

WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST



MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION  
FOR THE THREE MONTHS ENDED MARCH 31, 2018

**May 9, 2018**

## CONTENTS

### **PART I**

BASIS OF PRESENTATION

NON-IFRS MEASURES

FORWARD LOOKING STATEMENTS

OVERVIEW

OBJECTIVES

STRATEGIC FOCUS AND OUTLOOK

ASSETS

FINANCIAL AND OPERATIONAL HIGHLIGHTS

### **PART II**

RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

EQUITY

### **PART III**

DISCLOSURE AND INTERNAL CONTROLS

### **PART IV**

RISK FACTORS

### **PART V**

RELATED PARTY TRANSACTIONS

### **PART VI**

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

## PART I

### BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("**MD&A**") is prepared as at May 9, 2018 and outlines WPT Industrial Real Estate Investment Trust's (the "**REIT**") operating strategies, risk profile considerations, business outlook and analysis of its financial performance and financial condition for the three months ended March 31, 2018 and 2017. This MD&A should be read in conjunction with the REIT's MD&A for the year ended December 31, 2017, the REIT's unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2018 and 2017 and the REIT's audited consolidated financial statements and accompanying notes for the years ended December 31, 2017 and 2016. These documents, as well as additional information relating to the REIT (including the REIT's annual information form for the year ended December 31, 2017) (the "**Annual Information Form**") can be accessed on the REIT's website at [www.wptreit.com](http://www.wptreit.com) and under the REIT's SEDAR profile at [www.sedar.com](http://www.sedar.com).

This MD&A is based on financial statements prepared by management in accordance with International Accounting Standards ("**IAS**") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("**IASB**"), unless otherwise stated, amounts are listed in thousands of United States dollars, except per unit amounts.

### NON-IFRS MEASURES

Certain terms used in this MD&A such as funds from operations ("**FFO**"), adjusted funds from operations ("**AFFO**"), adjusted cash flows from operations ("**ACFO**"), net operating income ("**NOI**"), same properties NOI ("**Same properties NOI**"), earnings before fair value adjustments to investment properties, interest (inclusive of finance costs), taxes, depreciation and amortization ("**Adjusted EBITDA**"), debt to Adjusted EBITDA, ACFO payout ratio, debt-to-gross book value, interest coverage ratio, fixed charge coverage ratio, and any related per unit amounts used by management to measure, compare and explain the operating results and financial performance of the REIT are not recognized terms under International Financing Reporting Standards ("**IFRS**"), and therefore should not be construed as alternatives to net income and comprehensive income or cash flows from operating activities calculated in accordance with IFRS. Management believes that these terms are relevant measures in comparing the REIT's performance to industry data, the REIT's ability to earn and distribute cash returns to holders of the REIT's trust units ("**REIT Units**"), and the REIT's ability to meet its ongoing obligations. These terms are defined below and are reconciled to the most directly comparable measure specified in the condensed consolidated interim financial statements of the REIT for the three months ended March 31, 2018 and 2017, in Part II. Such terms do not have a standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures presented by other issuers.

FFO is defined as net income in accordance with IFRS, (i) plus or minus fair value adjustment to investment properties; (ii) plus or minus gains or losses from sales of investment properties; (iii) plus or minus other fair value adjustments; (iv) plus amortization of tenant incentives; (v) plus transaction costs expensed as a result of the purchase of an investment property being accounted for as a business combination; (vi) plus distributions on redeemable or exchangeable units treated as interest expense; (vii) plus or minus any negative goodwill or goodwill impairment; (viii) plus deferred income tax expense, after adjustments for equity accounted entities and joint ventures calculated to reflect FFO on the same basis as consolidated investment properties; and (ix) adjustments for property taxes accounted for under International Financial Reporting Interpretations Committee ("**IFRIC**") 21. FFO has been prepared consistently with the definition presented in the white paper on funds from operations prepared by REALPAC issued on February 2018 and is intended to be used as a sustainable, economic earnings metric.

AFFO is defined as FFO subject to certain adjustments, including: (i) any differences resulting from recognizing investment property rental revenues on a straight-line basis; and (ii) minus a reserve for normalized maintenance capital expenditures, tenant inducements and leasing commissions, as determined by the REIT. However, other adjustments may be made to AFFO as determined by the board of trustees of the REIT (the "**Board**" or the "**Board of Trustees**") in their sole discretion. AFFO has been prepared consistently with the definition presented in the white paper on adjusted funds from operations prepared by REALPAC issued on February 2018 for all periods presented.

ACFO is defined as cash flows from operations in accordance with IFRS, (i) plus or minus the change in non-cash working capital, which includes only items that are not indicative of sustainable cash available for distributions,; (ii) minus interest

expense included in cash flow from financing; (iii) minus a reserve for normalized maintenance capital expenditures, tenant inducements and leasing commissions, as determined by the REIT; (iv) plus or minus transaction costs associated with an acquisition or disposition of an investment property that was expensed during the period; (v) plus or minus the non-cash amortization of the deferred financing costs and the debt premium (discount) mark-to-market adjustments; and (vi) plus or minus the difference in recognized interest expense in accordance with IFRS to interest paid due to timing differences. However, other adjustments may be made to ACFO as determined by the Board of Trustees in their sole discretion. Management believes ACFO is intended to be used as a sustainable, economic cash flow metric. ACFO has been prepared consistently with the definition presented in the white paper on adjusted cash flows from operations prepared by REALPAC issued on February 2018 for all periods presented.

NOI is used by industry analysts, investors and management to measure operating performance of real estate investment trusts. NOI represents investment properties revenue less investment properties operating expenses less fair value adjustment to investment properties in respect of IFRIC 21. Accordingly, NOI excludes certain expenses included in the determination of net income and comprehensive income, such as interest expense.

Same properties NOI is used by management to evaluate period-over-period performance of investment properties fully-owned by the REIT. Same properties NOI represents NOI from investment properties having consistent leasable areas for consistent periods and excludes non-stabilized properties under development, amortization of straight-line rent, amortization of lease incentives, tenant incentives – free rent, and other rental income. Same properties NOI has been reconciled to NOI for the consolidated portfolio under the headings “Same properties NOI” and “Same properties NOI prior quarter comparison”.

Adjusted EBITDA is defined as earnings before fair value adjustments to investment properties, interest (inclusive of finance costs), taxes, depreciation and amortization.

Debt to Adjusted EBITDA is defined as the average rolling twelve-month consolidated debt balance (excluding mark-to-market adjustments and financing costs) divided by a rolling twelve month Adjusted EBITDA.

ACFO payout ratio is defined as distributions of the REIT (including distributions on Class B partnership units (“**Class B Units**”) of WPT Industrial, LP (the “**Partnership**”) divided by ACFO.

Debt-to-gross book value is calculated by dividing total principal amounts outstanding under mortgages payable and the senior secured revolving credit facility (the “**Revolving Facility**”) by the total carrying value of investment properties.

Interest coverage ratio is defined as year-to-date Adjusted EBITDA divided by the sum of the REIT’s year-to-date interest on mortgages payable and interest on the Revolving Facility.

Fixed charge coverage ratio is defined as year-to-date Adjusted EBITDA divided by the sum of the REIT’s year-to-date interest on mortgages payable, interest on the Revolving Facility, and scheduled principal repayments of mortgages payable.

#### **FORWARD LOOKING STATEMENTS**

This MD&A contains “**forward-looking information**” as defined under Canadian securities laws (collectively, “**forward-looking statements**”) which reflect management’s expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance, business prospects and opportunities of the REIT. The words “**plans**”, “**expects**”, “**scheduled**”, “**estimates**”, “**intends**”, “**anticipates**”, “**projects**”, “**believes**”, or variations of such words and phrases (including negative variations) or statements to the effect that certain actions, events or results “**may**”, “**will**”, “**could**”, “**would**”, “**might**”, “**be achieved**”, or “**continue**” and similar expressions identify forward-looking statements. Some of the specific forward-looking statements in this MD&A include, but are not limited to statements regarding the objectives and strategic focus of the REIT, future distributions by the REIT, predictability and certainty of cash flow, investment opportunities in the U.S. industrial real estate market, U.S. vacancy rate trends, tenant demand in the distribution sub-segment, including demand for state-of-the-art distribution and logistics space, development in distribution markets, vacancy rates in the state-of-the-art distribution market and absorption of vacancy in distribution

investment properties in major distribution markets in the U.S. over the past years, re-tenanting costs, key trends and continued and increased demand within the industrial real estate market, the effect of the experience of the external asset and property manager of the REIT, in the U.S. industrial real estate market on tenant retention and future acquisitions by the REIT, the sources of organic growth, including initiatives aimed at optimizing the performance, value and long-term cash flow of the REIT's investment property portfolio, the REIT's external growth strategy, including diversification, the REIT's cost of capital, borrowing costs and opportunities to increase the cash flow and value of the existing portfolio of investment properties through initiatives designed to enhance operations, future maintenance expenditures, future project costs related to the development of investment properties, the attractiveness of newer investment properties to prospective tenants, the quality and future valuations of the REIT's portfolio of investment properties, lease terms, termination and future maintenance and leasing expenditures, the REIT's ability to meet all of its ongoing obligations with current cash generated from operations, draws on its Revolving Facility and new equity and debt issuances, the fair values of the REIT's investment properties and the REIT's debt strategy, including the REIT's intention to maintain staggered mortgages payable maturities.

Forward-looking statements are necessarily based on a number of estimates, beliefs and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies which could cause actual results to differ materially from those that are disclosed in such forward-looking statements. While considered reasonable by management of the REIT as at the date of this MD&A, any of these estimates, beliefs or assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those estimates, beliefs or assumptions could be incorrect. Such estimates, beliefs and assumptions include the various estimates, beliefs and assumptions set forth herein, and include but are not limited to, the desirability of investment properties in the distribution subsector of the U.S. industrial real estate market to investors, including the industrial investment properties in the REIT's portfolio, key trends and continued and increased demand within the industrial investment property real estate market, the effect of the external manager's experience in the U.S. industrial real estate market on tenant retention and future acquisitions by the REIT, the future growth potential of the REIT and its properties, anticipated amounts of expenses, results of operations, future prospects and opportunities, the demographic and industry trends remaining unchanged, no change in legislative or regulatory matters, future levels of indebtedness, the tax laws in both Canada and the U.S. as currently in effect remaining unchanged, current levels of volatility in the demand for space in the distribution sub-segment remaining unchanged, the continued availability of capital, the current economic conditions remaining unchanged and increased tenant demand for industrial investment properties and declining vacancy rates in the markets in which the REIT's investment properties are located.

