of approximately \$81,213, the payment of financing costs and interest of approximately \$3,827 and the payment of distributions to unitholders of approximately \$789.

The cash generated from financing activities described above was primarily used in investing activities for the cash payment of approximately \$66,174 in consideration for the acquisition of 37 investment properties.

### **Investment Properties**

Investment properties include land, building, improvements to the property, all direct leasing costs incurred in arranging property tenants, as well as any lease incentives. During the IPO process, management retained an independent third-party appraiser to appraise each property contained within the portfolio. By virtue of the IPO, the market implicitly determined the fair value of investment properties to be approximately \$435,701, representing a weighted-average initial capitalization rate of 7.27%.

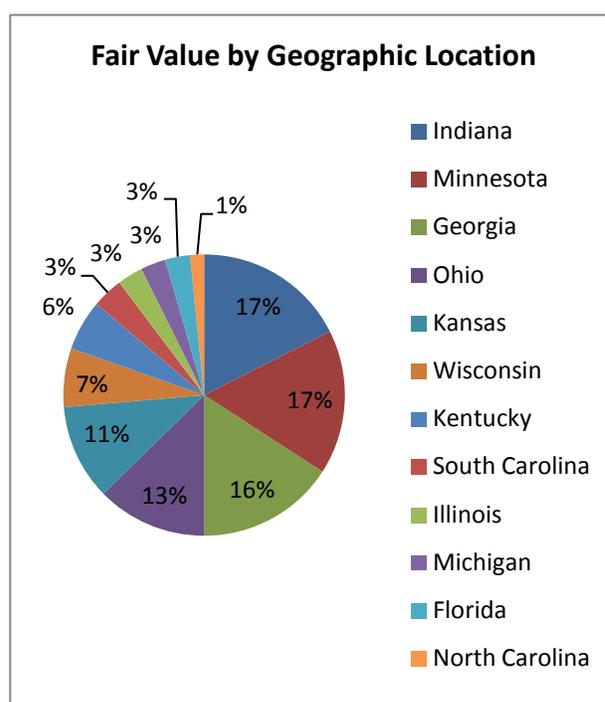
Management believes the fair values determined by the market in the IPO are generally consistent with the appraisals completed. Further, management has determined that for the sixty-six day period from April 26, 2013 to June 30, 2013, there have been no material changes to the portfolio or affecting the portfolio that would impact the fair value attributed by the market in the IPO. Accordingly, the investment properties have been fair valued at \$435,701 and each individual investment property has been assigned its pro-rata share of such amount based on appraised value.

In future periods, management will determine the fair values of investment properties quarterly primarily by using a combination of discounting the expected future cash flows, including a terminal value based on the application of a terminal capitalization rate to the assumed final year's estimated cash flows and applying a market capitalization rate to stabilized NOI, adjusting for cash inflows and outflows required to achieve the stabilized net operating income and deducting the present value of future capital expenditures.

Additionally, management will engage a third-party appraiser to prepare appraised values on a portion of the portfolio annually, such that the entire portfolio is appraised on a regular basis.

The fair value of investment properties by geographic region is as follows:

State	As at June 30, 2013	Fair Value
Indiana	\$	76,402
Minnesota		72,456
Georgia		69,089
Ohio		54,999
Kansas		47,823
Wisconsin		29,444
Kentucky		25,307
South Carolina		15,438
Illinois		12,702
Michigan		12,605
Florida		12,412
North Carolina		7,024
<b>Total</b>	\$	<b><u><u>435,701</u></u></b>



