

Condensed Consolidated Interim Financial Statements  
(In U.S. dollars)

## **WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST**

Three months ended June 30, 2013 and the period from  
March 4, 2013 to June 30, 2013  
(Unaudited)

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Financial Position  
(In thousands of U.S. dollars)

June 30, 2013  
(Unaudited)

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## Assets

### Non-current assets:

|                                       |               |
|---------------------------------------|---------------|
| Investment properties (notes 4 and 7) | \$ 435,701    |
| Other non-current assets (note 6)     | 1,530         |
|                                       | <hr/> 437,231 |

### Current assets:

|                             |             |
|-----------------------------|-------------|
| Amounts receivable (note 5) | 968         |
| Prepaid expenses            | 355         |
| Restricted cash (note 6)    | 906         |
| Cash and cash equivalents   | 5,918       |
|                             | <hr/> 8,147 |

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|              |            |
|--------------|------------|
| Total assets | \$ 445,378 |
|--------------|------------|

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## Liabilities and Unitholders' Equity

### Non-current liabilities:

|                                       |               |
|---------------------------------------|---------------|
| Mortgages payable (note 10)           | \$ 184,703    |
| Bank indebtedness (note 11)           | 37,185        |
| Class B Units (note 12)               | 104,327       |
| Security deposits                     | 806           |
| Other financial instruments (note 18) | 64            |
|                                       | <hr/> 327,085 |

### Current liabilities:

|  |              |
|--|--------------|
| Mortgages payable (note 10)                      | 5,023        |
| Amounts payable and accrued liabilities (note 8) | 6,854        |
| Distributions payable (note 13)                  | 666          |
|  | <hr/> 12,543 |

|                   |         |
|-------------------|---------|
| Total liabilities | 339,628 |
|-------------------|---------|

|                           |         |
|---------------------------|---------|
| Total unitholders' equity | 105,750 |
|---------------------------|---------|

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|   |            |
|---|------------|
| Total liabilities and unitholders' equity | \$ 445,378 |
|---|------------|

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See accompanying notes to condensed consolidated interim financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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|   |    |         |
|---|----|---------|
| Investment properties:                                  |    |         |
| Investment properties revenue                           | \$ | 8,433   |
| Investment properties operating expenses                |    | 2,170   |
| <hr/>   |    |         |
| Net operating income                                    |    | 6,263   |
| Other expenses and (income):                            |    |         |
| General and administrative                              |    | 577     |
| Fair value adjustment to investment properties (note 7) |    | 589     |
| Finance costs (note 15)                                 |    | (1,266) |
| <hr/>   |    |         |
|   |    | (100)   |
| <hr/>   |    |         |
| Net income and comprehensive income                     | \$ | 6,363   |

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See accompanying notes to condensed consolidated interim financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Changes in Unitholders' Equity  
(In thousands of U.S. dollars)

For the period from March 4, 2013 to June 30, 2013  
(Unaudited)

|  | Trust<br>equity   | Distributions     | Accumulated<br>income | Total             |
|--|-------------------|-------------------|-----------------------|-------------------|
| Balance, beginning of period             | \$ —              | \$ —              | \$ —                  | \$ —              |
| REIT Units issued,<br>net of issue costs | 100,842           | —                 | —                     | 100,842           |
| Net income and comprehensive<br>income   | —                 | —                 | 6,363                 | 6,363             |
| Distributions                            | —                 | (1,455)           | —                     | (1,455)           |
| <b>Balance, end of period</b>            | <b>\$ 100,842</b> | <b>\$ (1,455)</b> | <b>\$ 6,363</b>       | <b>\$ 105,750</b> |

See accompanying notes to condensed consolidated interim financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