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved, if achieved at all. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including but not limited to those factors discussed or referenced under the "Risk Factors" section of this MD&A.

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

## **OVERVIEW**

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated March 4, 2013 under the laws of the Province of Ontario, as amended and restated on April 26, 2013 (the "**Declaration of Trust**"). A copy of the Declaration of Trust is available on the REIT's website at [www.wptreit.com](http://www.wptreit.com) and on the SEDAR website at [www.sedar.com](http://www.sedar.com). 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 ("**OTCQX**") under

the symbol "WPTIF". As at March 31, 2018, there were 44,545,772 REIT Units outstanding.

The REIT was formed for the purpose of acquiring, developing and owning primarily industrial investment properties located in the U.S., with a particular focus on warehouse and distribution properties. As at March 31, 2018, the REIT owned a portfolio of investment properties consisting of 17,629,627 square feet of gross leasable area ("**GLA**"), comprised of 52 industrial investment properties and one office investment property, located in 15 states in the U.S.

Capitalization and other activity

On July 17, 2017, Welsh Property Trust, LLC ("**Welsh**") redeemed 3,110,888 Class B Units in exchange for ownership and control over 3,110,888 REIT Units.

On July 18, 2017, the REIT issued 6,735,500 REIT Units (including REIT Units issued pursuant to the exercise in full of the over-allotment option granted by the REIT to the underwriters) at a price of \$12.85 per REIT Unit to a syndicate of underwriters on a bought deal basis for net cash proceeds to the REIT of approximately \$82,612 (the "**July 2017 Offering**") (inclusive of underwriters' fees and issuance costs of approximately \$3,940). The REIT used a portion of the funds from the July 2017 Offering to repay the outstanding balance on the Revolving Facility. In addition, Welsh sold 3,115,000 REIT Units as part of a secondary offering (the "**Secondary Offering**"). The REIT did not receive any funds from the Secondary Offering.

The REIT declared monthly distributions throughout the three months ended March 31, 2018 at its annualized distribution rate of \$0.76 per unit, or \$0.0633 per unit on a monthly basis.

Acquisition, development, and disposition activity

During the third quarter of 2017, the REIT completed construction of the shell of the development of an approximately 171,600 square foot industrial property located in Indianapolis, Indiana (the "**Indianapolis Development**") and leased approximately 78,000 square feet to one tenant. The REIT is actively marketing the remaining leasable square feet to prospective tenants.

On July 5, 2017, the REIT indirectly acquired from a third party, a 100% occupied investment property located in Portland, Oregon (the "**Portland Property**") totaling 492,554 square feet for a purchase price of \$56,000 (exclusive of closing and transaction costs). The purchase price was satisfied with funds from the Revolving Facility.

On August 3, 2017, the REIT indirectly acquired from a third party, an 86% occupied investment property located in Houston, Texas (the "**Houston Property**") totaling 410,600 square feet for a purchase price of \$40,320 (exclusive of closing and transaction costs). The purchase price was satisfied with cash on hand and funds from the Revolving Facility.

On August 7, 2017, the REIT sold the investment property located at 8085 Rivers Avenue, North Charleston, South Carolina to a third party purchaser for a sale price of \$14,233 (inclusive of closing costs and working capital adjustments).

On September 13, 2017, the REIT indirectly acquired from a third party, a 100% occupied investment property located in Quakertown, Pennsylvania (the "**Pennsylvania Property**") totaling 935,540 square feet for a purchase price of \$74,300 (exclusive of closing and transaction costs). The purchase price was satisfied with cash on hand and funds from the Revolving Facility. In conjunction with the acquisition, the property was added as borrowing base collateral to the Revolving Facility.

On November 29, 2017, the REIT indirectly acquired from a third party, a 100% occupied investment property located in Reno, Nevada (the "**Reno Property**") totaling 98,270 square feet for a purchase price of \$6,375 (exclusive of closing and transaction costs). The purchase price was satisfied with cash on hand and funds from the Revolving Facility.

## OBJECTIVES

The REIT's objectives are to:

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

## STRATEGIC FOCUS AND OUTLOOK

The U.S. industrial real estate sector is comprised primarily of single-story properties located in or near major cities. Industrial properties typically house activities such as warehousing, distribution, storage and a number of other similar uses. Leases entered into with industrial tenants are frequently “**triple-net**”, meaning that tenants are responsible for paying the majority of the costs associated with operating a property, including real estate taxes, insurance, common area maintenance and capital repairs. Management believes that tenant responsibility for such costs results in greater cash flow predictability and stability for the REIT relative to other segments of the U.S. real estate market.

The REIT is focused on owning, developing, and operating a portfolio of institutional-quality properties located in U.S. markets, primarily in the distribution sub-segment of the U.S. industrial market. Management believes that tenant demand for space in the distribution sub-segment is less volatile than demand in the overall industrial market as goods distributed through distribution facilities are frequently non-discretionary products characterized by relatively inelastic consumer demand. Inelasticity in consumer demand for these products gives rise to stability in tenants' operations which, in turn, results in more stable occupancies and rental incomes. In addition, the re-tenanting costs associated with distribution properties are often lower than the costs associated with properties within the overall industrial real estate market due to the generic nature of distribution properties, reducing the costs associated with leasing vacant and renewal space.

Management also believes that its primary focus on the distribution sub-segment provides: (i) exposure to the dynamic and growing U.S. economy; (ii) the opportunity to invest in a real estate segment with compelling relative fundamentals; and (iii) the opportunity to earn competitive risk-adjusted returns.

Geographically, the REIT's existing portfolio is primarily concentrated in major logistics and distribution markets of the U.S., providing the REIT's tenants with a predictable one or two-day drive to the majority of the population of the continental U.S.

Over the long-term, management believes that global demand for U.S. distribution space will continue to increase, driven by the following key trends:

- **Positive Impact of the e-Commerce Industry.** The primary industries leading the demand for distribution space are e-commerce, food-and-beverage and traditional retailers. According to industry sources, strong consumer spending and growing e-commerce sales have continued to drive demand from logistics, distribution and related third-party service providers for state-of-the-art distribution space. As supply chain design and distribution for e-commerce continue to revolutionize the retail sector, retailers utilizing multiple channels to sell their merchandise are finding it more cost-effective to increase online operations rather than open more traditional stores, resulting in continued demand for distribution space.

- **Global Supply Chain Trends.** A physical manufacturing/distribution presence in the U.S. continues to be important for most large companies as a result of increasing labour costs and instability in foreign markets, trade routes and seaports. This macroeconomic and geopolitical landscape has forced companies to re-evaluate their supply chain networks, as shipping continues to represent the largest single cost factor in the global supply chain. These critical supply chain considerations make the U.S. increasingly more attractive from a manufacturing, distribution and sourcing perspective.
- **World-Class U.S. Infrastructure.** The U.S. has a world-class supply chain infrastructure across all transportation sectors. Rail, seaports, highways and airports all provide for a robust distribution and logistics landscape, an important factor in attracting and retaining industrial tenants. Increasing shipping volumes experienced by U.S. seaports continue to create the need to distribute goods directly to inland ports and expand the utilization of intermodal hubs to alleviate distribution costs, creating additional opportunities in the U.S. industrial real estate market.

As a result of these trends, the U.S. industrial real estate market, and specifically the distribution sub-segment of the market, continues to experience meaningful domestic and foreign capital investments. Low interest rates, positive economic indicators, and increasing demand for well-located, high quality and functional properties have created increasingly competitive investment opportunities for the REIT, particularly for recently constructed industrial properties.

To achieve its objectives, the REIT has executed a number of strategies aimed at enhancing Unitholder value through both organic and external growth. Management believes Unitholders will continue to benefit from the external manager's significant experience acquiring, developing, managing and disposing of industrial properties. The external manager maintains an extensive network of relationships with brokers, tenants and institutional and private owners of industrial real estate in its key target geographic markets and leverages these relationships to enhance tenant retention and source strategic acquisitions and development of new industrial properties for the REIT. The REIT also has, subject to certain minimum ownership criteria: (i) a right of first opportunity to acquire additional properties from the external manager, any Fund (as defined in Part V) or any of their affiliates, or any property in which the external manager or any Fund (as defined in Part V) has an interest; and (ii) the right to participate in Fund (as defined in Part V) opportunities, including certain co-investment rights.

Organic growth comes from capitalizing on increasing demand for industrial space and through a number of initiatives aimed at optimizing the performance, value and long-term cash flow of the REIT's investment property portfolio, including: (i) increasing rental rates; (ii) maintaining high occupancy levels; (iii) capitalizing on expansion opportunities; (iv) leveraging continuity of management and strong tenant relationships; (v) continuing to implement active leasing programs; and (vi) maintaining cost management and property maintenance programs.

External growth comes from a disciplined approach to targeting the acquisition and development of state-of-the-art industrial properties in major U.S. distribution markets. The objective of the REIT's external growth initiatives is to continue expanding the REIT's portfolio in order to enhance geographic and tenant diversity, improve the sustainability of cash flow, and mitigate risks associated with concentrated exposure to any one geographic region or tenant.

When evaluating acquisition and development opportunities, the REIT considers the following criteria:

- Location of the property in relation to the following:
  - Major transportation infrastructure,
  - Population centers with available and affordable labour, and
  - Whether it is located in a strategic expansion market.
- Availability of economic incentives for tenants and/or landlords from municipalities, counties, or states.
- Design specifications and amenities that are consistent with best-in-class, modern and functional industrial buildings.
- How the acquisition price compares with replacement cost in the local market.
- Creditworthiness of in-place tenants and whether in-place rents are below current market rents.
- Degree to which the property performance will be accretive to AFFO per Unit and ACFO over either the short-term or long-term.

- Properties are also specifically evaluated as to physical characteristics including: ceiling clear height, truck court depth, property dimensions, functionality of traffic flow for both trucks and automobiles, number of docking doors and what type of docking equipment is being utilized, number of trailer and automobile parking stalls, infrastructure relating to fire and life safety equipment, as well as power, lighting, and floor thickness.

The criteria outlined above are designed to provide the REIT with the opportunity to acquire and develop properties in strategic markets that will generate stable and growing cash flows and to meet the needs of tenants in the distribution subsector of the U.S. industrial real estate market. In addition, in the event of property vacancy, such properties provide the REIT with the ability to accommodate a multitude of uses and industries, thereby quickly and efficiently filling vacant space.

