

Consolidated Financial Statements  
(In U.S. dollars)

# **WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST**

For the years ended December 31, 2016 and 2015



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of WPT Industrial Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of WPT Industrial Real Estate Investment Trust, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of net income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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



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*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of WPT Industrial Real Estate Investment Trust as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

March 15, 2017  
Toronto, Canada

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Financial Position  
(In thousands of U.S. dollars)

	December 31, 2016	December 31, 2015
<b>Assets</b>		
Non-current assets:		
Investment properties (note 6)	\$ 800,142	\$ 742,592
Investment properties under development (note 6)	6,289	-
Other non-current assets	19	186
	<u>806,450</u>	<u>742,778</u>
Current assets:		
Amounts receivable (note 7)	1,514	1,396
Prepaid expenses	577	591
Restricted cash	543	1,238
Cash and cash equivalents	9,007	5,856
	<u>11,641</u>	<u>9,081</u>
<b>Total assets</b>	<b>\$ 818,091</b>	<b>\$ 751,859</b>
<b>Liabilities and Unitholders' Equity</b>		
Non-current liabilities:		
Mortgages payable (note 10)	\$ 315,521	\$ 292,314
Revolving Facility (note 11)	19,286	46,600
Class B Units (note 12)	79,798	181,942
Security deposits	1,233	924
	<u>415,838</u>	<u>521,780</u>
Current liabilities:		
Mortgages payable (note 10)	2,462	23,161
Amounts payable and accrued liabilities (note 8)	16,555	12,316
Distributions payable (note 13)	2,194	1,172
	<u>21,211</u>	<u>36,649</u>
<b>Total liabilities</b>	<b>437,049</b>	<b>558,429</b>
<b>Total unitholders' equity</b>	<b>381,042</b>	<b>193,430</b>
Commitments and contingencies (note 17)		
Subsequent events (note 22)		
<b>Total liabilities and unitholders' equity</b>	<b>\$ 818,091</b>	<b>\$ 751,859</b>

See accompanying notes to consolidated financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Net Income and Comprehensive Income  
(In thousands of U.S. dollars)

	Year ended December 31,	
	2016	2015
Investment properties revenue	\$ 71,110	\$ 67,423
Expenses (income):		
Investment properties operating expenses	18,268	15,201
Fair value adjustment to investment properties	24	(17,418)
Fair value adjustment to investment properties – IFRIC 21	182	1,620
General and administrative	6,378	6,668
Fair value adjustment to Class B Units (noted 15)	(5,929)	15,225
Finance costs (note 15)	18,300	24,567
Other income	(97)	-
<b>Net income and comprehensive income</b>	<b>\$ 33,984</b>	<b>\$ 21,560</b>

See accompanying notes to consolidated financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity  
(In thousands of U.S. dollars)

	REIT Units	Trust Equity	Distributions	Accumulated Income	Unitholders' Equity
Balance, December 31, 2014 (note 13)	14,210,619	\$ 125,790	\$ (14,614)	\$ 29,878	\$ 141,054
REIT Units issued, net of issue costs (note 13)	4,312,500	44,145	-	-	44,145
Net income and comprehensive income	-	-	-	21,560	21,560
Distributions declared (note 13)	-	-	(13,329)	-	(13,329)
Balance, December 31, 2015 (note 13)	18,523,119	\$ 169,935	\$ (27,943)	\$ 51,438	\$ 193,430
REIT Units issued, net of issue costs (note 13)	7,601,860	80,577	-	-	80,577
Redemption of Class B Units for REIT Units (notes 12, 13)	8,502,619	96,215	-	-	96,215
DTUs redeemed for REIT Units (note 13)	23,465	249	-	-	249
REIT Units issued due to exercise of stock options (note 13)	1,363	14	-	-	14
Net income and comprehensive income	-	-	-	33,984	33,984
Distributions declared (note 13)	-	-	(23,427)	-	(23,427)
Balance, December 31, 2016 (note 13)	34,652,426	\$ 346,990	\$ (51,370)	\$ 85,422	\$ 381,042

See accompanying notes to consolidated financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows  
(In thousands of U.S. dollars)

	Year ended December 31,	
	2016	2015
<b>Cash flows from operating activities:</b>		
Net income	\$ 33,984	\$ 21,560
Finance costs (note 15)	12,371	39,792
Non-cash items:		
Amortization of straight-line rent	(725)	(754)
Property tax liability under IFRIC 21	182	(1,620)
Fair value adjustment to investment properties – IFRIC 21	(182)	1,620
Fair value adjustment to investment properties	24	(17,418)
Deferred compensation expense	1,843	1,292
Fair value adjustment to deferred compensation	208	548
Amortization of lease incentives	826	486
Change in non-cash working capital (note 21)	80	(457)
<b>Cash flows provided by operating activities</b>	<b>48,611</b>	<b>45,049</b>
<b>Cash flows from financing activities:</b>		
Repayment of mortgages payable	(23,205)	(2,114)
Proceeds from mortgages payable	-	51,750
Repayment of Revolving Facility	(47,200)	(47,200)
Proceeds from Revolving Facility	20,500	37,000
Financing costs incurred	(908)	(519)
Proceeds from issuance of REIT Units, net of issue costs (note 13)	80,577	44,145
Distributions paid	(22,406)	(12,985)
Interest paid	(18,923)	(24,442)
<b>Cash flows provided by financing activities</b>	<b>(11,565)</b>	<b>45,635</b>
<b>Cash flows from investing activities:</b>		
Acquisition of investment properties (note 4)	(34,254)	(87,887)
Proceeds from disposition of investment property (note 5)	7,150	-
Additions to investment properties, including lease incentives	(4,633)	(3,437)
Additions to investment properties under development	(2,325)	-
Change in non-current restricted cash	167	970
<b>Cash flows (used in) investing activities</b>	<b>(33,895)</b>	<b>(90,354)</b>
Increase in cash and cash equivalents	3,151	330
<b>Cash and cash equivalents, beginning of period</b>	<b>5,856</b>	<b>5,526</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 9,007</b>	<b>\$ 5,856</b>

See accompanying notes to consolidated financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements  
(In thousands of U.S. dollars, except per unit amounts)

For the years ended December 31, 2016 and 2015

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WPT Industrial Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a Declaration of Trust dated March 4, 2013, under the laws of the Province of Ontario as amended and restated on April 26, 2013.

The REIT was formed for the purpose of acquiring, developing, and owning primarily industrial investment properties, located in the United States, with a particular focus on warehouse and distribution investment properties.

The REIT's Units are listed and publicly traded in Canada on the Toronto Stock Exchange ("TSX"), in U.S. dollars, under the symbol "WIR.U", and in the U.S. on the OTCQX marketplace under the symbol "WPTIF". The registered office of the REIT is at 199 Bay Street, Suite 4000, Toronto, Ontario.

As at December 31, 2016, the REIT owned a portfolio of investment properties comprised of 47 industrial investment properties and two office investment properties, located in 12 states in the U.S.



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

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## 1. Basis of Presentation:

### (a) Statement of compliance:

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

These consolidated financial statements were approved by the board of trustees of the REIT (the "Board of Trustees") on March 15, 2017.

### (b) Basis of measurement:

The consolidated financial statements have been prepared on a historical cost basis except for investment properties, amounts payable under deferred compensation plans, and Class B Units ("Class B Units") which have been measured at fair value. The consolidated financial statements are presented in U.S. dollars, which is the REIT's functional currency, and all amounts have been rounded to the nearest thousands, except per unit amounts and when otherwise indicated.

