

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

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

For the three and nine months ended September 30, 2014 and for the three months ended September 30, 2013 and the period from March 4, 2013 to September 30, 2013

(Unaudited)

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

September 30, 2014    December 31, 2013  
(Unaudited)                      (Audited)

## Assets

### Non-current assets:

Investment properties (note 4)	\$ 631,367	\$ 493,006
Other non-current assets (note 6)	1,124	2,297
	632,491	495,303

### Current assets:

Amounts receivable (note 5)	4,143	1,148
Prepaid expenses	511	551
Restricted cash	1,397	992
Cash and cash equivalents	5,527	5,926
	11,578	8,617

<b>Total assets</b>	<b>\$ 644,069</b>	<b>\$ 503,920</b>
---------------------	-------------------	-------------------

## Liabilities and Unitholders' Equity

### Non-current liabilities:

Mortgages payable (note 9)	\$ 265,198	\$ 203,830
Bank indebtedness (note 10)	58,535	43,328
Class B Units (note 11)	153,015	94,437
Security deposits	816	806
Other financial instruments (note 17)	-	26
	477,564	342,427

### Current liabilities:

Mortgages payable (note 9)	2,087	16,382
Class B Units (note 11)	-	19,052
Amounts payable and accrued liabilities (note 7)	10,557	7,919
Distributions payable (note 12)	828	626
	13,472	43,979

<b>Total liabilities</b>	<b>491,036</b>	<b>386,406</b>
--------------------------	----------------	----------------

<b>Total unitholders' equity</b>	<b>153,033</b>	<b>117,514</b>
----------------------------------	----------------	----------------

<b>Total liabilities and unitholders' equity</b>	<b>\$ 644,069</b>	<b>\$ 503,920</b>
--	-------------------	-------------------

See accompanying notes to condensed consolidated interim financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

(Unaudited)	Three months ended September 30,		Nine months ended September 30,	Period from March 4, 2013 to September 30,
	2014	2013	2014	2013
Investment properties:				
Investment properties revenue	\$ 15,227	\$ 12,577	\$ 41,920	\$ 21,010
Investment properties operating expenses	1,562	1,481	12,083	2,507
Net investment property income	13,665	11,096	29,837	18,503
Other expenses and (income):				
General and administrative	843	1,160	2,860	1,737
Fair value adjustment to investment properties (note 4)	(12,189)	(1,847)	(18,258)	(114)
Finance costs (note 14)	6,726	(13,616)	33,492	(14,882)
	(4,620)	(14,303)	18,094	(13,259)
Net income and comprehensive income	\$ 18,285	\$ 25,399	\$ 11,743	\$ 31,762

See accompanying notes to condensed consolidated interim financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

	Trust Equity	Distributions	Accumulated Income	Unitholders' Equity
Balance, March 4, 2013 (note 12)	\$ –	\$ –	\$ –	\$ –
REIT Units issued, net of issue costs	100,842	–	–	100,842
Net income and comprehensive income	–	–	31,762	31,762
Purchase of REIT Units for cancellation	(5,530)	–	–	(5,530)
Distributions declared	–	(3,404)	–	(3,404)
<b>Balance, September 30, 2013 (note 12)</b>	<b>\$ 95,312</b>	<b>\$ (3,404)</b>	<b>\$ 31,762</b>	<b>\$ 123,670</b>
Balance, December 31, 2013 (note 12)	\$ 95,163	\$ (5,281)	\$ 27,632	\$ 117,514
REIT Units issued, net of issue costs	30,624	–	–	30,624
Net income and comprehensive income	–	–	11,743	11,743
Distributions declared	–	(6,848)	–	(6,848)
<b>Balance, September 30, 2014 (note 12)</b>	<b>\$ 125,787</b>	<b>\$ (12,129)</b>	<b>\$ 39,375</b>	<b>\$ 153,033</b>

See accompanying notes to condensed consolidated interim financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