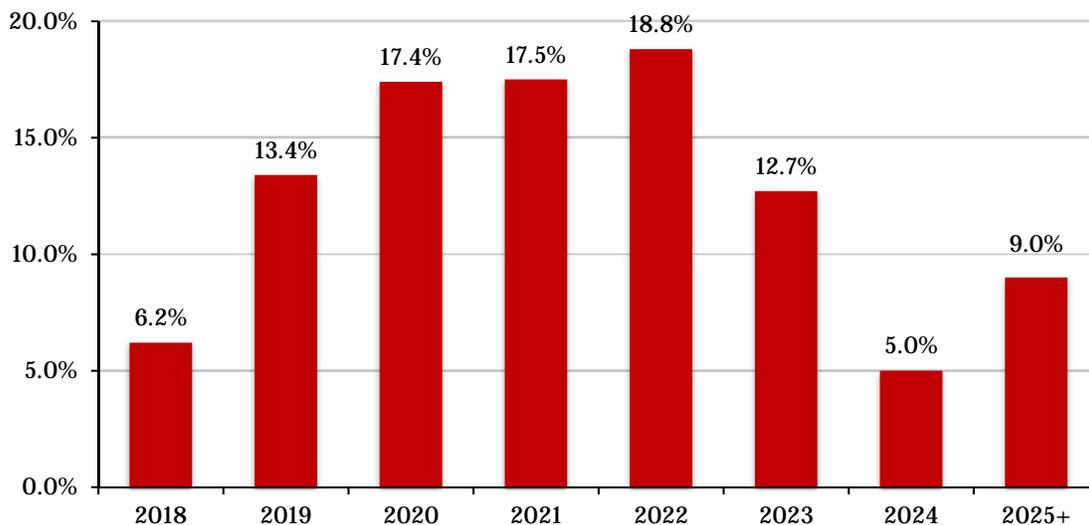
**ASSETS**

The REIT owns and operates an institutional-quality portfolio of primarily industrial investment properties located in the U.S., with a particular focus on warehouse and distribution industrial real estate. As at March 31, 2018, the REIT owned a portfolio of 53 investment properties comprised of 52 industrial properties and one office property totaling 17,629,627 square feet of GLA with an occupancy rate across the portfolio of 98.1%.

The majority of the REIT’s industrial investment properties were constructed relatively recently, with a weighted average age of approximately 14 years. As a result, management believes the REIT’s investment properties will, on average, require less maintenance capital expenditures and be more attractive to prospective tenants than comparable older investment properties. Furthermore, the REIT’s industrial investment properties are highly functional, with a weighted average ceiling clear height of approximately 31 feet. High ceiling clear heights are an important feature to many industrial tenants, as this provides tenants with additional vertical space that can house additional racking and equipment, allowing the tenant to maximize storage space.

Future lease expirations are shown in the graph below as at March 31, 2018:

**Lease Expiration (% of GLA) by Year**



Leases expiring	2018	2019	2020	2021	2022	2023	2024	2025+
	9 <sup>(1)</sup>	21	16	27	21	12	6	11

(1) Includes one month-to-month lease occupying < 0.1% of GLA

The lease activity in the table above is based on the existing lease terms in-place as at March 31, 2018. Any early termination options, extension options or other terms that may impact the expiration or terms of the lease are not reflected in the above table unless they were formally exercised or otherwise agreed upon in writing as at March 31, 2018.

### Occupancy roll-forward

The following table summarizes the change in occupancy during the three months ended March 31, 2018:

	Three months ended March 31, 2018	
	('000s sq. ft.)	Occupancy
Occupancy at beginning of period	17,265.7	97.9%
Expansions by existing tenants	12.8	
New leases	14.6	
Renewals	270.7	
Expiries	(270.7)	
<b>Occupancy as at March 31, 2018</b>	<b>17,293.1</b>	<b>98.1%</b>

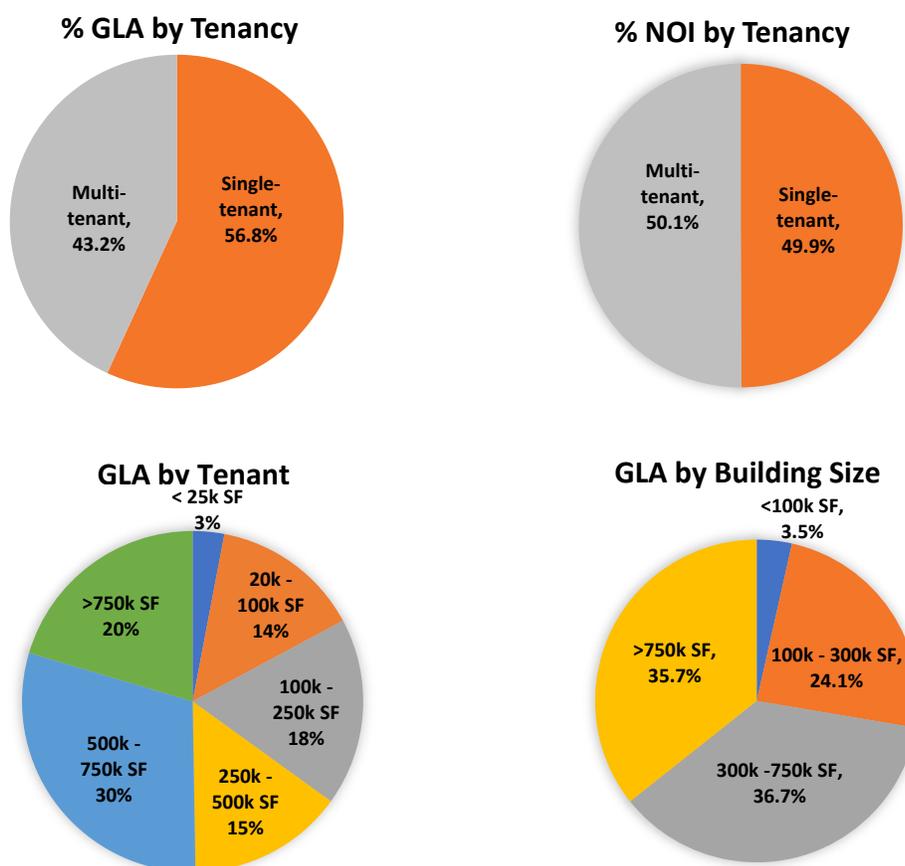
Per the preceding table, the REIT's renewal rate for leased square feet expiring during the three months ended March 31, 2018 was 100%. During the three months ended March 31, 2018, the REIT also renewed five leases totaling 865.2 square feet and signed a new lease totaling 5.6 square feet with lease commencement dates after March 31, 2018.

The REIT's investment properties are geographically diversified as follows as at March 31, 2018:

State	Number of Investment Properties	Number of Tenants	Owned GLA ('000s sq. ft.)	% of Owned GLA	% of NOI by State <sup>(1)</sup>
Georgia	8	14	2,915.6	16.6%	15.4%
Tennessee	6	10	2,327.0	13.2%	9.1%
Indiana	4	6	2,068.1	11.7%	8.6%
Kentucky	4	5	1,907.3	10.8%	9.5%
Ohio	5	7	1,817.3	10.3%	9.0%
Illinois	3	5	1,492.1	8.5%	6.8%
Minnesota	7	44	1,146.8	6.5%	13.7%
Pennsylvania	1	2	935.5	5.3%	6.7%
Kansas	4	5	827.1	4.7%	5.9%
Wisconsin	4	8	589.7	3.3%	3.9%
Oregon	1	2	492.6	2.8%	4.4%
Texas	1	5	410.8	2.3%	2.9%
Florida	3	6	353.4	2.0%	1.6%
Michigan	1	2	248.0	1.4%	1.8%
Nevada	1	1	98.3	0.6%	0.7%
<b>Total</b>	<b>53</b>	<b>122</b>	<b>17,629.6</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>(1)</sup> For the three months ended March 31, 2018.

The following charts of the REIT's portfolio are based on NOI for the three months ended March 31, 2018 and tenant and building GLA as at March 31, 2018:



The following table highlights the REIT's top ten tenants by annualized contractual base rent as at March 31, 2018:

Top 10 Tenants	% of Total Annualized Base Rent	GLA Occupied ('000s sq. ft.)	% of Total Portfolio GLA
General Mills Operations, LLC	5.8%	1,512.6	8.6%
Unilever Home & Personal Care	5.1%	1,262.6	7.2%
Continental Tire the Americas, LLC	5.0%	740.9	4.2%
Zulily, LLC	3.8%	737.5	4.2%
Keystone Automotive <sup>(1)</sup>	3.7%	633.6	3.6%
Fullbeauty Brands, Inc.	3.1%	741.1	4.2%
Radial, Inc.	2.9%	543.5	3.1%
CEVA Logistics U.S. Inc.	2.9%	648.8	3.7%
Amazon.com	2.8%	572.0	3.2%
Honeywell International Inc.	2.8%	754.0	4.3%
<b>Total</b>	<b>37.9%</b>	<b>8,146.6</b>	<b>46.3%</b>

<sup>(1)</sup> Comprised of two leases with Keystone Automotive Operations, Inc. and Keystone Automotive Industries, Inc.; both wholly-owned subsidiaries of LKQ Corporation.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

(all figures in '000s, except per Unit amounts, number of investment properties and GLA)

As at and for the quarter ended	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
<b>Operating Results:</b>								
Investment properties revenue	\$ 22,538	\$ 22,409	\$ 20,709	\$ 19,174	\$ 19,494	\$ 18,662	\$ 17,334	\$ 17,550
NOI (1)	16,402	16,470	15,126	13,919	14,297	13,620	12,966	13,046
Net income and comprehensive income	7,758	8,059	6,973	18,539	18,935	1,559	4,128	4,107
Net income and comprehensive income per Unit (basic) (2) (3)	0.161	0.167	0.149	0.448	0.458	0.038	0.104	0.122
Net income and comprehensive income per Unit (diluted) (2) (4)	0.158	0.164	0.146	0.439	0.450	0.037	0.102	0.120
FFO (1)	11,128	11,027	10,468	9,456	9,807	9,256	8,811	8,470
FFO per Unit (basic) (1) (2) (3)	0.231	0.229	0.223	0.228	0.237	0.224	0.222	0.251
FFO per Unit (diluted) (1) (2) (4)	0.227	0.225	0.220	0.224	0.233	0.220	0.219	0.248
AFFO (1)	9,481	9,413	8,774	7,788	8,490	7,881	7,547	7,109
AFFO per Unit (basic) (1) (2) (3)	0.197	0.195	0.187	0.188	0.205	0.191	0.190	0.211
AFFO per Unit (diluted) (1) (2) (4)	0.193	0.192	0.184	0.184	0.202	0.188	0.187	0.208
Cash flows from operations	15,498	13,863	13,557	12,816	14,429	13,127	11,720	12,075
ACFO (1)	9,996	10,201	9,503	8,514	9,009	8,501	7,898	7,563
<b>Distributions:</b>								
Distributions per Unit (2) (3) (5)	0.190	0.190	0.190	0.190	0.190	0.190	0.190	0.190
Distributions declared (3) (5)	9,145	9,145	9,145	7,864	7,856	7,856	7,856	6,411
ACFO payout ratio (1) (5)	91.5%	89.7%	96.2%	92.4%	87.2%	92.4%	99.5%	84.8%
Weighted average number of Units (basic) (2) (3)	48,158	48,158	46,840	41,393	41,375	41,375	39,752	33,756
Weighted average number of Units (diluted) (2) (4)	49,021	48,989	47,668	42,216	42,076	41,994	40,307	34,194

### Quarter-Over-Quarter Trends

Compared to the previous quarter, FFO and AFFO for the three months ended March 31, 2018 were higher by \$101 and \$68, respectively. FFO and AFFO increased mainly due to the full impact of ownership of acquisitions from the prior quarter and the completion of the Indianapolis Development project.