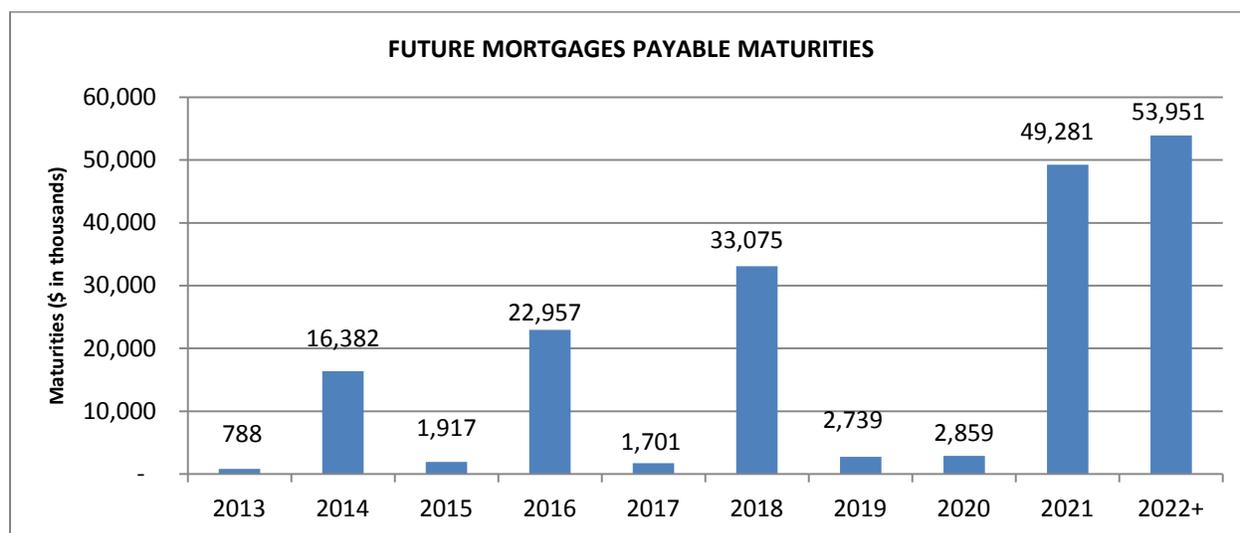
### **Mortgages Payable**

The REIT's debt strategy includes obtaining secured mortgage financing, primarily on a fixed interest rate basis, with a term to maturity that is appropriate in relation to the lease maturity profile of its portfolio. Mortgages payable consist of the following:

	As at <u>June 30, 2013</u>
Mortgages Payable	\$ 185,650
Mark-to-market adjustment, net	4,567
Financing costs, net	<u>(491)</u>
Total	189,726
Less: Current portion	<u>5,023</u>
Non-current mortgages payable	\$ <u><u>184,703</u></u>

The REIT intends to maintain staggered mortgage debt maturities to mitigate interest rate risk and limit refinancing exposure in any particular period. The REIT also intends to enter into long-term loans at fixed rates when borrowing conditions are favorable. The REIT has two mortgages payable due in 2014 with fixed interest rates of 5.50% and 5.69% and one mortgage payable due in 2016 with a fixed interest rate of 5.77%.

The following chart shows the future maturities of mortgages payable as at June 30, 2013:



### **Revolving Facility**

Upon completion of its IPO, the REIT entered into a Revolving Facility consisting of a \$75,000 senior secured revolving line of credit, with availability determined subject to compliance with a number of borrowing base tests. The Revolving Facility has an initial maturity of three years, subject to a one-year extension option upon payment of an extension fee and satisfaction of other conditions. Pricing for the Revolving Facility is calculated at the Partnership's option at either a base rate or LIBOR, in each case plus an applicable margin that will vary depending on corporate leverage. The base rate is equal to the greater of (i) the "prime rate" plus 1.0%, (ii) 0.5% above the federal funds effective rate or (iii) 30-day LIBOR plus the applicable margin. As at June 30, 2013, the REIT had a capacity on the Revolving Facility of \$64,220 with \$38,950 outstanding in draws and a letter of credit, leaving \$25,270 in availability. The applicable interest rate as at June 30, 2013 was 2.44%. As a result, variable rate debt as a percentage of total debt as at June 30, 2013 was 17.0%. The REIT purchased an interest rate cap instrument covering a notional principal amount of \$50,000 and provides for a LIBOR cap of 50 basis points.