### (c) Basis of consolidation:

The consolidated financial statements comprise the financial statements of the REIT and its subsidiaries including the REIT's 100% interest in WPT Industrial, Inc. and WPT Industrial, LP (the "Partnership"). Subsidiaries are entities controlled by the REIT. The financial statements of the subsidiaries are prepared for the same reporting periods as the REIT using consistent accounting policies. All intercompany balances, transactions and unrealized gains and losses arising from intercompany transactions are eliminated on consolidation.

### (d) Accounting Standards Implemented in 2016:

The REIT implemented the amendments to International Accounting Standards ("IAS") 1, *Presentation of Financial Statements* in the first quarter of 2016, with no significant impact on the REIT's consolidated financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

For the years ended December 31, 2016 and 2015

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## 2. Significant Accounting Policies:

### (a) Business combinations:

Business combinations are accounted for under the acquisition method of accounting. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value as at the acquisition date. Goodwill, if any, is the excess of the cost of acquisition over the fair value of the REIT's share of the identifiable net assets acquired. If the cost of acquisition is less than the fair value of the REIT's share of the net assets acquired, the difference is recognized immediately in the consolidated statements of net income and comprehensive income. Transaction costs incurred in connection with business combinations are expensed as incurred.

### (b) Investment properties:

Investment properties are initially recorded at cost, including related transaction costs in the case of asset acquisitions, and includes primarily industrial investment properties held to earn rental revenue and/or for capital appreciation. The REIT has selected the fair value method of accounting to account for real estate classified as investment properties. As a result, subsequent to initial recognition, investment properties are carried at fair value, with gains and losses arising from changes in fair value recognized in the consolidated statements of net income and comprehensive income during the year in which they arise.

Investment properties include land, buildings, improvements to investment properties and all direct leasing costs incurred in obtaining and retaining property tenants. Lease incentives that do not provide benefits beyond the initial lease term are amortized as a reduction to investment properties revenue on a straight-line basis over the term of the lease.

Capital expenditures, including tenant improvements, are added to the carrying value of the investment properties only when it is probable that future economic benefits will flow to the investment property and cost can be measured reliably. Repairs and maintenance expenditures are expensed when incurred.

#### *Properties Under Development*

Investment properties under development for future use as investment property are accounted for under IAS 40, *Investment Property*. Costs eligible for capitalization to

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Notes to Consolidated Financial Statements (continued)  
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investment properties under development are initially recorded at cost, and subsequent to initial recognition are accounted for using the fair value method.

The cost of investment properties under development includes direct development costs, management fees, consulting and legal fees, property taxes and borrowing costs directly attributable to investment properties under development. The REIT capitalizes borrowing costs to qualifying assets by determining whether the borrowings are general or specific to a project.

Upon practical completion of a development, the development property is transferred to investment properties at the fair value on the date of practical completion. The REIT considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally, this occurs upon completion of construction and receipt of all necessary occupancy and other material permits.

## *Dispositions*

Investment properties are derecognized when they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from their disposal. Prior to their disposal, the carrying values of the investment properties are adjusted to reflect their fair values. This adjustment is recorded as a fair value gain or loss.

### (c) Fair value measurement:

The REIT measures financial instruments, such as derivatives, and non-financial assets, such as investment properties, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the REIT.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The REIT uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the REIT determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the REIT has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(d) Cash, cash equivalents and restricted cash:

Cash and cash equivalents include all short-term investments with an original maturity of three months or less and excludes cash subject to restrictions that prevent its use for current purposes. Restricted cash represents amounts required to be held in escrow by various

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Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

For the years ended December 31, 2016 and 2015

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mortgages payable, related to insurance, real estate taxes and capital expenditures. These items are included in either other non-current assets or restricted cash depending on their required holding period.

(e) Revenue recognition:

The REIT accounts for tenant leases as operating leases given that it has retained substantially all of the risks and benefits of ownership of its investment properties.

Revenue from investment properties includes base rents that each tenant pays in accordance with the terms of its respective lease, recoveries of operating expenses, including property taxes, common area maintenance, lease termination fees and other incidental income. Revenue recognition under a lease commences when the tenant has the right to use the investment property.

The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease, resulting in an accrual recording the cumulative difference between the rental revenue as recorded on a straight-line basis and rents received from tenants in accordance with their respective lease terms. This accrual is presented as a straight-line rent receivable and forms a component of investment properties.

Recoveries of operating expenses from tenants are recognized as revenue in accordance with the terms of the underlying leases, which is generally in the year in which the corresponding costs are incurred. Other revenue is recorded at the time the service is provided.

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of tenants to meet the contractual obligations under their lease agreements. Such allowances are reviewed periodically based on the recovery experience of the REIT and the creditworthiness of the tenants.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

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(f) Financial instruments:

(i) Designation of financial instruments:

The following summarizes the REIT's classification and measurement of financial assets and financial liabilities:

Financial assets and liabilities	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Amounts receivable (rent and other receivables)	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Mortgages payable	Other liabilities	Amortized cost
Class B Units	Fair value through profit and loss ("FVTPL")	Fair value
Revolving Facility	Other liabilities	Amortized cost
Security deposits	Other liabilities	Amortized cost
Deferred compensation	FVTPL	Fair value
Amounts payable and accrued liabilities	Other liabilities	Amortized cost

(ii) Financial assets:

The REIT classifies its non-derivative financial assets with fixed or determinable payments that are not quoted in an active market as loans and receivables. All financial assets are initially measured at fair value, and subsequently are measured at amortized cost using the effective interest method, less any impairment losses.

A provision for impairment for amounts receivable is established when there is objective evidence that collection will not be possible under the original terms of the contract. Indicators of impairment include delinquency of payment and significant financial difficulty of the tenant. The carrying amount of the financial asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statements of net income and comprehensive income within investment properties operating expenses. Bad debt write-offs occur when management determines collection is not possible. Any subsequent recoveries of amounts previously written off are credited against investment properties operating expenses in the consolidated statements of net income and comprehensive income. Amounts receivables that are less than three

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Notes to Consolidated Financial Statements (continued)  
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months past due are not considered impaired unless there is evidence that collection is not possible.

(iii) Financial liabilities:

The REIT classifies financial liabilities on initial recognition as other liabilities measured at amortized cost, or in the case of Class B Units at fair value, with changes in FVTPL. The REIT initially recognizes borrowings on the date they are originated. All other financial liabilities are recognized initially on the trade date at which the REIT becomes party to the contractual provisions of the instrument. Mortgages payable and other financial liabilities are initially recognized at fair value less directly attributable transaction costs, or at fair value when assumed in a business combination or asset acquisition. Subsequent to initial recognition, these financial liabilities are recognized at amortized cost using the effective interest rate method.

The REIT derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) Finance costs:

Finance costs include interest expense on mortgages payable and the Revolving Facility (defined in note 11), distributions on Class B Units, the gain or loss on the change in fair value of financial liabilities designated as FVTPL, including Class B Units and other financial instruments, amortization associated with mark-to-market adjustments and financing costs incurred in connection with obtaining long-term financings. Mark-to-market adjustments and financing costs incurred are amortized using the effective interest rate method over the term of the related mortgages payable. Unamortized mark-to-market adjustments and financing costs incurred are fully amortized when mortgages payable are retired before maturity.