As at	March 31, 2018	December 31, 2017
<b>Operational Information:</b>		
Number of investment properties	53	53
GLA	17,629,627	17,629,627
Occupancy	98.1%	97.9%
Average remaining lease term (years)	3.9	4.0
Fair value of investment properties	\$ 1,009,182	\$ 1,009,582
<b>Ratios:</b>		
Weighted average effective interest rate (6)	3.7%	3.7%
Variable interest rate debt as percentage of total debt (7)	18.3%	18.2%
Debt-to-gross book value (1)	42.1%	42.1%
Interest coverage ratio (1)	3.8x	3.8x
Fixed charge coverage ratio (1)	3.2x	3.2x
Debt to Adjusted EBITDA (1)	7.1x	7.1x

(1) NOI, FFO, AFFO, ACFO, FFO per Unit (basic and diluted), AFFO per Unit (basic and diluted), ACFO payout ratio, Adjusted EBITDA, debt-to-gross book value, interest coverage ratio, fixed charge coverage ratio and debt to Adjusted EBITDA are key measures of performance used by real estate operating companies, however, they are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or issuers. This data should be read in conjunction with the "Non-IFRS Measures" section of this MD&A.

(2) Includes REIT Units and Class B Units (collectively, the "Units").

(3) Excludes all options and DTUs (defined on pages 31 and 32) outstanding under the REIT's equity compensation plans.

(4) Includes all options and DTUs (defined on pages 31 and 32) outstanding under the REIT's equity compensation plans.

(5) Includes distributions on REIT Units and Class B Units.

(6) Includes mortgages payable, the Revolving Facility, mark-to-market adjustments and financing costs.

(7) Includes amounts outstanding under the Revolving Facility.

## PART II

### RESULTS OF OPERATIONS

The following tables compare results for the three months ended March 31, 2018 and 2017. The principal reasons for the variances between the financial figures presented in such year-over-year periods is due to the property acquisitions during the third and fourth quarters of 2017 and the disposition of one investment property in the third quarter 2017, respectively.

<b>(all figures in '000s, except per unit amounts)</b>	<b>Three months ended</b>		
	<b>March 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>Variance</b>
Investment properties revenue	\$ 22,538	\$ 19,494	\$ 3,044
Investment properties operating expenses	16,771	14,479	2,292
Fair value adjustment to investment properties – IFRIC 21	<u>(10,635)</u>	<u>(9,282)</u>	<u>(1,353)</u>
<b>NOI (1)</b>	16,402	14,297	2,105
<b>Other (income) and expenses</b>			
General and administrative	2,020	2,312	(292)
Fair value adjustment to investment properties	1,070	(18,010)	19,080
Finance costs	<u>5,554</u>	<u>11,060</u>	<u>(5,506)</u>
<b>Net income and comprehensive income</b>	<u>\$ 7,758</u>	<u>\$ 18,935</u>	<u>\$ (11,177)</u>
Net income and comprehensive income per Unit (basic)	\$ 0.161	\$ 0.458	\$ (0.297)
Net income and comprehensive income per Unit (diluted)	\$ 0.158	\$ 0.450	\$ (0.292)

(1) Non-IFRS financial measure. See "Non-IFRS Measures" section of this MD&A.

Investment properties revenue

Investment properties revenue includes contractual base rent to be received from operating leases recognized on a straight-line basis over the term of its respective lease, recoveries of operating expenses, including property taxes, common area maintenance, lease termination fees and other incidental income. Investment properties revenue was higher by \$3,044 for the three months ended March 31, 2018 as compared to the same period in 2017 for the following reasons:

<b>Variance Explanation</b>	<b>Three months ended March 31, 2018</b>
Variance due to acquisitions, development, and expansion	\$ 3,378
Increase in base rent and higher recoveries of operating expenses	582
Disposition of investment property	(523)
Lease termination and other income	(236)
Change in amortization of tenant incentives	(120)
Increase in non-cash straight-line rent	(37)
Total variance	\$ <u>3,044</u>

Investment properties operating expenses

Investment properties operating expenses consist primarily of property common area and maintenance expenses, real estate taxes (including adjustments for property taxes accounted for under IFRIC 21), insurance, property management fees and other costs associated with the management and maintenance of the investment properties. Investment properties expenses were higher by \$2,292 for the three months ended March 31, 2018 as compared to the same period in 2017 for the following reasons:

<b>Variance Explanation</b>	<b>Three months ended March 31, 2018</b>
Adjustments for property taxes accounted for under IFRIC 21	\$ 1,353
Variance due to acquisitions, development, and expansion	817
Higher operating expenses, mainly real estate taxes, utilities, and general repairs	239
Disposition of investment property	(117)
Total variance	\$ <u>2,292</u>

NOI

NOI was higher by \$2,105 for the three months ended March 31, 2018 as compared to the same period in 2017 for the following reasons:

<b>Variance Explanation</b>	<b>Three months ended March 31, 2018</b>
Variance due to acquisitions, development, and expansion	\$ 2,561
Increase in base rent and higher recoveries of operating expenses	582
Disposition of investment property	(406)
Higher operating expenses, mainly real estate taxes, utilities, and general repairs	(239)
Lease termination and other income	(236)
Change in amortization of tenant incentives	(120)
Increase in non-cash straight-line rent	(37)
Total variance	\$ <u>2,105</u>

General and administrative expense

General and administrative expenses consist of asset management fees, professional fees, deferred compensation expense, trustee fees, and other expenses. General and administrative expenses were lower by \$292 for the three months ended March 31, 2018 as compared to the same period in 2017 for the following reasons:

<u>Variance Explanation</u>	<u>Three months ended March 31, 2018</u>
Deferred compensation expense, of which (\$379) is due to the change in fair value of units outstanding under the DUIP and the Plan (defined on pages 31 and 32)	\$ (383)
Other	(16)
Increase in asset management fees due to investment property acquisitions, Indianapolis Development, and Moriah Rd expansion; net of disposition	107
Total variance	<u>\$ (292)</u>

Fair value adjustment to investment properties

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. For the three months ended March 31, 2018 and 2017, the REIT recognized a fair value (decrease) increase to investment properties of \$(1,070) and \$18,010, respectively. For the three months ended March 31, 2018, the fair value decrease was mainly due to the write-off of capitalized tenant incentives, the write-off of acquisition related transaction costs, and amortization of straight-line rent. For the three months ended March 31, 2017, the fair value increase was caused by the capitalization rate compression, increasing market rents in certain markets, and key lease renewals. Please refer to the "Investment Properties" section of this MD&A for further discussion on the REIT's fair value of investment properties.

Finance Costs

Finance costs include interest expense on mortgages payable and the Revolving Facility, distributions on Class B Units, the gain or loss on the change in fair value of financial liabilities designated as fair value through profit and loss, including Class B Units, amortization associated with the mark-to-market adjustments and financing costs incurred in connection with obtaining long-term financings. Finance costs decreased \$5,506 for the three months ended March 31, 2018 as compared to the same period in 2017 for the following reasons:

<u>Variance Explanation</u>	<u>Three months ended March 31, 2018</u>
Fair value adjustment to Class B Units	\$ (5,721)
Decrease in distributions on Class B Units	(591)
Decrease in mortgage interest expense	(28)
Increase in interest expense on the Revolving Facility	503
Interest expense on mortgage payables related to acquisitions	299
Change in amortization of financing costs and mark-to-market adjustments on fixed Interest rate mortgage payable	32
Total variance	<u>\$ (5,506)</u>

### Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO)

The reconciliation of net income and comprehensive income to FFO and AFFO for the three months ended March 31, 2018 and 2017 are presented below:

(all figures in '000s, except per unit amounts)	Three months ended		
	March 31,		Variance
	2018	2017	
<b>Net income and comprehensive income</b>	\$ 7,758	\$ 18,935	\$ (11,177)
Add/(Deduct)			
Fair value adjustment to investment properties	1,070	(18,010)	19,080
Fair value adjustment to Class B Units	867	6,588	(5,721)
Fair value adjustment to deferred compensation	387	766	(379)
Fair value adjustment to investment properties – IFRIC 21	(10,635)	(9,282)	(1,353)
Property taxes accounted for under IFRIC 21	10,635	9,282	1,353
Amortization of tenant incentives	360	251	109
Distributions on Class B Units treated as interest expense	686	1,277	(591)
<b>FFO</b>	<b>\$ 11,128</b>	<b>\$ 9,807</b>	<b>\$ 1,321</b>
Leasing cost reserve (1)	(1,065)	(964)	(101)
Capital expenditure reserve (2)	(283)	(247)	(36)
Amortization of straight-line rent	(299)	(106)	(193)
<b>AFFO</b>	<b>\$ 9,481</b>	<b>\$ 8,490</b>	<b>\$ 991</b>
FFO per Unit (basic)	\$ 0.231	\$ 0.237	\$ (0.006)
FFO per Unit (diluted)	\$ 0.227	\$ 0.233	\$ (0.006)
AFFO per Unit (basic)	\$ 0.197	\$ 0.205	\$ (0.008)
AFFO per Unit (diluted)	\$ 0.193	\$ 0.202	\$ (0.009)

(1) The leasing cost reserve is a weighted average rate of approximately \$0.25 per square foot per annum as at March 31, 2018 and 2017 based on a five-year forward-looking average of expected leasing commissions and tenant improvements on the portfolio.