(Unaudited)	Nine months ended September 30, 2014	Period from March 4, 2013 to September 30, 2013
<b>Cash flows from operating activities:</b>		
Net income	\$ 11,743	\$ 31,762
Finance costs (note 14)	33,492	(14,882)
Non-cash items:		
Amortization of straight-line rent	(1,903)	(1,016)
Property tax liability under IFRIC 21	1,685	(2,870)
Fair value adjustment to investment properties (note 4)	(18,258)	(114)
Fair value adjustment on deferred compensation (note 12)	(64)	-
Amortization of lease incentives	83	2
Change in non-cash working capital (note 20)	983	(1,143)
Cash flows provided by operating activities	27,761	11,739
<b>Cash flows from financing activities:</b>		
Repayment of mortgages payable	(47,731)	(27,022)
Proceeds from mortgages payable	96,040	31,800
Repayment of Revolving Facility	(14,000)	(54,537)
Proceeds from Revolving Facility	29,000	56,500
Repayment of senior secured promissory note	-	(31,800)
Financing costs incurred	(1,057)	(1,604)
Proceeds from issuance of REIT Units, net of issue costs (note 12)	30,624	100,842
Purchase of REIT Units for cancellation	-	(5,530)
Distributions paid (note 12)	(6,645)	(2,777)
Interest paid	(15,714)	(7,162)
Cash flows provided by financing activities	70,517	58,710
<b>Cash flows from investing activities:</b>		
Acquisition of investment properties (note 3, 4)	(98,669)	(66,783)
Cash balances transferred in acquisition of investment properties (note 3, 4)	-	3,713
Additions to investment properties, including lease incentives (note 4)	(1,156)	(562)
Change in capital escrows	1,148	(1,336)
Cash flows (used in) investing activities	(98,677)	(64,968)
(Decrease) increase in cash and cash equivalents	(399)	5,481
Cash and cash equivalents, beginning of period	5,926	-
Cash and cash equivalents, end of period	\$ 5,527	\$ 5,481

See accompanying notes to condensed consolidated interim financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

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

On March 4, 2013, the REIT issued one unit ("REIT Unit") for cash proceeds of ten dollars. For the period from March 4, 2013 to April 25, 2013, the REIT had no operations or activity. The REIT commenced operations on April 26, 2013 when it issued units for cash pursuant to an initial public offering ("IPO") and through WPT Industrial, LP (the "Partnership"), completed the acquisition of 35 industrial investment properties and two office investment properties located in 12 states in the United States (the "Initial Properties"). The REIT was formed for the purpose of acquiring and owning primarily industrial investment properties, located in the United States, with a particular focus on warehouse and distribution industrial investment properties.

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

As at September 30, 2014, the REIT owned a portfolio of investment properties consisting of 12,756,313 square feet of gross leasable area, comprised of 40 industrial investment properties and two office investment properties, located in 12 states in the U.S. Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation but have not changed the results of the prior year.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

## 1. Basis of Presentation:

### (a) Statement of compliance:

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standard Board ("IASB"). These condensed consolidated interim financial statements were approved by the Board of Trustees on November 11, 2014. The condensed consolidated interim financial statements do not include all information required for full annual financial statements and should be read in conjunction with the REIT's annual audited financial statements for the period from March 4, 2013 to December 31, 2013, which were prepared in accordance with International Financial Reporting Standards ("IFRS").

### (b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for investment properties, derivative financial instruments and Class B Units which have been measured at fair value. The condensed consolidated interim financial statements are presented in U.S. dollars, which is the REIT's functional currency, and all amounts have been rounded to the nearest thousands, except when otherwise indicated.

### (c) Basis of consolidation:

The condensed consolidated interim financial statements comprise the financial statements of the REIT and its subsidiaries. Subsidiaries are entities controlled by the REIT. The financial statements of the subsidiaries are prepared for the same reporting periods as the REIT using consistent accounting policies. All intercompany balances, transactions and unrealized gains and losses arising from intercompany transactions are eliminated on consolidation.