(v) Derivative financial instruments:

The REIT may use derivative financial instruments to manage risks from fluctuations in interest rates. All derivative instruments are valued at their respective fair values with changes in fair value recorded in the consolidated statements of net income and comprehensive income.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

For the years ended December 31, 2016 and 2015

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(g) Income taxes:

(i) Canadian status:

The REIT is a mutual fund trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a mutual fund trust that is not a Specified Investment Flow Through ("SIFT") trust pursuant to the Income Tax Act (Canada) is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to unitholders. The REIT intends to continue to qualify as a mutual fund trust that is not a SIFT trust and to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

(ii) U.S. REIT status:

The REIT is treated as a U.S. corporation for all purposes under the Internal Revenue Code of 1986, as amended (the "Code") and, as a result, it is permitted to elect to be treated as a real estate investment trust under the Code, notwithstanding the fact that it is organized as a Canadian entity. In general, a company which elects to be taxed as a real estate investment trust, distributes at least 90% of its real estate investment trust taxable income, subject to certain adjustments, to its unitholders in any taxable year, and complies with certain other requirements (including asset, income and other tests) is not subject to federal income taxation to the extent of the income which it distributes. If it fails to qualify as a real estate investment trust in any taxable year, without the benefit of certain relief provisions, it will be subject to federal (including any applicable alternative minimum tax), state and local income tax at regular corporate income tax rates on its taxable income. Even if it qualifies for taxation as a real estate investment trust, it may be subject to certain state and local taxes on its income, property or net worth and to federal income and excise taxes on its undistributed income. The REIT has reviewed the real estate investment trust requirements and has determined that it qualifies as a real estate investment trust under the Code. Accordingly, no provision for U.S. federal income or excise taxes has been made with respect to the income of the REIT. In certain instances, the Company may be subject to certain state and local taxes which are not material to the financial statements.

The REIT expects no significant increases or decreases in uncertain tax positions due to changes in tax positions within one year of December 31, 2016. The REIT has no material interest or penalties relating to income taxes recognized in the consolidated statements of net income and comprehensive income for the years ended December 31,



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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2016 and 2015 or in the consolidated statements of financial position as at December 31, 2016 and 2015. As at December 31, 2016, returns for the calendar years 2013 through 2015 remain subject to examination by U.S. and various state and local tax jurisdictions.

(h) Distributions declared:

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

(i) REIT Units:

The REIT Units (defined in note 13) are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with IAS 32, *Financial Instruments - Presentation* ("IAS 32"). Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity. The REIT Units meet the conditions of IAS 32 and are, therefore, presented as equity.

(j) Class B Units:

Class B Units are entitled to distributions per unit in an amount equal to the distributions per unit declared in respect of the REIT Units, and are redeemable by the holder thereof for cash or REIT Units (on a one-for-one basis, subject to customary anti-dilution adjustments), as determined by the general partner of the Partnership in its sole discretion. The Class B Units are puttable, and, therefore, meet the definition of a financial liability under IAS 32 and are accordingly classified as non-current liabilities in the consolidated statements of financial position.

All Class B Units are financial liabilities and are measured at fair value at each reporting period, based upon the value of a REIT Unit, with any changes in fair value recorded in the consolidated statements of net income and comprehensive income.

(k) Deferred compensation plans:

As described in note 13, the REIT has a Deferred Unit Incentive Plan ("DUIP") and unit option plan (the "Plan") that provides for the granting of deferred trust units ("DTUs") and options to

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Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

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certain of the trustees, officers, employees, consultants and service providers, as well as employees of such service providers. Deferred compensation is measured at fair value as at the grant date and compensation expense is recognized in general and administrative expense over the related vesting period. The amounts are fair valued each reporting period and the change in fair value is recognized as compensation expense. The unit based compensation is presented as a liability.

(l) Critical accounting, judgments, estimates and assumptions:

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions in the application of the policies outlined above. Management bases its judgments and estimates on historical experience and other factors it believes to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or the liability affected in the future.

(i) Critical accounting judgments:

The following are the critical judgments used in applying the REIT's accounting policies that have the most significant effect on the amounts in the consolidated financial statements:

(a) Investment properties:

The REIT assesses whether an acquisition transaction should be accounted for as an asset acquisition or a business combination under IFRS 3, *Business Combinations* ("IFRS 3"). This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business, and the REIT obtains control of the business.

Management makes judgments with respect to whether lease incentives provided in connection with a lease enhance the value of the leased space, which determines whether or not such amounts are treated as tenant improvements and added to investment properties. Lease incentives, such as cash, rent-free periods and lessee- or lessor-owned improvements, may be provided to lessees to enter into an operating lease. Lease incentives that do not provide benefits beyond the initial

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Notes to Consolidated Financial Statements (continued)  
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lease term are amortized as a reduction of rental revenue on a straight-line basis over the term of the lease.

Judgment is also applied in determining whether improvements to the investment property and costs incurred in obtaining and retaining property tenants are additions to the carrying amounts of the investment properties.

(b) Leases:

The REIT uses judgment in determining whether certain leases, in particular those with long contractual terms where the lessee is the sole tenant in an investment property where the REIT is the lessor and long-term ground leases, are operating or finance leases. Management has determined that all of its leases are operating leases as the REIT has retained substantially all of the risks and benefits of ownership.

(c) Income taxes:

The REIT is a mutual fund trust pursuant to the Income Tax Act (Canada) and a real estate investment trust pursuant to the Code. Under current tax legislation, the REIT is not liable to pay Canadian or U.S. income tax provided that its taxable income is fully distributed to unitholders each year. The REIT has reviewed the requirements for real estate investment trust status and has determined that it qualifies as a real estate investment trust pursuant to the Code.

(ii) Estimates and assumptions:

Management makes estimates and assumptions that affect carrying amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amount of income for the year. Actual results could differ from these estimates. The estimates and assumptions that are critical in determining the amounts reported in the consolidated financial statements include the valuation of investment properties.

Critical assumptions relating to the estimates of fair values of investment properties include discount rates that reflect current market uncertainties and capitalization rates. If there is any change in these assumptions or regional, national or international economic conditions, the fair value of investment properties may change materially.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

For the years ended December 31, 2016 and 2015

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### 3. Changes in Accounting Policies:

The following standards and amendments to existing standards issued by the IASB may be relevant to the REIT in preparing its consolidated financial statements in future periods:

(i) IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. The extent of the impact of adoption of the standard has not yet been determined.

(ii) IFRS 9, *Financial Instruments*

In July 2014, the IASB issued IFRS 9, *Financial Instruments* replacing IAS 39, *Financial Instruments – Recognition and Measurement*. The project has three main phases: classification and measurement, impairment and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The extent of the impact of adoption of the standard has not yet been determined.

(iii) IFRS 16, *Leases* (“IFRS 16”)

On January 13, 2016 the IASB issued IFRS 16. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15, *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

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The REIT intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

(iv) Amendments to Statement of Cash Flows (“IAS 7”)

In January 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows*. These amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The REIT will adopt the amendments to IAS 7 in its combined financial statements for the annual period beginning on January 1, 2017. The REIT intends to satisfy the new requirements by providing reconciliations between the opening and closing balances for liabilities from financing activities.

(v) Amendments to Share-based Payments (“IFRS 2”)

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment* clarifying how to account for certain types of share-based payment transactions. The REIT intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

#### 4. Asset acquisition:

*Columbus Property*

On November 1, 2016, the REIT indirectly acquired from a third party, an investment property located in Columbus, OH (the “Columbus Property”) for a purchase price of \$13,875 (exclusive of closing and transaction costs). The purchase price was satisfied with cash on hand.