(2) The capital expenditure reserve is a weighted average rate of approximately \$0.07 and \$0.06 per square foot per annum as at March 31, 2018 and 2017, respectively, based on the five-year forward-looking average of expected capital expenditures on the portfolio.

### FFO Variances

For the three months ended March 31, 2018 FFO was higher by \$1,321 as compared to the same period in 2017 for the following reasons:

<b>Variance Explanation</b>	<b>Three months ended March 31, 2018</b>
Variance due to acquisitions, development, and expansion	\$ 2,145
Increase in base rent and higher recoveries of operating expenses	582
Decrease in mortgage interest expense	28
Increase in interest expense on the Revolving Facility	(503)
Disposition of investment property	(406)
Higher operating expenses, mainly real estate taxes, utilities, and general repairs	(239)
Lease termination and other income	(236)
Increase in non-cash straight-line rent	(37)
Other	(13)
Total variance	\$ <u>1,321</u>

### AFFO Variances

For the three months ended March 31, 2018, AFFO was higher by \$991 as compared to the same period in 2017 for the following reasons:

<b>Variance Explanation</b>	<b>Three months ended March 31, 2018</b>
Variance due to acquisitions, development, and expansion	\$ 1,836
Increase in base rent and higher recoveries of operating expenses	582
Decrease in mortgage interest expense	28
Increase in interest expense on the Revolving Facility	(503)
Disposition of investment property	(391)
Higher operating expenses, mainly real estate taxes, utilities, and general repairs	(239)
Lease termination and other income	(236)
Change in reserves	(71)
Other	(15)
Total variance	\$ <u>991</u>

### FFO and AFFO per Unit (basic)

The basic weighted average number of Units used to calculate FFO and AFFO per Unit (basic) include the weighted average number of all outstanding REIT Units and Class B Units, which amounted to 48,157,579 and 41,375,121 Units for the three months ended March 31, 2018 and 2017, respectively. The increase in the weighted average number of units outstanding is mainly due to the July 2017 Offering (see "Overview" section in Part I).

For the three months ended March 31, 2018, FFO per Unit (basic) was lower by \$0.006 as compared to the three months ended March 31, 2017. For the three months ended March 31, 2018, AFFO per Unit (basic) was lower by \$0.008, as compared to the three months ended March 31, 2017. These decreases are mostly caused by a 16.4% increase in the weighted average number of units outstanding, the disposition of one investment property, increased interest expense on the Revolving Facility, higher operating expenses, and lease termination and other income in 2017. These decreases are partially offset by the acquisition of four investment properties in 2017, an increase in base rent and higher recoveries of operating expenses.

### Distribution Policy

The REIT's Declaration of Trust provides the Board of Trustees with the authority to determine the percentage amount of the REIT's income to be distributed. Amounts retained in excess of the declared distributions are primarily used to fund leasing costs and capital expenditure requirements. Fluctuations in working capital that are deemed to be timing

differences are disregarded in determining distributions. The REIT also normalizes the impact of leasing costs, which fluctuate with lease maturities, renewal terms and the type of investment property being leased, and excludes the impact of transaction costs expensed on business combinations.

The REIT's ACFO payout ratio for the three months ended March 31, 2018 and 2017 was 91.5% and 87.2%, respectively. The increased ACFO payout ratio for the three months ended March 31, 2018 compared to the same period in 2017 was mainly due to the timing of acquisitions of investment properties in relation to the timing of the issuance of REIT Units.

### Same properties NOI

The same properties disclosed in the following table for the three months ended March 31, 2018 and 2017 are investment properties having consistent leasable area in both periods.

('000s)	Three months ended		Variance	
	March 31,		\$	%
	2018	2017		
<b>Net operating income (1)</b>	\$ 16,402	\$ 14,297	\$ 2,105	14.7%
Amortization of straight-line rent	(40)	(77)	37	(48.1%)
Amortization of leasing costs	360	240	120	50.0%
Tenant incentives - free rent	22	11	11	100%
Lease termination income (2)	-	(306)	306	100%
Acquisitions', development, and expansion NOI	(2,888)	(327)	(2,561)	(783.2%)
Disposition NOI	-	(405)	405	100.0%
<b>Same properties NOI (1)</b>	\$ 13,856	\$ 13,433	\$ 423	3.1%
Average occupancy (same properties)	98.8%	98.6%		0.2%

(1) Non-IFRS measure. See "Non-IFRS Measures" section of this MD&A.

(2) Includes lease termination and other income

Same properties NOI for the three months ended March 31, 2018 increased by \$423, or 3.1%, when compared to the same quarter in 2017. The changes in same properties NOI were mainly due to increases in contractual base rent, higher recoveries of operating expenses, and an increase in occupancy.

### LIQUIDITY AND CAPITAL RESOURCES

The REIT's primary sources of capital are cash generated from operations, its Revolving Facility, mortgages payable financing and refinancing and issuances of equity and debt through public or private placement. The REIT's primary uses of capital include the payment of distributions, costs of attracting and retaining tenants, recurring investment property maintenance, major investment property improvements, principal repayments, interest payments and investment property acquisitions and development projects. The REIT expects to meet all of its ongoing obligations with current cash generated from operations, draws on its Revolving Facility and, as growth requires and when appropriate, new equity or debt issuances. The Declaration of Trust provides that the REIT cannot incur or assume any indebtedness that would cause total indebtedness levels to exceed 60% of gross book value (or 65% of gross book value including any convertible debentures). Management of the REIT targets an indebtedness level of no more than 50% of gross book value. As at March 31, 2018 and December 31, 2017, the REIT's debt-to-gross book value ratio was 42.1% (total outstanding principal balance of mortgages payable and the Revolving Facility of \$424,693 and \$425,449 as at March 31, 2018 and December 31, 2017, respectively, divided by a gross book value of \$1,009,182 and \$1,009,582 as at March 31, 2018 and December 31, 2017 respectively). The REIT's debt to Adjusted EBITDA ratio was 7.1 times as at March 31, 2018 and December 31, 2017, respectively. The REIT has no convertible debentures outstanding.

The REIT uses cash flows from operations and debt level indicators to assess its ability to meet its financing obligations. For the three months ended March 31, 2018, the REIT's interest coverage ratio was 3.8 times (excluding the impact of property taxes accounted for under IFRIC 21), and its fixed charge coverage ratio was 3.2 times (excluding the impact of property taxes accounted for under IFRIC 21), demonstrating an ability to more than adequately cover the REIT's financing obligations. The REIT's weighted average effective interest rate on all indebtedness as at March 31, 2018 and December 31, 2017 was 3.7%.

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

('000s)	Three months ended	
	March 31,	
	2018	2017
<b>Cash provided by/(used in):</b>		
Operating activities	\$ 15,498	\$ 14,429
Financing activities	(13,833)	(10,610)
Investing activities	(1,618)	(5,154)
<b>(Decrease) increase in cash and cash equivalents during the period</b>	<b>47</b>	<b>(1,335)</b>
Cash and cash equivalents, beginning of period	6,637	9,007
<b>Cash and cash equivalents, end of period</b>	<b>\$ 6,684</b>	<b>\$ 7,672</b>

As at March 31, 2018, the REIT had \$6,684 in cash and cash equivalents and availability under the Revolving Facility of \$60,788, for total liquidity of \$67,472.

Cash flows from operating activities for the three months ended March 31, 2018 and 2017 of \$15,498 and \$14,429, respectively, primarily related to the operation of investment properties.

In accordance with National Policy 41-201 - *Income Trusts and Other Indirect Offerings*, the REIT provides the following additional disclosure relating to cash distributions:

('000s)	Three months ended	
	March 31,	
	2018	2017
<b>Cash flows provided by operating activities</b>	\$ 15,498	\$ 14,429
Less: Interest paid (excluding distributions on Class B Units classified as finance costs incurred)	(3,932)	(3,175)
	11,566	11,254
Distributions paid <sup>(1)</sup>	(9,145)	(7,856)
<b>Excess of cash flows provided by operating activities over distributions paid</b>	<b>2,421</b>	<b>3,398</b>
<b>Cash flows provided by operating activities</b>	<b>15,498</b>	<b>14,429</b>
Add/(Deduct):		
Change in non-cash working capital	(150)	(1,011)
Interest paid <sup>(2)</sup>	(3,932)	(3,175)
Leasing cost reserve and capital expenditure reserve	(1,348)	(1,211)
Amortization of mark-to-market adjustments	131	129
Amortization of financing costs	(203)	(152)
<b>ACFO <sup>(3)</sup></b>	<b>\$ 9,996</b>	<b>\$ 9,009</b>
Distributions declared <sup>(1)</sup>	\$ 9,145	\$ 7,856
ACFO payout ratio <sup>(3)</sup>	91.5%	87.2%

(1) Includes distributions on REIT Units and distributions on Class B Units.

(2) Includes interest on mortgages payable and Revolving Facility interest included in finance costs.

(3) Management considers ACFO to be a key measure of the REIT's performance. As an alternative measure of cash flows from operations, ACFO (defined on page 1) represents a measure of cash generated from operating activities less non-cash activities including backing out the amortization of the mark-to-market and deferred financing costs adjustments in addition to deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing commissions. Management believes ACFO is considered indicative of the REIT's ability to pay distributions to Unitholders. However, ACFO is not defined by IFRS, does not have standardized meanings, and may not be comparable to similarly titled measures presented by other industries or issuers.

While cash flows from operating activities are generally sufficient to cover distribution requirements, the timing of expenses and fluctuations in non-cash working capital may result in a temporary shortfall. In these cases, some portion of distributions may come from the REIT's own capital, or financing sources other than cash flows from operations.

Cash flows used in financing activities for the three months ended March 31, 2018 and 2017 of \$13,833 and \$10,610, respectively, primarily related to the interest expense on mortgages payable and distributions to Unitholders.

Cash flows used in investing activities for the three months ended March 31, 2018 and 2017 of \$1,618 and \$5,154, respectively, primarily related to additions to investment properties and investment property under development.

### Investment properties

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 generally accepted market practices including independent property valuations and market conditions existing at the reporting date. 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 (or at the time of disposition for investment properties being

disposed of) 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) 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.