|   |          |
|---|----------|
| Cash flows from operating activities:   |          |
| Net income  | \$ 6,363 |
| Finance costs (note 15)   | (1,266)  |
| Non-cash items:   |          |
| Amortization of straight-line rent  | (422)    |
| Fair value adjustment to investment properties (note 7)                       | 589      |
| Change in non-cash working capital (note 21)                                  | 274      |
| Cash flows provided by operating activities                                   | 5,538    |
| Cash flows from financing activities:   |          |
| Payment of mortgages payable  | (26,676) |
| Proceeds from bank indebtedness   | 51,000   |
| Repayment of bank indebtedness  | (54,537) |
| Financing costs incurred  | (1,390)  |
| Proceeds from issuance of REIT Units,<br>net of issue costs (note 13)         | 100,842  |
| Distributions (note 13)   | (789)    |
| Interest paid   | (2,437)  |
| Cash flows provided by financing activities                                   | 66,013   |
| Cash flows used in investing activities:                                      |          |
| Acquisition of investment properties (note 4)                                 | (66,174) |
| Cash balances transferred in acquisition of<br>investment properties (note 4) | 730      |
| Additions to investment properties (note 7)                                   | (167)    |
| Change in restricted cash   | (22)     |
| Cash flows used in investing activities                                       | (65,633) |
| Increase in cash and cash equivalents   | 5,918    |
| Cash and cash equivalents, beginning of period                                | -        |
| Cash and cash equivalents, end of period                                      | \$ 5,918 |

See accompanying notes to condensed consolidated interim financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 1. General Information:

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, when one trust unit was issued for ten dollars. The REIT's Declaration of Trust was amended and restated on April 26, 2013. For the period from March 4, 2013 to April 25, 2013, there were no results of operations and, as a result, the REIT has not provided separate statements of net income and comprehensive income and cash flows for the period from March 4, 2013 to June 30, 2013. The REIT was formed for the purpose of acquiring and owning primarily industrial properties, located in the United States, with a particular focus on warehouse and distribution industrial real estate.

The operations of the REIT commenced on April 26, 2013 when it completed an Initial Public Offering ("IPO") of 10,000,000 units ("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, 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 of gross leasable area, comprised of 35 industrial properties and two office properties located in 12 states in the United States (collectively, the "Initial Properties"). Further details of the acquisition of the Initial Properties can be found in note 4.

On May 16, 2013, in connection with the exercise of the 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 bank indebtedness.

The REIT Units trade on the Toronto Stock Exchange ("TSX") under the symbol "WIR.U". The registered office of the REIT is at 333 Bay Street, Suite 3400, Toronto, Ontario. On June 28, 2013, the REIT Units were approved for trading in the U.S. on the OTCQX market place under the symbol "WPTIF".

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 2. Basis of preparation:

### (a) Statement of compliance:

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standard Board ("IASB") and do not include all of the information required for full annual financial statements and using accounting policies described herein.

These condensed consolidated interim financial statements were approved by the Board of Trustees on August 12, 2013.

### (b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for investment properties, derivative financial instruments and Class B Units which have been measured at fair value. The condensed consolidated interim 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 where otherwise indicated.

### (c) Basis of consolidation:

The condensed consolidated interim financial statements comprise the financial statements of the REIT and its subsidiaries. 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.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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### 3. Significant accounting policies:

(a) Business combinations:

Business combinations are accounted for under the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value as of 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 condensed consolidated interim statements of net income and comprehensive income. Transaction costs incurred in connection with business combinations are expensed as incurred.

(b) Foreign currency transactions:

The functional and presentation currency of the REIT and its subsidiaries is the U.S. dollar.

(c) Investment properties:

Investment properties are initially recorded at cost, including related transaction costs in the case of asset acquisitions, and includes primarily industrial properties held to earn rental revenue and/or for capital appreciation. The REIT has selected the fair value method 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 condensed consolidated interim statements of net income and comprehensive income during the year in which they arise. Fair values are primarily determined by using the discounted cash flow method of the income approach.

Investment properties include land, improvements to the property, all direct leasing costs incurred in arranging property tenants, as well as any lease incentives. 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 property and cost can be measured reliably. Repairs and maintenance expenditures are expensed when incurred.



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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### 3. Significant accounting policies (continued):

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 its disposal, the carrying values of the investment properties are adjusted to reflect their fair values. This adjustment shall be recorded as a fair value gain (loss). Any remaining gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss for the year in which the property is derecognized.

(d) Cash and cash equivalents:

Cash and cash equivalents includes 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. Excluded from cash and cash equivalents are amounts held as required by various lending agreements for escrow accounts for insurance, real estate taxes and capital expenditures related to the REIT's mortgages payable. 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 include 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 a right to use the property and revenue is recognized pursuant to the terms of the lease agreement.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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### 3. Significant accounting policies (continued):

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 from tenants are recognized as revenue 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.