*Minneapolis Property*

On November 18, 2016, the REIT indirectly acquired from a third party, an investment property located in Minneapolis, MN (the “Minneapolis Property”) for a purchase price of \$46,200 (exclusive of closing and transaction costs). The purchase price was satisfied with a combination of cash on hand, funds from the Revolving Facility and the assumption of a \$25,921 mortgage payable bearing a fixed interest rate of 3.62% maturing on October 1, 2021.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

The assets acquired and liabilities assumed in these transactions were allocated as follows for the year ended December 31, 2016:

	Columbus Property	Minneapolis Property	Total
Investment property <sup>(1)</sup>	\$ 14,053	\$ 46,865	\$ 60,918
Prepaid expenses	-	197	197
Amounts payable and accrued liabilities	(65)	(472)	(537)
Security deposits	-	(270)	(270)
Mark-to-market adjustment	-	(133)	(133)
Mortgage payable	-	(25,921)	(25,921)
<b>Net assets acquired</b>	<b>\$ 13,988</b>	<b>\$ 20,266</b>	<b>\$ 34,254</b>

Consideration given by the REIT consists of the following:

Cash	13,998	20,266	34,254
<b>Total consideration</b>	<b>\$ 13,998</b>	<b>\$ 20,266</b>	<b>\$ 34,254</b>

- (1) Includes total closing costs and acquisition fees of \$695, fair value adjustment to mortgage payable of \$133 and an IFRIC 21 liability of \$7 assumed on acquisition that is offset by an equal adjustment to investment property.

## *Memphis Portfolio*

On February 20, 2015, the REIT indirectly acquired from a third party, a 100% leased portfolio of six industrial investment properties located in Memphis, Tennessee (the "Memphis Portfolio"), for a purchase price of \$86,667 (exclusive of closing costs and acquisition fee). The purchase price was paid in cash using a portion of the net proceeds from the January 28, 2015 issuance of 4,312,500 REIT Units at a price of \$10.80 per REIT Unit (the "January 2015 Offering") (note 13) and a new, \$51,750 five-year mortgage payable bearing a fixed interest rate of 2.87%.

The assets acquired and liabilities assumed in this transaction were allocated as follows:

Investment properties <sup>(1)</sup>	\$ 88,192
Prepaid expenses	39
Amounts payable and accrued liabilities	(267)
Security deposits	(77)
<b>Net assets acquired</b>	<b>\$ 87,887</b>

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

Consideration given by the REIT consists of the following:

Cash	87,887
<b>Total consideration</b>	<b>\$ 87,887</b>

(1) Includes total closing costs and acquisition fee of \$1,525 and an IFRIC 21 liability of \$1,487 assumed on acquisition that is offset by an equal adjustment to investment property.

## 5. Asset disposition:

On July 26, 2016, the REIT sold the investment property located at 224 North Hoover Road, Durham, North Carolina to a third party purchaser for a sale price of \$7,300, less selling costs of \$102.

## 6. Investment properties:

The reconciliation of the carrying amount of investment properties for the years ended December 31, 2016 and 2015 are set out below:

	2016	2015
Balance, beginning of period	\$ 742,592	\$ 633,056
Investment property acquisitions	60,918	88,192
Investment property disposition	(7,198)	-
Additions to investment properties, including lease incentives	4,955	3,658
Amortization of straight-line rent	725	754
Amortization of lease incentives	(826)	(486)
Fair value adjustment to investment properties	(24)	17,418
Transfer to investment properties under development <sup>1</sup>	(1,000)	-
	<b>\$ 800,142</b>	<b>\$ 742,592</b>

(1) During the year ended December 31, 2016, the REIT began the development of an industrial property on a vacant land parcel located at the REIT's 2825 Reeves Road property in Indianapolis, IN (the "Indianapolis Development"), with a value of \$1,000.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

For the years ended December 31, 2016 and 2015

Investment properties under development activity for the years ended December 31, 2016 and 2015 are set out below:

	2016	2015
Balance, beginning of period	\$ -	\$ -
Transfer from investment properties	1,000	-
Additions to investment properties under development	5,289	-
	\$ 6,289	\$ -

Straight-line rent includes the cumulative difference between rental revenue as recorded on a straight-line basis and rents received from the tenants in accordance with their respective lease terms.

The fair value hierarchy of investment properties measured at fair value in the consolidated statements of financial position is as follows:

	Level 1	Level 2	Level 3
Investment properties and properties under development – December 31, 2016	\$ -	\$ -	\$ 806,431
Investment properties and properties under development – December 31, 2015	\$ -	\$ -	\$ 742,592

Investment properties include the current fair value of the land, building, improvements to the investment property, all direct leasing costs incurred in obtaining and retaining property tenants and investment properties under development. Management reviews the fair value of the investment properties regularly using independent property valuations and market conditions existing at the reporting date, which are generally accepted market practices. Judgment is also applied in determining the extent and frequency of independent third party appraisals. The REIT determines the fair value of an investment property at the end of each reporting period using a combination of the following methods: (i) an internal valuation using the discounted cash flow model, which discounts 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 reviewing the key assumptions from previous and current appraisals and updating the value for changes in the property cash flow, physical condition and changes in market conditions, and (ii)



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

appraisals by an independent third party, according to professional appraisal standards and IFRS.

Management obtains an independent third party appraisal for each investment property contained within the portfolio at the time of acquisition, except for those investment properties in respect of which the requirement to obtain an appraisal was waived by the Board of Trustees. Additionally, the REIT obtains independent third party appraisals for existing investment properties on a three-year rotation, such that approximately one-third of the portfolio is appraised annually.

The key valuation metrics for investment properties are set out below for the years ended December 31, 2016 and 2015:

	2016	2015
Weighted average terminal capitalization rate:	7.02%	7.06%
Range of terminal capitalization rates:	6.00%-10.00%	6.25%-8.50%
Weighted average discount rate:	7.83%	7.56%
Range of discount rates:	6.27%-10.91%	6.32%-8.87%

The fair value of investment properties is most sensitive to changes in the discount and terminal capitalization rates. Changes in the terminal capitalization rates and discount rates would result in a change to the fair value of the REIT's investment properties as set out below for the year ended December 31, 2016:

	2016
Weighted average terminal capitalization rate:	
25-basis points increase	\$ (15,345)
25-basis points decrease	\$ 16,505
Weighted average discount rate:	
25-basis points increase	\$ (14,515)
25-basis points decrease	\$ 14,870

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

## 7. Amounts receivable:

Receivables are recorded at their estimated net realizable value and are periodically evaluated for collectability based on the recovery experience of the REIT and the creditworthiness of the tenants.

Amounts receivable are as follows as at December 31, 2016 and 2015:

	2016	2015
Tenant receivables	\$ 1,452	\$ 1,237
Other receivables	63	166
Allowance for uncollectible amounts	(1)	(7)
	<u>\$ 1,514</u>	<u>\$ 1,396</u>

The carrying value of amounts receivable approximates fair value.

## 8. Amounts payable and accrued liabilities:

Amounts payable and accrued liabilities consist of the following as at December 31, 2016 and 2015:

	2016	2015
Trade payables	\$ 194	\$ 294
Accrued liabilities and other payables	5,176	1,806
Accrued real estate taxes	2,931	2,731
Accrued interest	1,314	1,891
Unearned revenue	97	103
Rent received in advance	2,059	2,135
Deferred compensation	4,784	3,356
	<u>\$ 16,555</u>	<u>\$ 12,316</u>

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

For the years ended December 31, 2016 and 2015

## 9. Operating leases:

The REIT leases investment properties to tenants under non-cancellable operating leases. The leases have various terms, escalation clauses and renewal rights as well as early termination fees.

There were no tenants that accounted for more than 10% of the REIT's total rental revenue for the years ended December 31, 2016 or 2015.