#### *Properties Under Development*

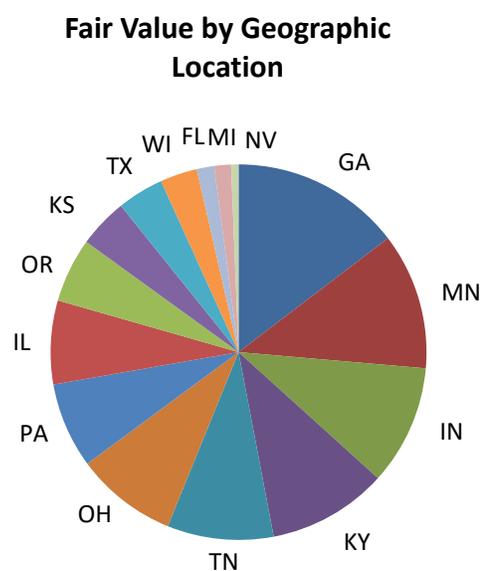
Investment properties under development for future use as investment property are accounted for under IAS 40, *Investment Property*. Costs eligible for capitalization to investment properties under development are initially recorded at cost, and subsequent to initial recognition are accounted for using 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 shell-construction, receipt of all necessary occupancy and other material permits, and the earlier of completion of tenant build-out or commencement of rent.

As at March 31, 2018, the fair value of investment properties was \$1,009,182 (\$1,009,582 as at December 31, 2017), implying a weighted average terminal capitalization rate of 6.63% (6.62% as at December 31, 2017).

State	Fair Value ('000s)	% of Total
Georgia	\$ 148,400	14.7%
Minnesota	118,300	11.8%
Indiana	104,400	10.4%
Kentucky	103,900	10.3%
Tennessee	92,362	9.1%
Ohio	87,275	8.6%
Pennsylvania	74,300	7.4%
Illinois	72,700	7.2%
Oregon	56,000	5.5%
Kansas	42,850	4.2%
Texas	40,320	4.0%
Wisconsin	32,300	3.2%
Florida	15,100	1.5%
Michigan	14,600	1.5%
Nevada	6,375	0.6%
<b>Total</b>	<b>\$ 1,009,182</b>	<b>100.0%</b>



## Mortgages Payable and Revolving Facility

### Mortgages Payable

The REIT's debt strategy includes obtaining secured mortgage financing with a term to maturity that is appropriate in relation to the lease maturity profile of its investment properties portfolio.

Mortgages payable consist of the following:

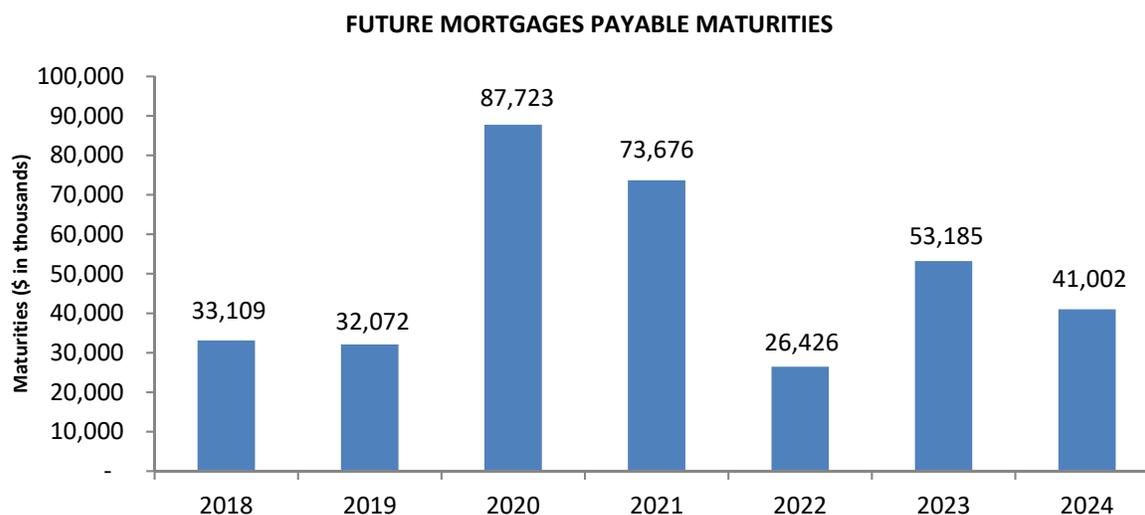
('000s)	March 31, 2018	December 31, 2017
Mortgages payable	\$ 347,193	\$ 347,949
Mark-to-market adjustments, net	1,477	1,608
Financing costs, net	(990)	(1,077)
Carrying value	347,680	348,480
Less current portion	(33,981)	(33,864)
Non-current mortgages payable	<u>\$ 313,699</u>	<u>\$ 314,616</u>

As at March 31, 2018, mortgages payable bore interest at various rates ranging from 2.87% to 5.80%, and have a weighted average effective interest rate of 3.77% with maturity dates ranging from 2018-2024. The weighted average term to maturity on mortgages payable was 3.4 and 3.6 years as at March 31, 2018 and December 31, 2017, respectively. As at March 31, 2018, there were no mortgages payable with variable interest rates.

The weighted average maturing effective interest rates, scheduled mortgage repayments, principal mortgage maturities, and scheduled interest payments are as follows as at March 31, 2018:

('000s)	Weighted Average Maturing Effective Interest Rates	Scheduled Mortgage Repayments	Principal Mortgage Maturities	Total Principal Repayments	Scheduled Interest Payments	Total Debt Service Repayments
2018	4.5%	\$ 2,790	\$ 30,319	\$ 33,109	\$ 9,311	\$ 42,420
2019	3.4%	3,747	28,325	32,072	10,881	42,953
2020	3.1%	4,173	83,550	87,723	8,838	96,561
2021	4.6%	3,955	69,721	73,676	6,940	80,616
2022	3.8%	2,892	23,534	26,426	3,950	30,376
2023	3.7%	1,103	52,082	53,185	1,773	54,958
2024	3.5%	715	40,287	41,002	1,157	42,159
Totals		<u>\$ 19,375</u>	<u>\$ 327,818</u>	<u>\$ 347,193</u>	<u>\$ 42,850</u>	<u>\$ 390,043</u>
Mark-to-market adjustment, net				1,477		
Financing costs, net				(990)		
Total carrying value of mortgages payable				<u>\$ 347,680</u>		

The following chart shows the future maturities of mortgages payable as at March 31, 2018:



The REIT intends to meet its ongoing principal mortgage maturities and scheduled mortgage repayments with funding from operating cash flows, draws on the Revolving Facility, issuing equity, refinancing its maturing mortgages payables or the sale of investment properties.

#### *Revolving Facility*

The REIT has the Revolving Facility with availability to borrow up to \$150,000 (subject to requisite borrowing based collateral) maturing on April 21, 2019. The Revolving Facility has 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 March 31, 2018 and December 31, 2017, the Revolving Facility interest rate was 3.28% and 3.14%, respectively.

Financing costs of \$1,075 are being amortized using the effective interest rate method over the term ending on April 21, 2019.

Availability on the Revolving Facility was \$138,288 as at March 31, 2018, of which the REIT had drawn \$77,500, leaving remaining availability of \$60,788.

Variable interest rate debt as a percentage of total debt was 18.3% and 18.2% as at March 31, 2018 and December 31, 2017, respectively.

#### **Commitments and Contingencies**

##### *Leasing Cost Reserve*

On a quarterly basis, leasing costs (inclusive of leasing commissions, tenant allowances, or improvements) fluctuate, at times significantly. The REIT uses management's best estimate of leasing costs on expected lease maturities within the portfolio to calculate the leasing cost reserve used in the REIT's AFFO and ACFO calculation (see "Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO)" and "Liquidity and Capital Resources" sections of this MD&A). Management currently estimates leasing costs to be approximately \$0.25 per square foot per annum of the portfolio GLA based on a forward-looking five-year period. The leasing cost reserve per square foot will change from time to time as the REIT purchases and disposes of investment properties and as the forward-looking five-year period is updated.

The following table shows actual leasing costs as compared to reserved leasing costs since IPO:

Leasing Costs ('000s)	Period from IPO to December 31, 2016	Year ended December 31, 2017	Three months ended March 31, 2018	Since IPO
Reserved	\$ 11,695	3,966	1,065	16,726
Actual	\$ 9,898	4,635	247	14,780
Excess/(deficit)	\$ 1,797	(669)	818	1,946

#### *Maintenance Capital Expenditure Reserve*

The majority of the REIT's capital expenditures are incurred to sustain existing GLA and occupancy levels and are considered operational in nature. The REIT's policy is to engage third party consultants to provide building condition assessment reports ("**BCA Reports**") on each property acquired, for the purpose of assessing and documenting the existing condition of each investment property and major property operating components and systems. In addition, the REIT does its own internal analysis of expected capital expenditures using a forward-looking five-year period. The REIT then uses the information from the BCA Reports and its internal analysis to calculate a five-year weighted average maintenance capital expenditure per square foot, which is used in the REIT's AFFO and ACFO calculation (see "Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO)" and "Liquidity and Capital Resources" sections of this MD&A). Management currently estimates recurring operational maintenance capital expenditures to be approximately \$0.07 per square foot per annum of the portfolio GLA based on a forward-looking five-year period. The maintenance capital expenditure reserve per square foot will change from time to time as the REIT purchases and disposes of investment properties and as the forward-looking five-year period is updated. Due to capital expenditures fluctuating from period to period, at times significantly, the REIT believe the use of a reserve better reflect average annual capital expenditure spending levels for the calculation of AFFO and ACFO.

The following table shows actual maintenance capital expenditures as compared to reserved maintenance capital expenditures since IPO:

Maintenance Capital Expenditures ('000s)	Period from IPO to December 31, 2016	Year ended December 31, 2017	Three months ended March 31, 2018	Since IPO
Reserved	\$ 3,350	1,036	283	4,669
Actual	\$ 1,434	1,127	55	2,616
Excess/(deficit)	\$ 1,916	(91)	227	2,053

The REIT also incurs capital expenditures, that are not included in the reserves above, comprised of expenditures that are deemed revenue-enhancing and expenditures that are recoverable from tenants as described below.

Expenditures deemed revenue-enhancing represent expenditures that support incremental revenues which can represent expansions that increase GLA, improvements that drive an increase to current and future lease revenues, or repositioning of a property that may lead to higher lease rents. For the three months ended March 31, 2018, the REIT incurred \$240 of capital expenditures related to finishing the tenant buildout at the Indianapolis Development.