(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<br>(rent and other receivables) | Loans and receivables | Amortized cost |
| Mortgages payable                                  | Other liabilities     | Amortized cost |
| Class B Units                                      | Other liabilities     | Fair value     |
| Bank indebtedness                                  | Other liabilities     | Amortized cost |
| Interest rate swap and cap                         | Other liabilities     | Fair value     |
| Security deposits                                  | Other liabilities     | Amortized cost |
| Amounts payable and accrued liabilities            | Other liabilities     | Amortized cost |

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# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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### 3. Significant accounting policies (continued):

#### (ii) Financial assets:

The REIT classifies its non-derivative financial instruments 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.

Amounts receivable are initially measured at fair value and are subsequently measured at amortized cost less a provision for impairment. A provision for impairment 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 condensed consolidated interim 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 condensed consolidated interim statements of net income and comprehensive income. Amounts receivables that are less than three 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. 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.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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### 3. Significant accounting policies (continued):

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, interest expense on the revolving credit facility (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 financing costs incurred in connection with obtaining long-term financings. The mark-to-market premium and financing costs incurred are amortized using the effective interest rate method over the term of the related mortgages payable. Unamortized mark-to-market premium and financing costs incurred are fully amortized when mortgages payable are retired before maturity.

(v) Derivative financial instruments:

The REIT uses 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 condensed consolidated interim financial statements of net income and comprehensive income.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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### 3. Significant accounting policies (continued):

(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 Trust ("SIFT") 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 real estate investment trust status, distributes at least 90% of its real estate investment trust taxable income to its unitholders in any taxable year, and complies with certain other requirements 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, it will be subject to federal 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 and property 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.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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### 3. Significant accounting policies (continued):

#### (h) Distributions

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

#### (i) REIT Units:

The REIT Units 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, classified and accounted for as equity.

#### (j) Class B Units:

The Class B Units 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 REIT Units are puttable and, therefore, the Class B Units meet the definition of a financial liability under IAS 32. Further, the Class B Units are designated as fair value through profit or loss 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 profit or loss.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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### 3. Significant accounting policies (continued):

(k) Unit-based compensation plans:

As described in note 13, the REIT's Board of Trustees has authorized a Deferred Unit Incentive Plan ("DUIP") and a unit option plan (the "Plan") that provides for the granting of deferred trust units and options to certain of the trustees, officers, directors, employees, consultants and service providers, as well as employees of such service providers. Unit-based compensation is measured at fair value 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 condensed consolidated interim 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.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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### 3. Significant accounting policies (continued):

(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 condensed consolidated interim financial statements:

(a) Investment properties:

The REIT assesses whether an acquisition transaction could 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 period 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 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 certain costs are additions to the carrying amounts of the investment properties.



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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### 3. Significant accounting policies (continued):

#### (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 a 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 is expected to qualify 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 condensed consolidated interim financial statements include the valuation of investment properties.

Critical assumptions relating to the estimates of fair values of investment properties include the receipt of contractual rents, expected future market rents, renewal rates, maintenance requirements, discount rates that reflect current market uncertainties, capitalization rates and current and recent property investment prices. 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 Condensed Consolidated Interim Financial Statements (continued)  
(In thousands of U.S. dollars, except per unit amounts)

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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### 3. Significant accounting policies (continued):

#### (m) Changes in future 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 9, Financial Instruments ("IFRS 9"):

In November 2009, the IASB issued IFRS 9 and in October 2010, the IASB published amendments to IFRS 9. IFRS 9 replaces the guidance in IAS 39 and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flow. The extent of the impact of adoption of IFRS 9 has not yet been determined.

#### (ii) Amendments to IAS 32 and IFRS 7:

In December 2011, the IASB amended IAS 32 to clarify that an entity currently has a legally enforceable right to offset if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement.

The amendments to IAS 32 are effective for fiscal periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The extent of the impact of adoption of the amendments to IAS 32 has not yet been determined.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

## 4. Business combination:

On April 26, 2013, the REIT indirectly acquired from Welsh a 100% interest in a portfolio of properties comprised of 35 industrial properties and two office properties, located in 12 states in the U.S. The assets acquired and liabilities assumed have been accounted for as a business combination using the acquisition method of accounting. The Initial Properties were acquired for a gross purchase price of \$435,701, which approximated the fair value of net assets acquired at that date. The REIT assumed mortgages with an aggregate principal balance of \$185,932 and a mark-to-market adjustment 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 assumed \$2,208 of working capital liabilities. As partial consideration, the REIT issued \$108,674 in Class B Units to Welsh. The remaining \$66,174 of the purchase price was paid in cash.