### (d) Comparative information:

On March 4, 2013, the REIT issued one REIT Unit for cash proceeds of ten dollars. The REIT had no other results of operations or cash flows prior to the completion of its IPO on April 26, 2013. As a result, these condensed consolidated interim financial statements present comparative information for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

## 2. Significant Accounting Policies:

Except as described below, the condensed consolidated interim financial statements follow the same accounting policies as the financial statements as at and for the period from March 4, 2013 to December 31, 2013:

### (a) Amendments to IAS 32, *Offsetting Financial Assets and Liabilities*

The amendments to IAS 32 establish disclosure requirements that are intended to help clarify for financial statement users the effect or potential effect of offsetting arrangements on an entity's financial position.

Effective January 1, 2014, the REIT adopted the amendments to IAS 32 in its financial statements retrospectively with no material impact on the condensed consolidated interim financial statements or its disclosures.

### (b) IFRIC 21, *Levies*

In May 2013, the IASB issued International Financial Reporting Interpretations Committee *Levies* ("IFRIC 21"). Effective January 1, 2014, the REIT adopted IFRIC 21, which provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs.

The adoption of IFRIC 21 requires the REIT to recognize the full amount of annual property tax liabilities at the point in time when the property tax obligation is imposed. Previously, property tax obligations and related expenses were recognized on a pro rata basis evenly throughout the reporting period, therefore, the adoption of IFRIC 21 has resulted in the REIT recording an annual property tax expense earlier than previously recognized. This liability has been recorded as a component of investment property. To avoid the double-counting of property tax obligations, the REIT has removed the cash flows related to the property tax liabilities recorded upon the application of IFRIC 21 from its investment property valuation models (note 4), resulting in a fair value increase of investment property equal to the IFRIC 21 related liability.



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

IFRIC 21 has been adopted retrospectively, resulting in a \$1,726 and \$2,870 decrease in the fair value adjustment of investment properties for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013, respectively, with an equal decrease in real estate tax expense.

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

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017 and is to be applied retrospectively. Early adoption is permitted. The REIT is currently assessing the impact of the new standard on its consolidated financial statements.

(d) IFRS 9, *Financial Instruments*

In July 2014, the IASB issued IFRS 9, *Financial Instruments* replacing IAS 39, *Financial Instruments – Recognition and Measurement*. The Project has three main phases: classification and measurement, impairment and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The REIT is currently assessing the impact of the new standard on its consolidated interim financial statements.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

### 3. Asset acquisitions:

#### *Kentucky Property*

On April 4, 2014, the REIT indirectly acquired from Welsh Property Trust, LLC (“Welsh”), a 100% leased 300,000 square foot industrial investment property located in Hebron, Kentucky (the “Kentucky Property”), for a purchase price of \$13,300 (exclusive of closing costs and acquisition fee). The purchase price was paid in cash using a portion of the \$32,347 gross proceeds from the April 4, 2014 public offering on a bought deal basis (the “Offering”) (note 12). The Kentucky Property was acquired by an affiliate of Welsh from a third party on March 3, 2014. Pursuant to a call right granted to the REIT in respect of the Kentucky Property, the REIT delivered notice to Welsh requiring Welsh to sell the Kentucky Property to the REIT for a purchase price equal to Welsh’s cost of acquisition plus certain expenses incurred by Welsh in connection with its acquisition of the Kentucky Property.

#### *Atlanta Property*

On April 29, 2014, the REIT indirectly acquired from a third party, a 100% leased 1,512,552 square foot investment property located in Atlanta, Georgia (the “Atlanta Property”) for a purchase price of \$51,500 (exclusive of closing costs and acquisition fee). The purchase price was satisfied by proceeds of the Offering, proceeds from a new, \$28,325 five-year mortgage payable bearing a fixed interest rate of 3.41%, and cash on hand.

#### *Louisville Property*

On June 18, 2014, the REIT indirectly acquired from Welsh, a 100% leased 936,000 square foot industrial investment property located in Shepherdsville, Kentucky (the “Louisville Property”) for a purchase price of \$45,396 (exclusive of closing costs and fair value adjustment on Class B Units issued). The purchase price was satisfied by the issuance of 2,165,605 Class B Units to Welsh and proceeds from a new, \$24,915 eight-year mortgage payable bearing a fixed interest rate of 3.77%.