As at December 31, 2016, the total future contractual minimum base rent lease payments expected to be received under non-cancellable leases are as follows:

One year or less	\$ 56,813
2 - 5 years	153,455
Greater than 5 years	47,529
	\$ 257,797

## 10. Mortgages payable:

Mortgages payable consist of the following as at December 31, 2016 and 2015:

	2016	2015
Mortgages payable	\$ 316,811	\$ 314,095
Mark-to-market adjustments, net	2,126	2,695
Financing costs, net	(954)	(1,315)
Carrying value	317,983	315,475
Less current portion	(2,462)	(23,161)
Long-term portion	\$ 315,521	\$ 292,314

Mortgages payable that are due and payable within 12 months after the date of the consolidated statements of financial position presented, including scheduled principal payments on mortgages payable, are classified as current liabilities. Mortgages payable are collateralized by investment properties with a fair value of \$631,605 and \$608,305 as at December 31, 2016 and 2015, respectively. As at December 31, 2016 and 2015, mortgages payable bore interest at various rates ranging from 2.87% to 5.80%, and have a weighted average effective interest rate of 3.83%

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

and 3.98%, respectively. Maturity dates range from 2018 – 2024 as at December 31, 2016. As at December 31, 2016 and 2015, there were no mortgages payable with variable interest rates. The weighted average term to maturity on mortgages payable was 4.3 years and 4.9 years as at December 31, 2016 and 2015, respectively.

On October 18, 2016, the REIT entered into a new, two-year variable interest mortgage construction loan (the “Construction Loan”) to fund up to \$5,940 of the Indianapolis Development. The REIT has the option to extend the Construction Loan for an additional three-year period. The interest rate on the Construction Loan is based on LIBOR, in each case plus an applicable margin based on leverage. As at December 31, 2016, the REIT had not drawn on the Construction Loan.

On November 4, 2016, the REIT repaid a mortgage payable, bearing a fixed interest rate of 5.77% with a remaining principal balance of \$21,011, with available cash. Four of the five properties, previously encumbered by the mortgage payable, were added as borrowing base collateral and increased the availability on the Revolving Facility as at December 31, 2016.

On November 18, 2016, the REIT assumed a \$25,921 mortgage payable related to the Minneapolis Property acquisition, bearing a fixed interest rate of 3.62% maturing on October 1, 2021 (note 4).

During the year ended December 31, 2015, the REIT entered into a new, five-year mortgage payable totaling \$51,750, bearing a fixed interest rate of 2.87%, as a result of the Memphis Portfolio acquisition (note 4).

Future contractual cash flows of mortgages payable principal and interest are as follows as at December 31, 2016:

	Principal Payments	Interest Payments	Total Payments
2017	\$ 2,462	\$ 12,040	\$ 14,502
2018	33,864	11,456	45,320
2019	32,072	9,753	41,825
2020	87,723	7,709	95,432
2021	73,567	5,811	79,378
2022 and thereafter	87,123	3,780	90,903
	\$ 316,811	\$ 50,549	\$ 367,360

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

Covenant compliance requirements:

The REIT's mortgages payable contain customary representations, warranties, and events of default, which require the REIT to comply with affirmative and negative covenants. These covenants include (a) net worth thresholds, (b) senior debt service coverage ratios, (c) total indebtedness to gross book value ratios, and (d) liquid asset thresholds. As at December 31, 2016 and 2015, the REIT was in compliance with all covenants of its mortgages payable.

Financial covenants applicable to Welsh Property Trust, LLC ("Welsh"), the REIT's former asset and property manager, remain on two of the REIT's mortgages payable relating to investment properties contributed to the REIT from Welsh during the IPO totaling \$38,437, requiring Welsh to meet certain financial and operating criteria. As at December 31, 2016 and 2015, Welsh was in compliance with all covenants.

## 11. Revolving Facility:

The Revolving Facility consists of the following as at December 31, 2016 and 2015:

	2016	2015
Revolving Facility	\$ 20,000	\$ 46,700
Financing costs, net	(714)	(100)
Carrying value	\$ 19,286	\$ 46,600

On April 21, 2016, the REIT amended and extended its senior secured revolving facility (the "Revolving Facility"), thereby increasing availability from \$75,000 to \$100,000 (subject to requisite borrowing base collateral) and extending the term for a period of three years maturing on April 21, 2019. The Revolving Facility continues to include an accordion feature which could increase the facility to \$200,000, subject to lender approval. The REIT has the option to extend the Revolving Facility for an additional one-year period. The interest rate on the Revolving Facility is, at the REIT's option, based on either a base rate or LIBOR, in each case plus an applicable margin based on leverage. The base rate is equal to the greater of: (a) the "prime rate" plus 1.0%, (b) 0.5% above the federal funds effective rate, or (c) 30-day LIBOR plus the applicable margin. As at December 31, 2016 and 2015, the Revolving Facility interest rate was 2.46% and 2.68%, respectively.

Financing costs of \$823 related to the amended and extended Revolving Facility are being amortized using the effective interest rate method over the extension term of three years.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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On December 30, 2016, the REIT added six properties as borrowing base collateral to the Revolving Facility. With the addition of these properties, availability on the Revolving Facility was \$92,988 as at December 31, 2016, of which the REIT had drawn \$20,000, leaving remaining availability of \$72,988.

Finance costs of \$85 related to the addition of borrowing base collateral to the Revolving Facility are being amortized using the effective interest rate method over the remaining extension term.

## 12. Class B Units:

On January 11, 2016, Welsh redeemed 6,600,000 Class B Units in exchange for ownership and control over 6,600,000 REIT Units.

On January 19, 2016, Welsh redeemed 1,902,619 Class B Units in exchange for ownership and control over 1,902,619 REIT Units.

Class B Units are valued at the REIT Units' closing price per the TSX as at December 31, 2016 and 2015, which was \$11.87 and \$11.95, respectively.

The following table shows the change in the carrying value and number of Class B Units outstanding for the periods presented:

	Units	Value
As at December 31, 2014	15,225,314	\$ 166,717
Fair value adjustment to Class B Units	-	15,225
As at December 31, 2015	15,225,314	\$ 181,942
Redemption of Class B Units for REIT Units, January 11, 2016 (6,600,000)		(76,428)
Redemption of Class B Units for REIT Units, January 19, 2016 (1,902,619)		(19,787)
Fair value adjustment to Class B Units	-	(5,929)
As at December 31, 2016	6,722,695	\$ 79,798

Included in finance costs for the years ended December 31, 2016 and 2015 are \$5,106 and \$10,956 of distributions declared on Class B Units, respectively. Total distributions payable on Class B Units as at December 31, 2016 and 2015 were \$426 and \$964, respectively.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

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## 13. Unitholders' equity:

The REIT's Declaration of Trust authorizes the issuances of an unlimited number of REIT units ("REIT Unit"). REIT Units are ordinary units of the REIT, each of which represents a unitholders' proportionate undivided beneficial interest and voting rights in the REIT.

On January 28, 2015, the REIT completed the January 2015 Offering, when it issued 4,312,500 REIT Units (including REIT Units issued pursuant to the exercise in full of the over-allotment option granted by the REIT to the underwriters of the offering) at a price of \$10.80 per REIT Unit to a syndicate of underwriters on a bought deal basis for gross proceeds to the REIT of approximately \$46,575. Issue costs related to the January 2015 Offering were approximately \$2,430.

On January 11, 2016, Welsh redeemed 6,600,000 Class B Units in exchange for ownership and control over 6,600,000 REIT Units.

On January 19, 2016, Welsh redeemed 1,902,619 Class B Units in exchange for ownership and control over 1,902,619 REIT Units.

On July 19, 2016, the REIT issued 5,429,900 REIT Units at a price of \$11.05 per REIT Unit to a syndicate of underwriters on a bought deal basis for net proceeds to the REIT of approximately \$57,138 (the "July 2016 Base Offering"). In addition, the REIT completed a concurrent private placement, issuing 1,357,475 REIT Units to Alberta Investment Management Corporation and affiliates ("AIMCo") on a non-brokered private placement basis at a purchase price of \$11.05 per REIT Unit for additional net proceeds to the REIT of approximately \$14,868 (the "Concurrent Private Placement").