The recognized amounts of identifiable assets acquired and liabilities assumed in this transaction, measured at their respective fair values, are as follows:

|   |                   |
|---|-------------------|
| Investment properties                   | \$ 435,701        |
| Amounts receivable                      | 1,112             |
| Prepaid expenses                        | 332               |
| Cash                                    | 730               |
| Restricted cash                         | 2,477             |
| Amounts payable and accrued liabilities | (6,079)           |
| Security deposits                       | (781)             |
| Other financial instruments             | (80)              |
| Mortgages payable and bank indebtedness | (253,864)         |
| Mark-to-market adjustment               | (4,700)           |
| <b>Net assets acquired</b>              | <b>\$ 174,848</b> |
| Consideration given by the REIT:        |                   |
| Cash consideration                      | \$ 66,174         |
| Class B Units                           | 108,674           |
| <b>Total consideration</b>              | <b>\$ 174,848</b> |

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 4. Business combination (continued):

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

The REIT is in the process of completing the valuation of the net assets acquired and the purchase price allocation may be adjusted in future periods.

## 5. Amounts receivable:

Receivables are recorded at their estimated net realizable value. Management does not require collateral and accounts are evaluated for collectability if payment is not received within three months of the payment due date.

Amounts receivable are as follows:

---

|                                     |        |
|-------------------------------------|--------|
| Tenant receivables                  | \$ 945 |
| Other receivables                   | 31     |
| Allowance for uncollectible amounts | (8)    |
|                                     | <hr/>  |
|                                     | \$ 968 |

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The carrying amount of amounts receivable approximate fair value due to their short-term nature.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

## 6. Other non-current assets:

|                          |               |
|--------------------------|---------------|
| Restricted cash          | \$ 2,341      |
| Interest rate cap        | 95            |
|                          | <u>2,436</u>  |
| Less non-current portion | 1,530         |
| Total current portion    | <u>\$ 906</u> |

Included in restricted cash are escrow accounts for insurance, real estate taxes, and capital expenditures related to the investment properties mortgages payable. The derivative asset is a two-year interest rate cap instrument, which covers a notional principal amount of \$50,000 of floating rate debt under the REIT's Revolving Facility and provides for a U.S. LIBOR cap of 50-basis points. The interest rate cap was purchased for \$91. As at June 30, 2013, all of the REIT's outstanding floating rate debt is covered under the interest rate cap.

## 7. Investment properties:

The reconciliation of the carrying amount of investment properties at the beginning and end of each financial period is set out below:

|  |                   |
|--|-------------------|
| Balance, March 31, 2013                        | \$ —              |
| Investment property acquisitions               | 435,701           |
| Additions to investment properties             | 167               |
| Amortization of straight-line rent             | 422               |
| Fair value adjustment to investment properties | (589)             |
| Balance, June 30, 2013                         | <u>\$ 435,701</u> |

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.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 7. Investment properties (continued):

The fair value hierarchy of investment properties measured at fair value on the condensed consolidated interim statement of financial position is as follows:

|                       | Level 1 | Level 2 | Level 3    |
|-----------------------|---------|---------|------------|
| Investment properties | \$ –    | \$ –    | \$ 435,701 |

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 are generally consistent with the appraisals completed, as referenced in the long-form prospectus dated April 18, 2013. 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 or affecting the portfolio that would impact the fair value attributed by the market in the IPO. Accordingly, the investment properties' fair values have been maintained at \$435,701 and each individual investment property has been assigned its pro-rata share of such amount based on appraised values.

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 net operating income, adjusting for cash inflows and outflows required to achieve the stabilized net operating income and deducting the present value of future capital expenditures.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 7. Investment properties (continued):

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 values of investment properties are sensitive to changes in capitalization rates. As at June 30, 2013, a 25-basis-point increase in the weighted average in-place capitalization rate would decrease the value of the investment properties by \$13,285. A 25-basis-point decrease in the weighted average in-place capitalization rate would increase the value of the investment properties by \$14,147.