### **Commitments and Contingencies**

During the IPO process, building condition assessment reports ("BCA Reports") were prepared for each of the investment properties for the purpose of assessing and documenting the existing condition of each building and major building operating components and systems. As summarized in the table below, of the estimated \$4,704 in costs identified in the BCA Reports over the next five years, management has estimated that \$678 of these amounts will be the direct responsibility of tenants. Non-recoverable and recoverable amounts comprise the balance of the capital expenditures recommended to be completed over the next five years.

<b>As at June 30, 2013</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>	<b>Avg.</b>
Recoverable & Non-recoverable expense	\$ 286	1,038	709	441	1,552	4,026	805
Direct tenant work	244	111	46	132	145	678	136
Forecast capital expenditures	\$ 530	1,149	755	573	1,697	4,704	941

The five-year average capital expenditures to the REIT (not including amounts to be paid directly by the tenant) per the above chart is \$0.09 per square foot and is included in the financial forecast presented in the Prospectus, as well as the AFFO to FFO reconciliation under the “Reconciliation of FFO and AFFO to IFRS Measure” section in this MD&A.

Additionally, management has the obligation to expand the GLA at two investment properties at the option of the tenant. Management estimates the cost associated with these expansions, should they occur, to range between \$10,000 and \$12,000 in the aggregate. Such expansions are conditional on mutual agreement between the tenant and the REIT with regards to the base rental rates to be charged for occupying such expansion space.

## **EQUITY**

This discussion of equity includes Class B Units, which are economically equivalent to REIT Units. Pursuant to IFRS, the Class B Units are classified as a liability in the REIT’s condensed consolidated interim financial statements.

The REIT’s Declaration of Trust authorizes the issuance of an unlimited number of REIT Units. Each REIT Unit represents a unitholder’s ownership interest in the REIT and carries voting rights.

The issuance of Class B Units is provided for under the Agreement of Limited Partnership governing the Partnership. The Class B Units are held by Welsh, the external asset and property manager of the REIT and a related party. There are no voting rights associated with these units. The Class B Units are redeemable at the option of the holder for cash or REIT Units on a one-for-one basis as determined by the Partnership in its sole discretion. As at June 30, 2013, Welsh held 10,687,362 Class B Units, representing a total ownership interest of approximately 48.7%. See “Subsequent Events” below for details on additional Class B Units issued following June 30, 2013.

Upon completion of the IPO, the REIT issued 10,000,000 REIT Units at \$10.00 per unit through its IPO, net of underwriters’ fees and other transaction costs of \$12,597. Net proceeds of the IPO were used to purchase an 8,617,313 square foot portfolio consisting of 35 industrial and two office properties, located throughout the United States, from Welsh, as well as to satisfy certain assumed mortgages.

On May 16, 2013, the underwriters’ over-allotment option granted to the underwriters of the IPO was exercised. As a result, the REIT issued an additional 1,430,000 REIT Units for gross proceeds of \$14,300 or approximately \$13,439 net of underwriters’ fees and other transaction costs. Net proceeds were used to pay down debt outstanding under the Revolving Facility.

As of the date of the MD&A, there are outstanding 11,430,000 REIT Units, 13,059,709 Class B Units, 390,000 options under the REIT’s unit option plan and 50,000 DTUs (as defined below) under the REIT’s deferred unit incentive plan. All of the Class B Units are held by Welsh.

Effective April 26, 2013, the REIT adopted a unit option plan (the "Plan"). Under the terms of the Plan, the Board of Trustees may from time to time, at its discretion, grant trustees, officers, employees and consultants options to purchase REIT Units, exercisable for a maximum period of 10 years from the date of grant. The maximum number of units reserved for issuance under the Plan is 10% of the total number of units issued and outstanding from time to time.

On May 29, 2013, the Board of Trustees granted 390,000 options to certain officers of the REIT and employees of Welsh at an exercise price of \$10.14 per unit, expiring May 29, 2023. These options vest one third on the first anniversary of the grant date, and one third on each of the second and third anniversaries.