On July 25, 2016, the REIT issued 814,485 REIT Units at a price of \$11.05 per REIT Unit to the syndicate of underwriters of the July 2016 Offering, pursuant to their exercise in full of their over-allotment option, for net proceeds of approximately \$8,571 (together with the July 2016 Base Offering, the "July 2016 Offering").

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Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

The following table shows the change in value and number of REIT Units outstanding for the periods presented:

	Units	Value
As at December 31, 2014	14,210,619	\$ 125,790
REIT Units issued on completion of the January 2015 Offering, (including REIT Units issued through underwriter's over-allotment, and net of issue costs)	4,312,500	44,145
As at December 31, 2015	18,523,119	\$ 169,935
Redemption of Class B Units for REIT Units, January 11, 2016	6,600,000	76,428
Redemption of Class B Units for REIT Units, January 19, 2016	1,902,619	19,787
DTUs redeemed for REIT Units	23,465	249
REIT Units issued due to exercise of stock options	1,363	14
REIT Units issued on completion of the July 2016 Offering, (including REIT Units issued through underwriters' over-allotment, and net of issue costs)	6,244,385	65,709
REIT Units issued on completion of the Concurrent Private Placement	1,357,475	14,868
As at December 31, 2016	34,652,426	\$ 346,990

(a) Distributions:

The REIT declared distributions to unitholders of record in the amount of \$23,427 (\$0.76 per Unit) and \$13,329 (\$0.72 per Unit) for the years ended December 31, 2016 and 2015, respectively. Total distributions payable as at December 31, 2016 and 2015 were \$2,194 and \$1,172, respectively.

(b) Deferred Unit Incentive Plan:

On April 26, 2013, the REIT authorized a DUIP, as amended and restated on May 13, 2016, that provides for the granting of DTUs to trustees, officers, employees, consultants and service providers, as well as employees of such service providers. DTUs are defined as notional units with a fair value based on the REIT Units' closing price per the TSX. The maximum number of REIT Units reserved for issuance under the DUIP is 5% of the total number of REIT Units issued and outstanding from time to time. Vested DTUs may be redeemed in whole or in part for units of the REIT issued from treasury or cash. All DTUs



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Notes to Consolidated Financial Statements (continued)  
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granted to officers and employees vest as to one-fifth on the first anniversary of the grant date, and one-fifth on each of the four following anniversaries. Whenever cash distributions are paid to REIT unitholders, additional DTUs are credited to the participant's outstanding DTU balance based on the 5-day volume-weighted average price on the grant date. These additional units vest on the same schedule as their corresponding DTUs.

### Officer and Employee Grants

A summary of DTUs granted to officers of the REIT and employees of the asset manager of the REIT under the DUIP is set forth below:

	DTUs Granted
Total as at December 31, 2014	124,028
DTUs granted through distributions	7,845
Forfeited DTUs	(4,432)
<b>Total as at December 31, 2015</b>	<b>127,441</b>
March 31, 2016 grant <sup>(1)</sup>	118,586
June 10, 2016 grant	147,500
DTUs granted through distributions	20,440
DTUs redeemed for cash	(5,614)
DTUs redeemed for REIT Units	(6,644)
<b>Total as at December 31, 2016</b>	<b>401,709</b>

(1) These DTUs were approved on May 13, 2015 and are being expensed over a five year vesting period from May 13, 2015 through May 13, 2020, but were not granted until March 31, 2016 due to a prolonged period of blackout, pursuant to the terms of the REIT's insider trading policy.

The total fair value of DTUs granted to officers and employees as at December 31, 2016 and 2015 was \$4,768 and \$1,523, respectively. The fair value of DTUs granted as at December 31, 2016 includes DTUs which were approved in 2015 but not granted until 2016, due to a prolonged blackout period. As at December 31, 2016 and 2015, a total of 80,886 and 38,356 DTUs granted to officers and employees had vested, respectively.

### Trustee and Other Grants

All members of the Board of Trustees have elected to receive their annual retainers and meetings fees for the current fiscal year and since inception in the form of DTUs. Annually, the REIT matches 50% of all annual trustee compensation received in DTUs, which vest as

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Notes to Consolidated Financial Statements (continued)  
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to one-third on the first anniversary date of the grant and one-third on each of the second and third anniversaries. Distributions on DTUs accrue to the holder in additional DTUs on each distribution date.

A summary of DTUs granted to trustees under the DUIP is set forth below:

	DTUs Granted
Total as at December 31, 2014	61,928
DTUs granted through distributions and 50% match	3,917
<b>Total as at December 31, 2015</b>	<b>65,845</b>
DTUs granted for services rendered in Q4 2014 <sup>(1)</sup>	5,099
DTUs granted through distributions and 50% match related to 2014 <sup>(1)</sup>	14,396
DTUs granted for services rendered in 2015 <sup>(1)</sup>	29,267
DTUs granted through distributions and 50% match related to 2015 <sup>(1)</sup>	14,634
DTUs granted for services rendered in 2016	25,437
DTUs granted through distributions and 50% match related to 2016	20,122
DTUs redeemed for cash	(28,428)
DTUs redeemed for REIT Units	(16,821)
<b>Total as at December 31, 2016</b>	<b>129,551</b>

(1) These DTUs were approved in the year in which they were earned and recorded as a deferred compensation liability, but were not granted until March 31, 2016 due to a prolonged period of blackout, pursuant to the terms of the REIT's insider trading policy.

Additional DTUs of \$150 had been approved, of which \$108 have been recorded as a deferred compensation liability as at December 31, 2016, but are not yet granted.

The total fair value of DTUs granted to trustees as at December 31, 2016 and 2015 was \$1,399 and \$768, respectively. The fair value of DTUs granted as at December 31, 2016 includes DTUs which were approved in 2014 and 2015 but not granted until 2016, due to a prolonged blackout period. As at December 31, 2016 and 2015, a total of 111,495 and 57,714 DTUs granted to trustees had vested, respectively.

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Notes to Consolidated Financial Statements (continued)  
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The movement in the DUIP balance was as follows:

As at December 31, 2014	\$	1,292
Deferred compensation expense		1,230
Fair value adjustment		185
<hr/>		
As at December 31, 2015	\$	2,707
<hr/>		
Deferred compensation expense		1,823
Fair value adjustment		229
DTUs redeemed for cash and REIT Units		(608)
<hr/>		
As at December 31, 2016	\$	4,151

Total compensation expense recognized for the years ended December 31, 2016 and 2015 was \$2,052 and \$1,415, respectively. These amounts include adjustments based on the fair value of the REIT Units and are reported within general and administrative expenses as at December 31, 2016 and 2015.

(c) Unit option plan:

On April 26, 2013, the REIT authorized the Plan, as amended and restated on May 13, 2016, under the terms of which options to purchase REIT Units may from time to time, be granted to trustees, officers, employees and consultants, exercisable for a maximum period of 10 years from the date of grant. The maximum number of REIT Units reserved for issuance under the Plan is 5% of the total number of REIT Units issued and outstanding from time to time. These options vest as to one-third on the first anniversary of the grant date, and one-third on each of the second and third anniversaries.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

For the years ended December 31, 2016 and 2015

A summary of options granted under the Plan is set forth below:

	Number of options	Weighted average exercise price
Outstanding, December 31, 2014	570,000	\$ 10.02
Forfeited	(13,333)	\$ 10.14
Outstanding, December 31, 2015	556,667	\$ 10.02
Exercisable, December 31, 2015	304,445	\$ 10.07
Exercised	(26,667)	10.14
Outstanding, December 31, 2016	530,000	\$ 10.02
Exercisable, December 31, 2016	463,333	\$ 10.05

The total fair value of options granted as at December 31, 2016 and 2015 and as at the grant date was \$645, \$726 and \$327, respectively. The aggregate intrinsic value of exercisable options as at December 31, 2016 and 2015 was \$845 and \$573, respectively. The weighted average remaining contractual life for outstanding options and for exercisable options as at December 31, 2016 was 6.8 and 6.7 years, respectively.