#### *OIA Property*

On June 27, 2014, the REIT indirectly acquired from a third party, a 100% leased 127,800 square foot industrial investment property located in Hebron, Kentucky (the “OIA Property”) for a purchase price of \$5,500 (exclusive of closing costs and acquisition fee). The purchase price was satisfied with cash on hand and proceeds from the Revolving Facility.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

The assets acquired and liabilities assumed in these transactions were allocated as follows:

	Kentucky Property	Atlanta Property	Louisville (2) Property	OIA Property	Total
Investment property (1)	\$ 13,577	\$ 52,064	\$ 47,425	\$ 5,746	\$ 118,812
Amounts receivable	18	-	125	-	143
Other non-current assets	-	-	2,002	-	2,002
Prepaid expenses	-	-	8	-	8
	13,595	52,064	49,560	5,746	120,965
Amounts payable and accrued liabilities	(24)	(3)	(180)	-	(207)
	(24)	(3)	(180)	-	(207)
<b>Net assets acquired</b>	<b>\$ 13,571</b>	<b>\$ 52,061</b>	<b>\$ 49,380</b>	<b>\$ 5,746</b>	<b>\$ 120,758</b>
Consideration given by the REIT consists of the following:					
Class B Units	-	-	22,089	-	22,089
Cash	13,571	52,061	27,291	5,746	98,669
<b>Total consideration</b>	<b>\$ 13,571</b>	<b>\$ 52,061</b>	<b>\$ 49,380</b>	<b>\$ 5,746</b>	<b>\$ 120,758</b>

- (1) Includes total closing costs and acquisition fees of \$1,427 and an IFRIC 21 liability of \$383 assumed on acquisition that is offset by an equal adjustment to investment property.
- (2) Investment property acquired and Class B Units issued includes a fair value adjustment of \$1,689 due to a change in fair value of Class B Units issued upon acquisition of the Louisville Property, offset by a change in cost of investment property.

There were no acquisitions completed for the three months ended September 30, 2014.

On July 15, 2013, the REIT acquired, through the Partnership, a 100% leased 1,262,648 square foot single-tenant industrial investment property located in Pontoon Beach, Illinois (the "Illinois Property") for a purchase price of \$53,000 (exclusive of closing costs). The purchase price was satisfied by (i) the assumption by the REIT of a senior secured promissory note, payable to Welsh, in the principal amount of \$31,800 and (ii) the issuance of 2,192,347 Class B Units to Welsh. On September 28, 2013, the REIT repaid the senior secured promissory note to Welsh with proceeds received from a third party variable interest rate mortgage payable in the principal amount of \$31,800. On August 12, 2014, the REIT paid off this variable interest rate mortgage payable with proceeds from a new, six-year, \$31,800 mortgage payable bearing a fixed interest rate of 3.40%.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

## 4. Investment properties:

The reconciliation of the carrying amount of investment properties at the beginning and end of the financial periods are set out below:

	Nine months ended September 30, 2014	Period from March 4, 2013 to December 31, 2013
Balance, beginning of period	\$ 493,006	\$ -
Investment property acquisitions	118,812	488,121
Additions to investment properties, including lease incentives	1,156	1,558
Amortization of straight-line rent	1,903	1,578
Amortization of lease incentives	(83)	(16)
Fair value adjustment to investment properties	16,573	1,765
	<u>\$ 631,367</u>	<u>\$ 493,006</u>
Property tax liability under IFRIC 21	(1,685)	-
Fair value adjustment to investment properties – IFRIC 21	1,685	-
	<u>\$ 631,367</u>	<u>\$ 493,006</u>

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

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

	Level 1	Level 2	Level 3
Investment properties – September 30, 2014	\$ -	\$ -	\$ 631,367
Investment properties – December 31, 2013	\$ -	\$ -	\$ 493,006

Investment properties include land, building, improvements to the investment property, and all direct leasing costs incurred in obtaining property tenants. The fair value of these investment properties is reviewed regularly by management with reference to independent

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

property valuations and market conditions existing at the reporting date, using generally accepted market practices. Judgment is also applied in determining the extent and frequency of independent third party appraisals. The REIT determines the fair value of an investment property at the end of each reporting period using 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 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.