## 8. Amounts payable and accrued liabilities:

---

|  |          |
|--|----------|
| Trade payables                         | \$ 124   |
| Accrued liabilities and other payables | 2,542    |
| Accrued real estate taxes              | 1,747    |
| Accrued interest                       | 1,241    |
| Unearned revenue                       | 88       |
| Rent received in advance               | 1,081    |
| Unit-based compensation                | 31       |
|  | <hr/>    |
|  | \$ 6,854 |

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## 9. Operating leases:

The REIT leases commercial 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 three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 9. Operating leases (continued):

At June 30, 2013, the total future contractual minimum base rent lease payments expected to be received under non-cancellable leases are as follows:

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|                      |            |
|----------------------|------------|
| Within 12 months     | \$ 33,721  |
| 2 - 5 years          | 102,738    |
| Greater than 5 years | 43,555     |
|                      | <hr/>      |
|                      | \$ 180,014 |

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## 10. Mortgages payable:

Mortgages payable consist of the following as at June 30, 2013:

---

|                                  |            |
|----------------------------------|------------|
| Mortgages payable                | \$ 185,650 |
| Mark-to-market adjustment, net   | 4,567      |
| Financing costs, net             | (491)      |
|                                  | <hr/>      |
| Carrying value, June 30, 2013    | 189,726    |
| Less current portion             | 5,023      |
|                                  | <hr/>      |
| Long-term portion, June 30, 2013 | \$ 184,703 |

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Mortgages payable are collateralized by investment properties and bear interest at various fixed rates. Mortgages payable are classified as current liabilities if they are due and payable within 12 months after the date of the condensed consolidated interim statement of financial position.



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

## 10. Mortgages payable (continued):

As at June 30, 2013, the weighted average effective fixed interest rate of mortgages payable is 4.66% and maturity dates range from 2014 - 2021. As at June 30, 2013, there was one mortgage payable with a variable interest rate. The principal balance of this mortgage was \$3,250 as at June 30, 2013. Management has entered into an interest rate swap to fix this variable interest rate at 5.50% (note 18).

Contractual cash flows of mortgages payable principal and interest are as follows at June 30, 2013:

|                     | Principal<br>payment | Interest<br>payment | Total<br>payments |
|---------------------|----------------------|---------------------|-------------------|
| 2013 (remainder)    | \$ 788               | \$ 4,315            | \$ 5,103          |
| 2014                | 16,382               | 8,182               | 24,564            |
| 2015                | 1,917                | 7,640               | 9,557             |
| 2016                | 22,957               | 7,544               | 30,501            |
| 2017                | 1,702                | 6,222               | 7,924             |
| 2018 and thereafter | 141,904              | 20,895              | 162,799           |
|                     | <u>\$ 185,650</u>    | <u>\$ 54,798</u>    | <u>\$ 240,448</u> |

Covenant compliance requirements:

The REIT's mortgages payable agreements contain customary representations, warranties, and events of default, which require the REIT to comply with affirmative and negative covenants. The key restrictive covenants provide that as of the end of each fiscal quarter: (a) tangible net worth of the REIT shall not be less than \$100,000 (b) the REIT's senior debt service coverage ratio shall not be less than 1.40, and (c) the total indebtedness of the REIT shall not exceed 65% of the gross book value of the REIT on a consolidated basis. As at June 30, 2013, the REIT was in compliance with all covenants of its mortgages payable.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 11. Bank indebtedness:

Revolving Facility:

The Revolving Facility consists of the following as at June 30, 2013:

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|                               |                       |
|-------------------------------|-----------------------|
| Revolving Facility            | \$ 38,000             |
| Financing costs, net          | (815)                 |
| <hr/>                         |                       |
| Carrying value, June 30, 2013 | <hr/> \$ 37,185 <hr/> |

On April 26, 2013, the REIT entered into a new \$75,000 senior secured Revolving Facility. The Revolving Facility has an initial term of three years from April 26, 2013, subject to a one-year extension option upon the payment of an extension fee and satisfaction of other conditions. The rate on the Revolving Facility is, at the Partnership's option, based on either a base rate or LIBOR (with one, two or three month LIBOR periods), in each case plus an applicable margin based on corporate 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. A two-year interest rate cap instrument was purchased for \$91 covering a notional principal amount of \$50,000 and providing for a U.S. LIBOR cap of 50-basis points (note 18). Financing costs of \$864 were incurred to obtain the Revolving Facility and are being amortized over the initial term of three years.

As at June 30, 2013, the REIT had drawn \$38,000 on its Revolving Facility and had a \$950 letter of credit outstanding, leaving availability of \$25,270.