Compensation expense of \$11 for the three months ended June 30, 2013 for these options was determined based on the fair value of the options at the grant date using the Black-Scholes option pricing model with the following assumptions:

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Expected option life	6 years
Risk-free interest rate	1.69%
Expected volatility	22.0%
Dividend yield	7.29%

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Effective April 26, 2013, the REIT adopted a Deferred Unit Incentive Plan ("DUIP") that provides for the granting of deferred trust units ("DTU") to trustees, officers, directors, employees, consultants and service providers, as well as employees of such service providers. DTUs are defined as notional units that are tied to the REIT's financial and Unit trading performance.

On May 29, 2013, the Board of Trustees granted 50,000 DTUs to certain officers of the REIT and employees of Welsh. These DTUs vest one fifth on the first anniversary of the grant date, and one fifth on each of the second, third, fourth and fifth anniversaries.

Compensation expense of \$20 for the three months ended June 30, 2013 was recorded in the condensed consolidated interim financial statements related to these instruments.

### **PART III**

#### **INTERNAL CONTROLS**

The REIT's Chief Executive Officer and Chief Financial Officer are designing or causing to be designed disclosure controls and procedures and internal controls over financial reporting, as those terms are defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

### **PART IV**

#### **RISKS AND UNCERTAINTIES**

The REIT faces a variety of significant and diverse risks, many of which are inherent in the business conducted by the REIT, the Partnership and the tenants of the properties. The Prospectus contains a detailed summary of risk factors pertaining to the REIT and its business. There have been no changes to

the nature or the number of risk factors pertaining to the REIT since the date of the Prospectus. The disclosures in this MD&A are subject to the risk factors outlined in the Prospectus.

## **PART V**

### **RELATED PARTY TRANSACTIONS**

Upon completion of the IPO, the REIT entered into an Asset Management Agreement with Welsh under which Welsh agreed to provide the REIT and the Partnership with certain advisory and investment management services, as well as legal services. Total fees paid to Welsh under the Asset Management Agreement for the sixty-six day period ended June 30, 2013 were approximately \$197.

The REIT also entered into a Property Management Agreement with Welsh upon completion of the IPO under which Welsh has agreed to provide services to administer the day-to-day operations of the REIT's portfolio of investment properties. Total fees paid to Welsh under the Property Management Agreement for the sixty-six day period ended June 30, 2013 were approximately \$221.

On June 25, 2013, Welsh paid \$2,208 to the REIT in settlement of working capital adjustments related to the acquisition of the Initial Properties.

As the sole unitholder of the Class B Units, Welsh received cash distributions during the sixty-six day period ended June 30, 2013 of approximately \$750. As at June 30, 2013, distributions payable to Welsh of approximately \$633 were recorded in the condensed consolidated interim financial statements.

The REIT has a lease with an affiliate of Welsh at an investment property located at 4350 Baker Road, Minnetonka, MN. Rental revenue earned by the Partnership from the affiliate of Welsh for the sixty-six day period ended June 30, 2013 was approximately \$186. The lease commenced on June 1, 2008 and expires on May 31, 2020, with annual rent increases of 2%.

## **PART VI**

### **SIGNIFICANT ACCOUNTING POLICIES**

A summary of significant accounting policies, including significant judgments and critical accounting estimates made by management of the REIT, is described in note 2 of the REIT's condensed consolidated interim financial statements for the period ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013.

## **PART VII**

### **SUBSEQUENT EVENTS**

On July 15, 2013, the REIT completed the acquisition of a fully leased, single-tenant property located in Illinois totaling 1,262,648 square feet. The investment property was purchased from Welsh pursuant to provisions related to the REIT's right of first opportunity under a non-competition and non-solicitation agreement among the REIT, the Partnership and Welsh. Pursuant to that agreement, the purchase price to the REIT to acquire the property from Welsh is equal to Welsh's cost of acquisition of \$53,000 plus certain permitted expenses incurred by Welsh.

The purchase price was satisfied by (i) the assumption by the Partnership of a senior secured promissory note, payable to Welsh, in the principal amount of \$31,800 and bearing an interest rate of 2.25% plus

the one-month LIBOR rate with a 90-day maturity and (ii) the issuance by the Partnership of 2,192,347 Class B Units. In connection with this acquisition and per the terms of the Asset Management Agreement, the REIT paid Welsh an acquisition fee in the amount of \$530.