During the IPO, management retained an independent third party appraiser to appraise each investment property contained within the portfolio. Additionally, the REIT has obtained appraisals on each investment property acquired since IPO. The REIT obtained independent third party appraisals for 12 properties of the portfolio during the third quarter of 2014.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of investment properties. Significant increases (decreases) in long-term vacancy rate (and exit yield) in isolation would result in significantly lower (higher) fair value.

The key valuation metrics for investment properties are set out below:

	September 30, 2014	December 31, 2013
Weighted average terminal capitalization rate:	7.07%	7.53%
Range of terminal capitalization rates:	6.25%-8.50%	6.25%-10.00%
Weighted average discount rate:	7.35%	7.25%
Range of discount rates:	6.73%-8.50%	6.88%-8.78%

The fair value of investment properties is most sensitive to changes in terminal capitalization rates. As at September 30, 2014, the weighted average terminal capitalization rate was 7.07%. A 25-basis-point increase in the weighted average terminal capitalization rate would decrease the value of the investment properties by \$21,563. A 25-basis-point decrease in the weighted average terminal capitalization rate would increase the value of the investment properties by \$23,144.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

## 5. Amounts receivable:

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

Amounts receivable are as follows:

	September 30, 2014	December 31, 2013
Tenant receivables	\$ 1,945	\$ 982
Other receivables	217	196
Allowance for uncollectible amounts	(21)	(30)
Loan receivable	2,002	-
	<b>\$ 4,143</b>	<b>\$ 1,148</b>

The carrying value of amounts receivable approximates fair value. As at September 30, 2014, the REIT had a loan receivable from a tenant of the Louisville Property with an annual interest rate of 8.0% and monthly principal and interest payments in the amount of \$35. The loan had a maturity of July 1, 2019. The principal balance and interest due on the loan of \$2,112 were repaid in full on October 14, 2014.

## 6. Other non-current assets:

Other non-current assets consist of the following:

	September 30, 2014	December 31, 2013
Capital escrows	\$ 1,124	\$ 2,272
Interest rate cap	-	25
	<b>\$ 1,124</b>	<b>\$ 2,297</b>

Included in other non-current assets is restricted cash related to escrows required by certain of the REIT's mortgages payable for capital expenditures related to the investment properties. The interest rate cap, which expires on May 1, 2015, covers up to a principal amount of \$50,000 of the REIT's variable interest rate debt and provides for a U.S. LIBOR cap of 50-basis points.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

## 7. Amounts payable and accrued liabilities:

Amounts payable and accrued liabilities consist of the following:

	September 30, 2014	December 31, 2013
Trade payables	\$ 186	\$ 157
Accrued liabilities and other payables	2,258	2,484
Accrued real estate taxes	3,788	1,643
Accrued interest	1,731	1,415
Unearned revenue	102	61
Rent received in advance	1,451	1,743
Deferred compensation	1,041	416
	<b>\$ 10,557</b>	<b>\$ 7,919</b>

## 8. Operating leases:

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

There were no tenants that accounted for more than 10% of the REIT's total rental revenue for the nine months ended September 30, 2014 or for the period from March 4, 2013 to September 30, 2013.

As at September 30, 2014, the total future contractual minimum base rent lease payments expected to be received under non-cancellable leases are as follows:

One year or less	\$ 46,016
2 - 5 years	139,523
Greater than 5 years	58,547
	<b>\$ 244,086</b>

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

## 9. Mortgages payable:

Mortgages payable consist of the following:

	September 30, 2014	December 31, 2013
Mortgages payable	\$ 264,971	\$ 216,662
Mark-to-market adjustments, net	3,546	4,156
Financing costs, net	(1,232)	(606)
Carrying value	267,285	220,212
Less current portion	(2,087)	(16,382)
Long-term portion	\$ 265,198	\$ 203,830

Mortgages payable that are due and payable within 12 months after the date of the condensed consolidated interim statements of financial position presented, including scheduled principal payments on mortgages payable, are classified as current liabilities. Mortgages payable are collateralized by investment properties with a fair value of \$497,027 and \$389,781 as at September 30, 2014 and December 31, 2013, respectively. As at September 30, 2014, mortgages payable bear fixed interest at various rates ranging from 3.40% to 5.80% (2.42% to 5.80% as at December 31, 2013), and have a weighted average effective interest rate of 4.21% (4.33% as at December 31, 2013), with maturity dates ranging from 2016 - 2024. As at September 30, 2014, there were no mortgages payable with variable interest rates.