## 12. Class B Units:

On April 26, 2013, the Partnership issued Class B Units with a fair value of \$108,674. The Class B Units are economically equivalent to REIT Units and are entitled to receive distributions equal to those provided to holders of REIT Units (subject to certain adjustments). These Class B Units have been classified as a liability in accordance with IFRS.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 12. Class B Units (continued):

The following table shows the change in value of the Class B Units outstanding for the period:

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|                                  |    |         |
|----------------------------------|----|---------|
| As at March 31, 2013             | \$ | –       |
| Class B Units issued, 10,867,362 |    | 108,674 |
| Fair value adjustments           |    | (4,347) |
| <hr/>                            |    |         |
| As at June 30, 2013              | \$ | 104,327 |

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Included in finance costs for the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013, is \$1,383 of distributions declared on Class B Units.

## 13. Unitholders' equity:

The REIT is authorized to issue an unlimited number of REIT Units. 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 April 26, 2013, the REIT completed its IPO of 10,000,000 REIT Units for \$87,403, net of issuance costs of \$12,597.

On May 16, 2013, the REIT issued an additional 1,430,000 REIT Units for \$13,439, net of issuance costs of \$861. The issuance was pursuant to the exercise of an underwriters' over-allotment option in connection with the IPO.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

## 13. Unitholders' equity (continued):

REIT Units outstanding:

|  | Units             | Value             |
|--|-------------------|-------------------|
| REIT Unit issued, March 4, 2013  | 1                 | \$ —              |
| REIT Units issued on completion of the IPO, April 26, 2013             | 10,000,000        | 100,000           |
| REIT Unit redeemed   | (1)               | —                 |
| REIT Units issued through underwriters over-allotment,<br>May 16, 2013 | 1,430,000         | 14,300            |
| REIT Units issued  | 11,430,000        | 114,300           |
| Less issue costs   | —                 | 13,458            |
| <b>As at June 30, 2013</b>   | <b>11,430,000</b> | <b>\$ 100,842</b> |

### (a) Distributions:

On June 19, 2013, the REIT declared a distribution of \$0.0583 per REIT Unit for the month of June, totaling \$666. This distribution was paid on July 15, 2013 to unitholders of record as of the close of business on June 28, 2013. On May 15, 2013, the REIT announced its first cash distribution of \$0.0690 per REIT Unit for the period from April 26, 2013 to May 31, 2013, totaling \$789. The distribution was paid on June 17, 2013 to unitholders of record as of the close of business on May 31, 2013.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 13. Unitholders' equity (continued):

### (b) Deferred Unit Incentive Plan:

On April 26, 2013, the Board of Trustees of the REIT authorized a DUIP that provides for the granting of deferred trust units to trustees, officers, directors, employees, consultants and service providers, as well as employees of such service providers. Vested deferred trust units may be redeemed in whole or in part for units of the REIT issued from treasury or cash. Whenever cash distributions are paid on the deferred trust units, additional deferred trust units will be credited to the participant's deferred unit account and calculated by multiplying the number of deferred trust units held by the participant by the amount of distributions paid by the REIT on each unit by the market value of a unit on the distribution date. These additional units shall vest on the same schedule as their corresponding deferred trust units and are considered issued on the same date as the deferred trust units in respect of which they are credited.

On May 29, 2013, the Board of Trustees granted 50,000 deferred trust units to certain officers of the REIT and employees of Welsh. These deferred trust units vest one fifth on the first anniversary of the grant date, and one fifth on each of the four following anniversaries. The total fair value of the deferred trust units on the grant date was \$507.

The movement in the DUIP balance was as follows:

---

|                                 |       |             |
|---------------------------------|-------|-------------|
| As at March 31, 2013            | \$    | –           |
| Unit-based compensation expense |       | 21          |
| Fair value adjustments          |       | (1)         |
| <hr/>                           |       |             |
| As at June 30, 2013             | <hr/> | <hr/> \$ 20 |

The compensation expense of \$20 for the three months ended June 30, 2013 for the deferred trust units was determined based on the fair value of the REIT units at June 30, 2013.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 13. Unitholders' equity (continued):

### (c) Unit option plan:

On April 26, 2013, the Board of Trustees of the REIT authorized 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 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. The total fair value of the options on the grant date was \$216.