Certain expenditures are recoverable from tenants pursuant to the terms of their leases either in the year such expenditures are incurred or, in the case of a major capital expenditure item, on a straight-line basis over the expected useful life together with an imputed rate of interest. Recoverable capital expenditures may include items such as parking lot resurfacing and roof replacement. Non-recoverable expenditures consist of leasing-related activities including tenant allowances or improvements and leasing costs, and other general capital expenditures that cannot be recovered through tenant leases. Tenant allowances and improvements generally include expenditures to customize the leased space as outlined in the leasing arrangements with the tenant. Leasing costs consist of commissions including brokerage fees incurred in negotiating and arranging tenant leases that are paid to third party leasing agents and any related legal expenses.

### *Other Commitments and Contingencies*

The REIT has a contingent obligation to expand the GLA at one of its investment properties at the option of the tenant. Management estimates the cost associated 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 renewal options, on November 30, 2032.

The REIT has no off-balance sheet items.

### **EQUITY**

The REIT's Declaration of Trust authorizes the issuance of 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.

Class B Units, which are economically equivalent to REIT Units, are entitled to distributions per unit, from the Partnership, 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. Class B Units are puttable and, therefore, meet the definition of a financial liability under IAS 32, *Financial Instruments – Presentation*, and are accordingly classified as non-current liabilities in the consolidated statements of financial position.

On July 17, 2017, Welsh redeemed 3,110,888 Class B Units in exchange for ownership and control over 3,110,888 REIT Units.

On July 18, 2017, the REIT issued 6,735,500 REIT Units (including REIT Units issued pursuant to the exercise in full of the over-allotment option granted by the REIT to the underwriters) at a price of \$12.85 per REIT Unit to a syndicate of underwriters on a bought deal basis for net cash proceeds to the REIT of approximately \$82,612 (inclusive of underwriters' fees and issuance costs of approximately \$3,940). The REIT used a portion of the funds from the July 2017 Offering to repay the outstanding balance on the Revolving Facility. In addition, Welsh sold 3,115,000 REIT Units as part of the Secondary Offering.

The REIT issued 46,958 REIT Units for the redemption of DTUs and exercise of options during the year ended December 31, 2017.

As at March 31, 2018, ownership of the REIT was as follows (excluding options and DTUs (as defined on pages 31 and 32) outstanding under the REIT's equity plans):

	<b>REIT Units</b>	<b>Class B Units</b>	<b>Total Units</b>	<b>% of Total</b>
Welsh	-	3,611,807	3,611,807	7.5%
Alberta Investment Management Corporation and affiliates ("AIMCo")	11,204,502	-	11,204,502	23.3%
Other Unitholders	33,341,270	-	33,341,270	69.2%
<b>TOTAL</b>	<b>44,545,772</b>	<b>3,611,807</b>	<b>48,157,579</b>	<b>100.0%</b>

On April 6, 2018, Welsh distributed 1,250,135 Class B Units to certain of its direct investors.

As at May 9, 2018, ownership of the REIT was as follows (excluding options and DTUs (as defined on pages 31 and 32) outstanding under the REIT's equity plans):

	REIT Units	Class B Units	Total Units	% of Total
Welsh	-	2,361,672	2,361,672	4.9%
AIMCo	11,204,502	-	11,204,502	23.3%
Other Unitholders	33,341,270	1,250,135	34,591,405	71.8%
TOTAL	44,545,772	3,611,807	48,157,579	100.0%

AIMCo's voting rights are limited to no greater than 20% of the total Units outstanding at any point in time, as further described in the Implementation Agreement dated January 20, 2016, which can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

#### Unit Option Plan

On April 26, 2013, the REIT authorized a unit option plan, as amended and restated on May 13, 2016, (the "Plan"), under the terms of which options to purchase REIT Units may, from time to time, be granted to trustees, officers, employees of the external manager 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 combined is 10% of the total number of REIT Units issued and outstanding from time to time. The maximum number of REIT Units reserved for issuance under the Plan and DUIP (defined on pg. 28) combined is 10% 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.

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

	Number of options	Weighted average exercise price
Outstanding, December 31, 2016	530,000	\$ 10.02
Exercised in 2017	(110,000)	9.99
Outstanding and Exercisable, March 31, 2018 and December 31, 2017	420,000	\$ 10.02

The total fair value of options granted as at March 31, 2018 and December 31, 2017 and as at the grant date was \$903, \$796 and \$327, respectively. The aggregate intrinsic value of exercisable options as at March 31, 2018 and December 31, 2017 was \$1,226 and \$1,144, respectively. The weighted average remaining contractual life for outstanding options and for exercisable options as at March 31, 2018 was 5.5 years.

Under IFRS, liabilities related to deferred compensation under the Plan are measured at fair value as at the grant date and are remeasured at each reporting date. The fair value changes are recorded within general and administrative expense in the statements of net income and comprehensive income. Total compensation expense related to the option plan recognized for the three months ended March 31, 2018 and 2017 was \$107 and \$343, respectively. These amounts include adjustments based on the fair value of the options are reported within general and administrative expenses as at March 31, 2018 and December 31, 2017.

As at March 31, 2018, fair value adjustments were determined using the Black-Scholes option pricing model with the following assumptions:

Average expected option term	2.9 years
Risk-free interest rate	2.39%
Expected volatility	17.20%
Dividend yield	5.9%

### *Deferred Unit Incentive Plan*

On April 26, 2013, the REIT authorized a Deferred Unit Incentive Plan, as amended and restated on May 13, 2016, (“**DUIP**”) that provides for the granting of deferred trust units (“**DTUs**”) to trustees, officers, employees of the external manager, 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. 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 and the corresponding expense is recorded as adjustments based on the fair value of the REIT Units and are reported within general and administrative expenses in the statements of net income and comprehensive income.

### *Officer and Employee Grants*

All DTUs granted to officers and employees of the external manager vest as to one-fifth on the first anniversary of the grant date, and one-fifth on each of the four following anniversaries. A summary of DTUs granted to officers of the REIT and employees of the external manager of the REIT under the DUIP is set forth below:

	<b>DTUs Granted</b>
Total as at December 31, 2016	401,709
March 24, 2017 grant	140,214
August 18, 2017 grant	19,443
DTUs granted through distributions	30,078
DTUs redeemed for cash	(7,350)
DTUs redeemed for REIT Units	(7,256)
<b>Total as at December 31, 2017</b>	<b>576,838</b>
DTUs granted through distributions	8,445
<b>Total as at March 31, 2018</b>	<b>585,283</b>

The total fair value of DTUs granted to officers and employees of the external manager, inclusive of vested and unvested DTUs, as at March 31, 2018 and December 31, 2017 was \$7,574 and \$7,353, respectively. As at March 31, 2018 and December 31, 2017, a total of 190,433 and 158,283 DTUs granted to officers and employees of the external manager had vested, respectively.

### *Trustee and Other Grants*

All members of the Board of Trustees have elected to receive their annual retainers and meeting 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 to one-third on the first anniversary date of the grant and one-third on each of the second and third anniversaries.

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

	<b>DTUs Granted</b>
Total as at December 31, 2016	129,551
DTUs granted for services rendered in 2016	8,015
DTUs granted for services rendered in 2017	28,757
DTUs granted through distributions and 50% match	26,552
DTUs redeemed for cash	(10,218)
DTUs redeemed for REIT Units	(24,118)
<b>Total as at December 31, 2017</b>	<b>158,539</b>
DTUs granted through distributions	2,321
<b>Total as at March 31, 2018</b>	<b>160,860</b>

Additional DTUs of \$144 had been earned and recorded as a deferred compensation liability as at March 31, 2018, but are not yet granted.

The total fair value of DTUs granted to trustees, inclusive of vested and unvested DTUs, as at March 31, 2018 and December 31, 2017 was \$2,067 and \$2,021, respectively. As at March 31, 2018 and December 31, 2017, a total of 148,356 and 130,711 DTUs granted to trustees had vested, respectively.

Under IFRS, liabilities related to deferred compensation under the DUIP are measured at fair value as at the grant date and are remeasured at each reporting date. Total compensation expense related to the DUIP recognized for the three months ended March 31, 2018 and 2017 was \$798 and \$945, respectively. These amounts include adjustments based on the fair value of the REIT Units and are reported within general and administrative expenses in the statements of net income and comprehensive income as at March 31, 2018 and December 31, 2017.

### **PART III**

#### **DISCLOSURE AND INTERNAL CONTROLS**

The Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") of the REIT have designed, or caused to be designed under their supervision, the REIT's disclosure controls and procedures. They have also designed, or caused to be designed under their supervision, the REIT's internal controls over financial reporting. No changes were made to the REIT's internal controls over financial reporting during the three months ended March 31, 2018, that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. Because of such limitations, there is risk that material misstatements may not be prevented or detected on a timely basis by disclosure controls and procedures and internal controls over financial reporting. However, these inherent limitations are known features of the disclosure and financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

## PART IV

### **RISK FACTORS**

The REIT faces a variety of significant and diverse risks, many of which are inherent in the business conducted by the REIT, the Partnership and the tenants of the REIT's properties. In addition to the risk factors disclosed in the REIT's MD&A and Annual Information Form for the year ended December 31, 2017, described below are certain risks that could materially affect the REIT and the value of the Units. Other risks and uncertainties that the REIT does not presently consider to be material, or of which the REIT is not presently aware, may become important factors that affect the REIT's future financial condition and results of operations. The occurrence of any of the risks discussed below could materially and adversely affect the business, prospects, financial condition, results of operations, cash flow, and the ability of the REIT to make cash distributions to Unitholders or value of the Units.

#### ***Tenant Concentration***

The REIT derives approximately 37.9% of its in-place base rental revenue from its ten largest tenants. Consequently, revenues are dependent on the ability of those tenants to meet rent obligations and the REIT's ability to collect rent from them. General Mills Operations, LLC is the REIT's largest tenant by GLA and percentage of annualized base rent occupying 8.6% of total portfolio GLA and accounting for 5.8% of the total portfolio's annualized base rent. Unilever Home & Personal Care is the second largest tenant by GLA, occupying 7.2% of total portfolio GLA and accounting for 5.1% of the total portfolio's annualized base rent. Honeywell International, Inc is the REIT's third largest tenant by GLA, occupying 4.3% of total portfolio GLA and accounting for 2.8% of the total portfolio's annualized base rent. Fullbeauty Brands, Inc. is the REIT's fourth largest tenant by GLA occupying 4.2% of the total portfolio GLA and accounts for 4.2% of the total portfolio's annualized base rent. Early termination options are held by 12 tenants of the properties. In total, early termination options available at various times from 2018 through 2023 represent 5.9% of the total GLA or 8.3% of the 2018 annualized base rent of the properties. If such tenants default on or cease to satisfy their payment obligations, or if tenants exercise their early termination options, there could be an adverse impact on the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

#### ***Occupancy by Tenants***

Although certain, but not all, leases contain a provision requiring tenants to maintain continuous occupancy of leased premises, there can be no assurance that such tenants will continue to occupy such premises. Certain tenants have a right to terminate their leases upon payment of a penalty but others are not required to pay any penalty associated with an early termination. There can be no assurance that tenants will continue their activities and continue occupancy of the premises. Any cessation of occupancy by tenants may have an adverse effect on the REIT and could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution to Unitholders.