The movement in the liability balance related to the Plan was as follows:

Balance, December 31, 2014	\$ 224
Deferred compensation expense	62
Fair value adjustment	363
Balance, December 31, 2015	\$ 649
Deferred compensation expense	20
Fair value adjustment	(22)
Stock options exercised for REIT Units	(14)
Balance, December 31, 2016	\$ 633

Total compensation expense/(income) recognized for the years ended December 31, 2016 and 2015 was \$(2) and \$425, respectively. These amounts include adjustments based on the fair value of the options and are reported within general and administrative expenses as at December 31, 2016 and 2015.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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As at December 31, 2016, fair value adjustments were determined using the Black-Scholes option pricing model with the following assumptions:

Average expected option term	3.5 years
Risk-free interest rate	1.70%
Expected volatility	16.74%
Dividend yield	6.4%

## 14. Related party transactions:

Related party transactions with Welsh and WPT Capital Advisors, LLC (“WPT Capital”), the successor in interest to Welsh as asset and property manager, are set forth below:

	Year ended December 31,	
	2016	2015
<b>Fees earned under asset management agreement (1)</b>		
Acquisition fees	\$ 601	\$ 867
Asset management fees	1,788	1,719
Construction management fees	336	127
<b>Fees earned under property management agreement (2)</b>	1,776	1,676
<b>Other</b>		
Class B Unit distributions paid to Welsh (3)	5,645	10,880
REIT Unit distributions paid to Welsh (3)	1,465	538
Office rent (4)	1,095	1,073

- (1) On April 26, 2013, the REIT entered into an asset management agreement with Welsh, under which Welsh provided certain asset management services to the REIT and its subsidiaries. On January 20, 2016, WPT Capital, under the first amendment to the asset management agreement, agreed to perform all of the duties and obligations as the asset manager of the REIT.

The asset management agreement provides for the following fees:

- Asset management fees at 0.25% of gross book value, as defined in the asset management agreement. On January 20, 2016, the asset management agreement was amended to waive asset management fees in connection with any investments by the REIT in (i) any private investment funds managed and/or controlled by WPT Capital (each

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

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a "Fund") and (ii) any investment properties owned by the REIT or one or more of its affiliates as a co-investment with any Fund; excluding any investment property in which such Fund, directly or indirectly, holds less than 50% of the aggregate ownership interests ("Fund Co-Investment Properties"), for such time as such investment properties are Fund-Co-Investment Properties. Asset management fees are reported within general and administrative expenses. Asset management fees payable as at December 31, 2016 and 2015 were \$1 and \$144, respectively.

- Acquisition fee. An acquisition fee equal to: (i) 1.0% of the purchase price paid for the first \$100,000 of investment 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 investment 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 investment properties acquired by the REIT or any of its affiliates in each fiscal year. On January 20, 2016, the asset management agreement was amended to waive acquisition fees in connection with any investment properties acquired by the REIT from any Fund, and any Fund Co-Investment Properties. There were no acquisition fees payable as at December 31, 2016 and 2015.
  - 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. Construction management fees payable as at December 31, 2016 and 2015 were \$274 and \$51, respectively.
- (2) On April 26, 2013, the Partnership and the REIT entered into a property management agreement with Welsh. Under the property management agreement, Welsh was the property manager of the investment properties owned by the REIT and administered the day-to-day operations of the REIT's portfolio of investment properties. On January 20, 2016, WPT Capital, under an assignment agreement, became responsible for providing property and facility management services in respect of the REIT's investment properties pursuant to the property management agreement.

Property management fees are described below for all investment properties owned by the REIT.

- 2% of the gross property revenue for all single-tenant industrial investment properties;
- 3% of the gross property revenue for all multi-tenant industrial investment properties; and

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

For the years ended December 31, 2016 and 2015

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- 4% of the gross property revenue for all office investment properties.

There were no property management fees payable as at December 31, 2016 and 2015.

- (3) On January 11, 2016, Welsh redeemed 6,600,000 Class B Units in exchange for ownership and control over 6,600,000 REIT Units.

On January 19, 2016, Welsh redeemed 1,902,619 Class B Units in exchange for ownership and control over 1,902,619 REIT Units.

On January 20, 2016 and June 2, 2016, AIMCO, on behalf of certain of its clients, purchased 4,783,122 and 4,468,085 REIT Units from Welsh, respectively, resulting in Welsh directly and indirectly owning and controlling 4,112 REIT Units and 6,722,695 Class B Units as at December 31, 2016, respectively. As at December 31, 2015, Welsh owned and controlled 752,700 REIT Units and 15,225,314 Class B Units, respectively.

Distributions payable to Welsh on Class B Units as at December 31, 2016 and 2015 were \$426 and \$964, respectively. Distributions payable to Welsh on REIT Units as at December 31, 2016 and 2015 were \$0.3 and \$48, respectively.

- (4) An affiliate of Welsh leases space from a subsidiary of the REIT at an investment property located at 4350 Baker Road, Minnetonka, Minnesota. The lease commenced on June 1, 2008 and expires on May 31, 2020, with annual rent increases of 2%.

#### *Out-of-pocket costs and expenses*

The REIT reimburses the asset manager for all reasonable actual out-of-pocket costs and expenses incurred in connection with the performance of the services described in the asset management agreement or such other services that the REIT and WPT Capital agree in writing are to be provided from time to time by the asset manager. For the years ended December 31, 2016 and 2015, the REIT incurred out-of-pocket costs and expenses of \$286 and \$197, respectively. As at December 31, 2016 and 2015, the net payable due was \$22 and \$21, respectively, related to these reimbursements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

## 15. Finance costs:

Finance costs incurred and charged to net income and comprehensive income are recorded as follows:

	Year ended December 31,	
	2016	2015
Interest on mortgages payable	\$ 12,359	\$ 12,329
Revolving Facility interest	881	1,300
Amortization of financing costs	656	665
Amortization of mark-to-market adjustments on fixed interest rate mortgages payable	(702)	(683)
Distributions on Class B Units	5,106	10,956
	<u>\$ 18,300</u>	<u>\$ 24,567</u>
Fair value adjustment to Class B Units	(5,929)	15,225
	<u>\$ 12,371</u>	<u>\$ 39,792</u>

## 16. Segment reporting:

The REIT owns, manages, operates and develops primarily industrial investment properties located throughout the U.S. Management, when measuring the investment properties performance, does not distinguish or group its operations on a geographical or any other basis. Accordingly, the REIT has a single reportable segment for disclosure purposes in accordance with IFRS.

## 17. Commitment and contingencies:

(a) In connection with the IPO, the REIT has agreed to indemnify the underwriters against certain liabilities, including liabilities under applicable securities legislation, or to contribute to payments the underwriters may be required to make in respect of those liabilities. The REIT has agreed to indemnify, in certain circumstances, the trustees and the officers of the REIT in respect of any taxes, penalties or interest imposed upon the trustee or officer in consequence of his/her performance of his/her duties as a trustee or officer.

(b) The REIT has a contingent obligation to expand the gross leasable area at one of its investment properties at the option of the tenant. Management estimates the cost associated



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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with this expansion, should it occur, to be approximately \$1,000. The expansion is conditional on mutual agreement between the tenant and the REIT with regard to the base rental rates to be charged for occupying such expansion space. This contingent obligation will terminate at expiration of the underlying lease, inclusive of lease renewal options, on November 30, 2032.