During the nine months ended September 30, 2014, the REIT entered into two new, fixed interest rate mortgages payable totaling \$53,240 as a result of investment property acquisitions. On April 8, 2014, the REIT paid off one variable interest rate mortgage payable in the amount of \$3,180 and did not renew the related interest rate swap. On July 10, 2014, the REIT used the proceeds from a new, \$11,000 mortgage payable bearing a fixed interest rate of 4.03%, in addition to cash on hand, to pay off an existing mortgage payable with an outstanding balance of \$11,205 and a maturity of July 10, 2014. On August 12, 2014, the REIT paid off its last variable interest rate mortgage payable in the amount of \$31,800 with proceeds from a new, six-year, fixed interest rate \$31,800 mortgage payable bearing a fixed interest rate of 3.40%.



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

Future contractual cash flows of mortgages payable principal and interest are as follows as at  
September 30, 2014:

	Principal Payment	Interest Payment	Total Payments
2014 (remainder)	\$ 513	\$ 2,780	\$ 3,293
2015	2,113	11,061	13,174
2016	23,161	10,957	34,118
2017	1,914	9,627	11,541
2018	33,295	9,064	42,359
2019 and thereafter	203,975	22,824	226,799
	<u>\$ 264,971</u>	<u>\$ 66,313</u>	<u>\$ 331,284</u>

Covenant compliance requirements:

The REIT's mortgages payable contain customary representations, warranties, and events of default, which require the REIT to comply with affirmative and negative covenants. These covenants include (a) net worth thresholds, (b) senior debt service coverage ratios, (c) total indebtedness to gross book value ratios, and (d) liquid asset thresholds. As at September 30, 2014 and December 31, 2013, the REIT was in compliance with all covenants of its mortgages payable.

## 10. Bank indebtedness:

Revolving Facility:

The Revolving Facility consists of the following:

	September 30, 2014	December 31, 2013
Revolving Facility	\$ 59,000	\$ 44,000
Financing costs, net	(465)	(672)
<u>Carrying value</u>	<u>\$ 58,535</u>	<u>\$ 43,328</u>

On April 26, 2013, the REIT entered into a senior secured revolving facility with a maximum commitment of \$75,000 (the "Revolving Facility"), and availability determined subject to compliance with a number of borrowing base tests. The Revolving Facility has an initial term of

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

three years from April 26, 2013, subject to a one-year extension option and includes an accordion feature which could increase the size of the facility to \$200,000, subject to lender approval. The 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 September 30, 2014 and December 31, 2013, the Revolving Facility interest rate was 2.41% and 2.42%, respectively.

On April 26, 2013, the REIT entered into an interest rate cap, which expires on May 1, 2015, and covers up to a principal amount of \$50,000 of the REIT's variable interest rate debt and provides for a U.S. LIBOR cap of 50-basis points (note 17).

Financing costs of \$892 related to the Revolving Facility are being amortized using the effective interest rate method over the initial term of three years.

Availability on the \$75,000 Revolving Facility (note 18) was \$64,500 as at September 30, 2014, of which the REIT had drawn \$59,000 and had a \$950 letter of credit outstanding, leaving remaining availability of \$4,550.

## 11. Class B Units:

On April 26, 2013, Class B Units were issued with a fair value of \$108,674 as partial consideration in a business combination in connection with the IPO. These Class B Units are entitled to distributions per unit in an amount equal to the distributions per unit declared in respect of the REIT Units, and are redeemable by the holder thereof for cash or REIT Units (on a one-for-one basis, subject to customary anti-dilution adjustments), as determined by the general partner of the Partnership in its sole discretion. The Class B Units are puttable, and, therefore, meet the definition of a financial liability under IAS 32 and are accordingly classified as long-term liabilities in the condensed consolidated interim statements of financial position.