Approximately 56.8% of GLA of the REIT's portfolio of properties is comprised of single-tenant properties. The largest five such tenants represent approximately 20.7% of contractual base rent of the portfolio as at March 31, 2018.

In the event that such tenants were to terminate their tenancies or become insolvent, the REIT's financial results would be materially adversely affected. Until the REIT is in a position to acquire more assets and further diversify its tenant base, the REIT will take certain steps to mitigate any credit risk by closely monitoring its tenants' compliance with the terms of their respective leases and to report any issues as soon as they are identified.

#### ***Financing Risks***

The REIT's outstanding indebtedness as March 31, 2018 was \$424,693, excluding mark-to-market adjustments and financing costs. Although a portion of the cash flow generated by the REIT's properties are devoted to servicing such debt, there can be no assurance that the REIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the REIT is unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The failure of the REIT to make or renegotiate interest or principal payments or obtain additional equity, debt or other financing could adversely impact the REIT's financial condition, liquidity and results of operations and decrease the amount of cash available for distribution to Unitholders. If the REIT defaults under a mortgage loan, it may lose the properties securing such loan.

The REIT is subject to the risks associated with debt financing, including the risk that the mortgages and banking facilities secured by the REIT's properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness, which may reduce FFO, AFFO and ACFO.

Approximately 18.3% of the REIT's total principal indebtedness is variable rate debt as at March 31, 2018. Such variable rate debt will result in fluctuations in the REIT's cost of borrowing as interest rates change. To the extent that interest rates rise, the REIT's operating results and financial condition could be adversely affected and decrease the amount of cash available for distribution.

The REIT's credit facilities also contain covenants that require it to maintain certain financial ratios on a consolidated basis. If the REIT does not maintain such ratios, its ability to make distributions will be limited.

As at May 9, 2018, existing mortgages secured by the REIT's properties mature between August 2018 and October 2024. To the extent that the REIT incurs variable rate indebtedness, such indebtedness will result in fluctuations in the REIT's cost of borrowing as interest rates change. To the extent that interest rates rise, the REIT's operating results and financial condition could be adversely affected and decrease the amount of cash available for distribution.

#### ***Direct and Indirect Ownership of Units by Welsh and AIMCo***

Welsh, as at May 9, 2018, owns an approximate 4.9% effective interest in the REIT through its direct and indirect ownership of Class B Units (assuming all Class B Units are redeemed for Units but otherwise on a non-diluted basis). Each Class B Unit is redeemable by the holder thereof for cash or one Unit of the REIT (subject to customary anti-dilution adjustments), as determined by the general partner of the Partnership in its sole discretion.

The Declaration of Trust granted Welsh the right to nominate a certain number of trustees to the Board of Trustees or to appoint a board observer depending on the size of the Board of Trustees and the Welsh's retained interest. Based on Welsh's current retained interest, Welsh does not have the right to nominate a trustee to the Board of Trustees, but still may have the ability to exercise certain influence with respect to the affairs of the REIT.

AIMCo, as at May 9, 2018, owns an approximate 23.2% interest in the REIT through its ownership of Units (assuming all Class B Units are redeemed for Units but otherwise on a non-diluted basis). AIMCo, as a result of their voting interest in the REIT, may be able to exert significant influence over matters that are to be determined by votes of the Unitholders of the REIT.

Accordingly, the Units may be less liquid and trade at a relative discount compared to such Units in circumstances where neither Welsh nor AIMCo have the ability to influence or determine matters affecting the REIT.

Subject to compliance with applicable securities laws, Welsh may sell some or all of its Units issuable on redemption of its Class B Units, and AIMCo may sell some or all of its Units, in the future. No prediction can be made as to the effect, if any, such future sale or transfer of Units could have on the market price of the Units prevailing from time to time. However, the future sale of a substantial number of Units by Welsh and/or AIMCo, or the perception that such sale could occur, could adversely affect prevailing market prices for the Units.

#### ***Geographic Concentration***

The REIT's properties are located in the U.S., in the states of Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Nevada, Ohio, Oregon, Pennsylvania, Tennessee, Texas, and Wisconsin. Approximately 15.7% and 14.3% of the REIT's NOI for the three months ended March 31, 2018 is derived from properties located in Georgia and Minnesota, respectively. As a result, the REIT's performance is sensitive to economic condition and regulatory changes in Georgia and Minnesota. Adverse changes in the economic condition or regulatory environment of Georgia and Minnesota may have a material adverse effect on the REIT's business, cash flow, financial condition and results of operations and ability to make distributions to Unitholders.

## PART V

### RELATED PARTY TRANSACTIONS

Related party transactions with Welsh and WPT Capital, as asset and property manager, are set forth below:

('000s)	Three months ended	
	March 31,	
	2018	2017
<b>Fees earned under asset management agreement (1)</b>		
Asset management fees	\$ 588	\$ 479
Construction management fees	21	151
Out-of-pocket costs	78	85
<b>Fees earned under property management agreement (2)</b>	574	510
<b>Other</b>		
Class B Unit distributions paid to Welsh (3)	686	1,277
REIT Unit distributions paid to Welsh (3)	-	1

(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. On May 10, 2017, the independent trustees of the REIT approved a renewal of the REIT's asset management agreement with WPT Capital for an additional five-year term.

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 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 March 31, 2018 and December 31, 2017 were \$1 and \$33, 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 March 31, 2018 and December 31, 2017.
- 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 March 31, 2018 and December 31, 2017 were \$10 and \$0, 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. On May 10, 2017, the independent trustees of the REIT approved a renewal of the REIT's property management agreement with WPT Capital for an additional five-year term.

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

There were no property management fees payable as at March 31, 2018 and December 31, 2017.

- (3) On July 17, 2017, Welsh redeemed 3,110,888 Class B Units in exchange for ownership and control over 3,110,888 REIT Units. On July 18, 2017, Welsh sold 3,115,000 REIT Units as part of the Secondary Offering

Distributions payable to Welsh on Class B Units as at March 31, 2018 and December 31, 2017 were \$229.

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

The REIT reimburses WPT Capital 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 external manager. As at March 31, 2018 and December 31, 2017, the net payable due was \$45 and \$56, respectively, related to these reimbursements.

## **PART VI**

### **SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS**

A summary of significant accounting policies, including significant judgments and critical accounting estimates made by management of the REIT, is described in note 2 of the REIT's audited consolidated financial statements for the year ended December 31, 2017 and in the REIT's MD&A for the year ended December 31, 2017. Other than as noted below, there were no changes in significant accounting judgements, estimates and assumptions during the three months ended March 31, 2018.

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions in the application of the policies outlined in the REIT's audited consolidated financial statements. 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.

### *Fair value of investment properties*

The key valuation metrics for investment properties are set out below as at March 31, 2018 and December 31, 2017:

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Weighted average terminal capitalization rate	6.63%	6.62%
Range of terminal capitalization rates	5.50% - 9.00%	5.50% - 9.00%
Weighted average discount rate	7.20%	7.08%
Range of discount rates	6.17% - 8.95%	6.07% - 8.95%

The fair value of investment properties is most sensitive to changes in the key valuation assumptions. 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 three months ended March 31, 2018:

	<b>March 31, 2018</b>	
Weighted average terminal capitalization rate:		
25-basis points increase	\$	(19,285)
25-basis points decrease	\$	20,830
Weighted average discount rate:		
25-basis points increase	\$	(18,197)
25-basis points decrease	\$	18,668

### *Changes in Accounting Policies*

The condensed consolidated interim financial statements follow the same accounting policies as the audited consolidated financial statements as at and for the year ended December 31, 2017 with the exception of the accounting standards implemented 2018. Please refer to note 2 of the REIT's audited consolidated financial statements for the year ended December 31, 2017 for a summary of significant accounting policies. Changes to significant accounting policies are described below.

The REIT adopted the following standards and amendments to existing standards issued by the IASB:

(i) *IFRS 9, Financial Instruments*

The REIT adopted the new requirements for classification and measurement, impairment and general hedging for IFRS 9 Financial Instruments by applying the requirements for classification and measurement, including impairment, retrospectively with no restatement of comparative periods. The REIT also applied related amendments to IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7") in its condensed consolidated interim financial statements for the annual period beginning on January 1, 2018.

IFRS 9 contains a new classification and measurement approach for financial assets to be classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and FVTPL, and eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

For impairment of financial assets, IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as FVTPL are recognized in profit or loss, whereas under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in OCI, and the remaining amount of change in fair value is presented in profit or loss.

The following table summarizes the REIT's classification impacts upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS did not result in significant changes in measurement or the carrying amount 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 and construction loan	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
Amounts payables and accrued liabilities	Other liabilities	Amortized cost

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The REIT does not currently apply hedge accounting.

The REIT implemented this amendment in the first quarter of 2018, with no material impact on the financial statements.

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

The REIT adopted IFRS 15 Revenue from Contracts with Customers, which replaced IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 15 Agreements for the Construction of Real Estate, in its condensed consolidated interim financial statement. The REIT adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively.

The amendment applies a single, control-based model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. The amendment also includes additional disclosure requirements for revenue accounted for under the standard. The implementation of IFRS 15 did not have a significant impact on the REIT's revenue streams.

A substantial portion of the REIT's revenue consists of rental revenues from leasing arrangements, such as base rent, which is specifically excluded from the revenue guidance. Non-lease components, such as recoveries of operating expenses from tenants and common area maintenance are subject to additional disclosures in note 12 of the condensed consolidated interim financial statements.

(iii) IFRS 2, *Share-Based Payment*

The REIT adopted the amendments to IFRS 2 *Share-based Payment*, ("IFRS 2") clarifying how to account for certain types of share-based payment transactions, in its condensed consolidated interim financial statement for the period beginning on January 1, 2018 with no material impact on the financial statements.