- (c) The REIT has entered into a non-cancellable ground lease for land related to one of its investment properties. Annual payments under the lease are approximately \$100 through May 31, 2023. Annual payments thereafter are adjusted based on changes in the consumer price index until expiration in 2093.
- (d) In conjunction with the acquisition of 35 industrial investment properties from Welsh at IPO (the "Initial Properties"), \$29,500 of self-funded industrial revenue bonds ("Bonds") were assumed. The authorized amount of the Bonds was \$21,600 and \$29,500 as at December 31, 2016 and 2015, respectively, of which \$21,600 and \$29,500 was outstanding as at December 31, 2016 and 2015, respectively. In connection with an acquisition of an investment property located in Atlanta, Georgia on April 29, 2014 (the "Atlanta Property"), \$40,170 of Bonds were assumed. The authorized amount of the Bonds is \$41,500, of which \$40,170 was outstanding as at December 31, 2016 and 2015, respectively. The Bonds provide for real estate tax abatement for the acquired investment properties. Through a series of transactions, the REIT is both the bondholder and the obligor of the Bonds. Therefore, in accordance with IAS 32, the Bonds are not recorded in the consolidated statements of financial position.
- (e) The REIT's estimated future commitments to complete the Indianapolis Development (note 6) are \$4,000 for 2017.

## 18. Fair value measurement:

- (a) Fair value of financial instruments:

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

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In addition to those financial instruments carried at fair values, the fair values of the REIT's financial assets and financial liabilities, together with the contractual carrying amounts shown in the consolidated statements of financial position, are as follows:

	Carrying amount	Fair value
Mortgages payable – As at December 31, 2016	\$ 316,811	\$ 318,649
Mortgages payable – As at December 31, 2015	\$ 314,095	\$ 319,032

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The following summarizes the significant methods and assumptions used in estimating fair values of the REIT's financial instruments, excluding financial instruments carried at amortized cost where carrying value approximates fair value:

(i) Mortgages payable:

The REIT estimates the fair value of mortgages payable using a discounted cash flow analysis and a yield rate that was estimated based on the borrowing rates currently available to the REIT for mortgages payable with similar terms and maturities, which is a Level 2 input.

(ii) Deferred compensation:

The fair value of unit options granted is estimated using the Black-Scholes option pricing model (Level 2).

The fair value of DTUs granted is estimated based on the market trading prices of the REIT Units (Level 1).

(iii) Class B Units:

The fair value of Class B Units is estimated based on the market trading prices of the REIT Units (Level 1).

(iv) Other financial assets and liabilities:

Amounts receivable, cash and cash equivalents, other non-current assets, restricted cash, distributions payable, the Revolving Facility, amounts payable and accrued

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

For the years ended December 31, 2016 and 2015

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liabilities are carried at amortized cost, which, due to their short-term nature, approximates fair value.

## 19. Capital management:

The primary objective of the REIT's capital management policy is to ensure sufficient liquidity to pursue its growth through acquisitions, to fund leasing costs and capital expenditure requirements, to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations, to ensure adequate funds are available to maintain consistent and sustainable unitholders' distributions, and to remain within its quantitative banking covenants.

The REIT's capital structure consists of cash, debt (including mortgages payable, the Revolving Facility and Class B Units), and unitholders' equity. In managing its capital structure, the REIT monitors performance and makes adjustments to its capital structure based on its investment strategies and changes to economic conditions. In order to maintain or adjust its capital structure, the REIT may issue equity or new debt, issue new debt to replace existing debt (with different characteristics), or reduce the amount of existing debt.

Part of the REIT's objectives in securing mortgages for its investment properties and managing its long-term debt is to stagger the maturities in order to mitigate short-term volatilities in the debt markets. The REIT's declaration of trust stipulates that the REIT shall not incur indebtedness greater than 60% of gross book value. As at December 31, 2016 and 2015, the REIT's debt-to-gross book value ratio was 41.8% and 48.6%, respectively (total outstanding principal balance of mortgages payable and the Revolving Facility of \$336,811 and \$360,795 as at December 31, 2016 and 2015, respectively, divided by gross book value of \$806,431 and \$742,592 as at December 31, 2016 and 2015, respectively). The REIT has no convertible debentures outstanding and has never issued any.

The REIT is required under the terms of its Revolving Facility to meet certain financial covenants, including:

- (a) consolidated total indebtedness shall not exceed 60%;
- (b) the outstanding principal balance of the Revolving Facility and any letters of credit shall not be greater than the borrowing base availability (60% of the gross asset value of the borrowing base assets);

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

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- (c) the ratio of adjusted consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges for the most recently ended four quarters shall not be less than 1.75 to 1.00;
- (d) consolidated tangible net worth shall not be less than the sum of (i) \$274,248 plus (ii) 70% of the sum of any additional net offering proceeds subsequent to April 21, 2016, plus (iii) 70% of the value of interests in the REIT issued upon the contribution of assets to the REIT or its subsidiaries subsequent to April 21, 2016;
- (e) aggregate occupancy for the borrowing base assets shall not be less than 80%; and
- (f) the borrowing base debt service coverage ratio shall not be less than 1.50 to 1.00.

The REIT is also required to meet certain diversification covenants under the Revolving Facility. In addition, certain mortgages payable require the REIT to meet financial covenant ratios (note 10).

The REIT complied with all financial covenants as at December 31, 2016 and 2015.

## **20. Financial risk management:**

Risk Management:

The REIT's activities expose it to market risk, credit risk and liquidity risk. Risk management is carried out by management of the REIT.

- (a) Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, currency risk and other market price risk. There is interest rate risk associated with the REIT's fixed interest rate mortgages payable due to the expected requirement to refinance such mortgages payable in the year of maturity. In order to manage exposure to interest rate risk, the REIT endeavors to manage maturities of fixed interest rate mortgages payable, and match the nature of the mortgages payable with the cash flow characteristics of the underlying asset. This risk is also minimized through the REIT having all of its mortgages payable in fixed term arrangements.

There is also interest rate risk associated with the REIT's Revolving Facility balance. The Revolving Facility bears interest at a variable rate based on the lender's LIBOR plus an

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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For the years ended December 31, 2016 and 2015

applicable margin. Based on the outstanding balance at December 31, 2016, the impact of a 1.0% change in the lender's LIBOR rate will increase or decrease the REIT's interest expense or earnings by \$200 on an annualized basis.

The REIT has no material exposure to currency risk.

- (b) Credit risk arises from the possibility that tenants in investment properties may not fulfill their lease or contractual obligations. The REIT mitigates its credit risks by attracting tenants of sound financial standing and by diversifying its mix of tenants. It also monitors tenant payment patterns and discusses potential tenant issues with property managers on a regular basis. Cash carries minimal credit risk as all funds are maintained with highly reputable financial institutions. The carrying amount of financial assets represents the maximum credit exposure.
- (c) Liquidity risk is the risk that the REIT will encounter difficulty in meeting obligations associated with the maturity of financial obligations. The REIT manages maturities of the fixed interest rate mortgages payable, and monitors the repayment dates to ensure sufficient capital will be available to cover obligations.

## 21. Supplementary cash flow information:

Change in non-cash working capital comprises the following:

	Year ended December 31,	
	2016	2015
Amounts receivable	\$ (118)	\$ (101)
Prepaid expenses	212	430
Restricted cash	696	(313)
Amounts payable and accrued liabilities	2,704	(275)
Amounts payable and accrued liabilities related to additions to investment properties	(3,500)	(221)
Security deposits	86	23
	<b>\$ 80</b>	<b>\$ (457)</b>