Liability balance:

---

|                                 |    |     |
|---------------------------------|----|-----|
| Balance, March 31, 2013         | \$ | –   |
| Unit-based compensation expense |    | 14  |
| Fair value adjustments          |    | (3) |
| Balance, June 30, 2013          | \$ | 11  |

---

The 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 June 30, 2013 using the Black-Scholes option pricing model with the following assumptions:

---

|                         |         |
|-------------------------|---------|
| Expected option term    | 6 years |
| Risk-free interest rate | 1.69%   |
| Expected volatility     | 22.00%  |
| Dividend yield          | 7.29%   |

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# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 14. Related party transactions:

The condensed consolidated interim financial statements include the following transactions with Welsh:

### (a) Business combination:

On April 26, 2013, in connection with its IPO, the REIT acquired 37 investment properties from Welsh for cash consideration and Class B Units. See note 4 for details.

### (b) Asset management fees:

On April 26, 2013, the Partnership and the REIT entered into an asset management agreement with Welsh, under which Welsh provides certain asset management services to the REIT and its subsidiaries. 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. Asset management fees paid to Welsh during the three months ended June 30, 2013 were \$197.
- 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.
- 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,

No acquisition fees or construction management fees were earned by Welsh during the three months ended June 30, 2013.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 14. Related party transactions (continued):

### (c) Property management fees:

On April 26, 2013, the Partnership and the REIT entered into a property management agreement with Welsh. Under the property management agreement, Welsh is the property manager of the investment properties owned by the REIT and administers the day-to-day operations of the REIT's portfolio of investment properties. Property management fees are described below for all properties owned by the REIT.

- 2% of the gross property revenue for all single-tenant industrial properties;
- 3% of the gross property revenue for all multi-tenant industrial properties; and
- 4% of the gross property revenue for all office properties.

Property management fees paid to Welsh during the three months ended June 30, 2013 were \$221.

### (d) Class B Units:

Distributions on Class B Units of \$750 were paid to Welsh during the three months ended June 30, 2013. Distributions payable to Welsh as at June 30, 2013 were \$633.

### (e) Office rent:

The Partnership has a lease with an affiliate of Welsh for an investment property located at 4350 Baker Road, Minnetonka, Minnesota. Rental revenue earned by the Partnership from the affiliate of Welsh for the three months 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%.



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 15. Finance costs:

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

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|  |            |
|--|------------|
| Interest expense incurred at stated rate                     | \$ 1,557   |
| Bank indebtedness interest expense                           | 211        |
| Amortization of financing costs                              | 85         |
| Amortization of mark-to-market adjustment on fixed rate debt | (136)      |
| Distributions on Class B Units                               | 1,383      |
| Fair value adjustment on Class B Units                       | (4,347)    |
| Fair value adjustment on derivative instruments              | (19)       |
|  | <hr/>      |
|  | \$ (1,266) |

---

## 16. Segment reporting:

The REIT owns, manages and operates primary industrial investment properties located throughout the United States. 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.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 17. Commitment and contingencies (continued):

- (b) The REIT has an obligation to expand the gross leasable area at two of its 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.
- (c) The REIT has entered into a non-cancellable ground lease for land related to one of its investment properties, which sits on land that is not owned by the REIT. 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 certain properties, \$29,500 of self-funded industrial revenue bonds ("Bonds") were assumed. The authorized amount of the Bonds is \$29,500, of which \$29,500 is outstanding as at June 30, 2013. The Bonds provide for real estate tax abatement for the acquired 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 on the condensed consolidated interim statement of financial position.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 18. Financial instruments:

Fair value of financial instruments:

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 condensed consolidated interim statement of financial position, are as follows:

|                   | Carrying amount | Fair value |
|-------------------|-----------------|------------|
| Mortgages payable | \$ 185,650      | \$ 188,711 |

---

The REIT uses various methods in estimating the fair values recognized in the condensed consolidated interim financial statements. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 18. Financial instruments (continued):

The following summarizes the significant methods and assumptions used in estimating fair values of the REIT's financial instruments:

(i) Mortgages payable:

The REIT estimates the fair value of mortgages payable using 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. Financial instruments carried at amortized cost where carrying value does not approximate fair value are described below:

(ii) Interest rate swap:

The REIT is party to an interest rate swap agreement to limit exposure to the fluctuations in its LIBOR-based variable interest payments on a mortgage note payable. The swap covers the notional amount of \$3,250 at a fixed rate of 5.5% and is set to expire on April 1, 2014. The interest rate swap is not designated as a hedge for accounting purposes. The fair value of the interest rate swap was a liability of \$64 at June 30, 2013, and was included in the accompanying condensed consolidated interim financial statements as another financial instrument. The REIT recognized an adjustment to interest expense in the amount of \$15 for the three months ended June 30, 2013 and for the period from March 4, 2013 to June 30, 2013. The interest rate swap fair value is determined by a model-derived valuation, in which significant inputs and value drivers are observable in active markets for a similar instrument, i.e., Level 2 inputs. Changes in fair value are recognized as adjustments to interest expense in the accompanying condensed consolidated interim statements of net income and comprehensive income.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 18. Financial instruments (continued):

### (iii) Interest rate cap:

The REIT purchased a two-year interest rate cap instrument covering a notional principal amount of \$50,000 of floating rate debt under the Revolving Facility and providing for a U.S. LIBOR cap of 50 basis points. The interest rate cap was purchased for \$91. The REIT recognized an adjustment to interest expense in the amount of \$4 for the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013. The interest rate cap fair value is determined by a model-derived valuation in which significant inputs and value drivers are observable in active markets for a similar instrument, i.e., Level 2 inputs. Changes in fair value are recognized as adjustments to interest expense in the accompanying condensed consolidated interim statements of income and comprehensive income. As at June 30, 2013, all of the REIT's floating rate debt is covered under the interest rate cap.

### (iv) Unit-based compensation:

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

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

### (v) Class B units:

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

### (vi) Other financial assets and liabilities:

Amounts receivable, cash and cash equivalents, other non-current assets, restricted cash, amounts payable and accrued liabilities are carried at amortized cost, which, due to their short-term nature, approximates fair value.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 19. Capital management:

The primary objective of the REIT's capital management is to ensure sufficient liquidity to pursue its growth with strategic 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 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 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 June 30, 2013, the REIT's debt to gross book value was 51%.

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

- (a) consolidated total indebtedness shall not exceed 65% of the consolidated gross asset value through October 26, 2014, and 60% at any time thereafter;
- (b) the outstanding principal balance of the Revolving Facility shall not be greater than the borrowing base availability;
- (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;

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 19. Capital management (continued):

- (d) consolidated tangible net worth shall not be less than the sum of (i) \$150,000 plus (ii) 80% of the sum of any additional net offering proceeds, plus (iii) 80% of the value of interests in the REIT issued upon the contribution of assets to the REIT or its subsidiaries;
- (e) aggregate occupancy for the borrowing base assets shall not be less than 85%; and
- (f) the borrowing base debt service coverage ratio shall not be less than 1.50 to 1.00.

In addition, the REIT is required under certain property mortgage terms to meet financial covenant ratios (note 10).

The REIT complied with all financial covenants as at June 30, 2013.

## 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 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 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 generally having all of its mortgages payable in fixed term arrangements. Additionally, the interest rate cap on the Revolving Facility minimizes the REIT's interest rate risk. As such, the REIT's cash flows are not significantly impacted by a change in market interest rates.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 20. Financial risk management (continued):

At June 30, 2013, there was one mortgage payable with a variable interest rate. Management manages this variable-rate mortgage payable using an interest rate swap that alters its exposure to the impact of changing interest rates. The interest rate swap is not designated as a hedging instrument and as a result, the change in fair value is recognized in earnings as an adjustment to interest expense in the accompanying condensed consolidated statement of income and comprehensive income. For the three months ended June 30, 2013, a 100 basis-point change in interest rates, assuming all other variables are constant, would have resulted in a \$95 change in the REIT's interest expense.

The REIT has no material exposure to currency risk.

- (b) The REIT's assets consist of primarily industrial properties. 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 rate mortgages payable, and monitors the repayment dates to ensure sufficient capital will be available to cover obligations.



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three months ended June 30, 2013 and the period from March 4, 2013 to June 30, 2013  
(Unaudited)

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## 21. Supplementary cash flow information:

Change in non-cash working capital comprises:

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|   |        |
|---|--------|
| Decrease in amounts receivable                      | \$ 145 |
| Increase in prepaid expenses                        | (114)  |
| Decrease in restricted cash                         | 157    |
| Increase in amounts payable and accrued liabilities | 61     |
| Increase in security deposits                       | 25     |
|   | <hr/>  |
|   | \$ 274 |

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## 22. 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) 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.