On July 15, 2013, Class B Units were issued with a fair value of \$21,200 as partial consideration for the Illinois Property. These Class B Units were not redeemable for REIT Units until the REIT received all necessary acceptances and approvals from the TSX and received REIT Unitholder approval. REIT Unitholder approval was received on May 15, 2014 and the TSX approved the issuance of these Class B Units and the listing on the TSX of the underlying REIT Units for which these Class B Units may be redeemed. As a result, these Class B Units are now entitled to distributions per unit in an amount equal to 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

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended September 30, 2013 and the period from March 4, 2013 to September 30, 2013

and subject to anti-dilution adjustments), as determined by the general partner of the Partnership in its sole discretion. Therefore, the distributions on these Class B Units that were held in escrow as at March 31, 2014 were released and these Class B Units were reclassified to long-term liabilities in the condensed consolidated interim statements of financial position.

On June 18, 2014, 2,165,605 Class B Units were issued with a fair value of \$22,089 as partial consideration for the Louisville Property (note 4).

All Class B Units are valued at the REIT Units' closing price per the TSX as at September 30, 2014 and December 31, 2013, which was \$10.05 and \$8.69, respectively (note 17).

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

	Nine months ended September 30, 2014	Period from March 4, 2013 to December 31, 2013
Amount, beginning of period	\$ 113,489	\$ -
Class B Units issued April 26, 2013 - 10,867,362 units	-	108,674
Class B Units issued July 15, 2013 - 2,192,347 units	-	21,200
Class B Units issued June 18, 2014 - 2,165,605 units	22,089	-
Fair value adjustments	17,437	(16,385)
Amount, end of period	\$ 153,015	\$ 113,489
Less current portion	-	(19,052)
Long-term portion, end of period	\$ 153,015	\$ 94,437

Included in finance costs for the three and nine months ended September 30, 2014 are \$2,663 and \$7,357 of distributions declared on Class B Units, respectively. Included in finance costs for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013 are \$2,285 and \$3,668 of distributions declared on Class B Units, respectively.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

## 12. Unitholders' equity:

The REIT is authorized to issue an unlimited number of REIT Units. REIT Units are ordinary units of the REIT, each of which represents a unitholders' proportionate undivided beneficial interest and voting rights in the REIT.

On April 26, 2013, the REIT completed its IPO of 10,000,000 REIT Units for \$87,403, net of issue costs of \$12,597.

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

On August 12, 2013, the TSX accepted the REIT's notice of intention to make a normal course issuer bid for a portion of its outstanding REIT Units. Pursuant to the notice, the REIT could purchase for cancellation up to a maximum of 1,140,000 REIT Units, or approximately 10% of the public float, over the 12-month period commencing August 15, 2013. Subject to certain prescribed exemptions and any block purchases made in accordance with the rules of the TSX, the number of REIT Units that could be purchased pursuant to the bid was subject to a daily maximum of 9,195 REIT Units. REIT Units purchased under the normal course issuer bid were cancelled following purchase.

During the period from March 4, 2013 to December 31, 2013, the REIT purchased for cancellation 697,800 REIT Units for \$5,679 under the normal course issuer bid at an average price of \$8.14. The REIT did not purchase any REIT Units for cancellation under the normal course issuer bid for the three or nine months ended September 30, 2014.

On April 4, 2014, the REIT issued 3,478,200 REIT Units (including REIT Units issued pursuant to the exercise in full of the over-allotment option granted to the underwriters by the REIT) at a price of \$9.30 per REIT Unit to a syndicate of underwriters on a bought deal basis for gross proceeds to the REIT of approximately \$32,347. Issue costs related to the Offering were \$1,723. As part of the Offering, Welsh purchased \$7,000 of the REIT Units being offered, or 752,700 REIT Units at the offering price of \$9.30 per REIT Unit.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

REIT Units outstanding:

	Units	Value
REIT Unit issued, March 4, 2013	1	\$ –
REIT Units issued on completion of the IPO, April 26, 2013	10,000,000	100,000
REIT Unit redeemed	(1)	–
REIT Units issued through underwriters' over-allotment, May 16, 2013	1,430,000	14,300
REIT Units purchased for cancellation under the normal course issuer bid	(697,800)	(5,679)
Less issue costs related to IPO	–	(13,458)
<b>As at December 31, 2013</b>	<b>10,732,200</b>	<b>\$ 95,163</b>
REIT Units issued on completion of the Offering, April 4, 2014 (including REIT Units issued through underwriter's over- allotment)	3,478,200	32,347
Less issue costs related to the Offering	–	(1,723)
<b>As at September 30, 2014</b>	<b>14,210,400</b>	<b>\$ 125,787</b>

(a) Distributions:

The REIT declared distributions to unitholders of record in the amount of \$2,486 (\$0.175 per Unit) and \$6,848 (\$0.525 per Unit) for the three and nine months ended September 30, 2014, respectively. The REIT declared distributions to unitholders of record in the amount of \$1,949 (\$0.175 per Unit) and \$3,404 (\$0.302 per Unit) for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013, respectively. Total distributions payable as at September 30, 2014 and December 31, 2013 were \$828 and \$626, respectively.

(b) Deferred Unit Incentive Plan:

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

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

price on the grant date. These additional units vest on the same schedule as their corresponding DTUs.

### Officer and Employee Grants

On May 29, 2013, the Board of Trustees granted 50,000 DTUs to certain officers of the REIT and employees of Welsh, with a fair value of \$507 at grant date.

On May 27, 2014, the Board of Trustees granted 65,000 DTUs to certain officers of the REIT and employees of Welsh, with a fair value of \$638 at grant date.

Additional DTUs granted to certain officers of the REIT and employees of Welsh through distributions for the nine months ended September 30, 2014 and for the period from March 4, 2013 to December 31, 2013 were 4,487 units and 2,462 units, respectively, for a total of 121,949 and 52,462 units outstanding to these individuals as at September 30, 2014 and December 31, 2013, respectively. All DTUs granted to officers and employees vest as to one-fifth on the first anniversary of the grant date, and one-fifth on each of the four following anniversaries. As at September 30, 2014, a total of 11,084 DTUs granted to officers and employees had vested.

### Trustee and Other Grants

All members of the Board of Trustees have elected to receive their annual retainer and meetings fees for the current fiscal year and since inception in the form of DTUs. Annually, the REIT matches 50% of all annual Trustee compensation received in DTUs, which vest as to one-third on the first anniversary date of the grant and one-third on each of the second and third anniversaries.

For the nine months ended September 30, 2014, 42,124 DTUs were granted to Trustees for services rendered, of which 17,929 relates to services rendered in 2014, and 24,195 relates to services rendered in 2013. For the period from March 4, 2013 to December 31, 2013, 10,430 DTUs were granted to Trustees for services rendered in 2013. During the nine months ended September 30, 2014 and for the period from March 4, 2013 to December 31, 2013, 1,367 and 302 DTUs were granted through distributions, respectively, for a total of 54,223 and 10,732 units outstanding to these individuals as at September 30, 2014 and December 31, 2013, respectively. As at September 30, 2014, a total of 45,675 DTUs granted to Trustees had vested.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

The total fair value of all DTUs granted as at September 30, 2014 and as at December 31, 2013 was \$1,789 and \$456, respectively.

The movement in the DUIP balance was as follows:

As at March 4, 2013	\$ –
Deferred compensation expense	361
Fair value adjustments	(12)
<hr/>	
As at December 31, 2013	\$ 349
<hr/>	
Deferred compensation expense	583
Fair value adjustments	39
<hr/>	
As at September 30, 2014	\$ 971

Total compensation expense recognized for the three and nine months ended September 30, 2014 was \$219 and \$622, respectively. These amounts include adjustments based on the fair value of the REIT Units as at September 30, 2014. Compensation expense of \$131 and \$151 for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013, respectively, was determined based on the fair value of the REIT Units as at September 30, 2013.

(c) Unit option plan:

On April 26, 2013, the REIT authorized a unit option plan (the "Plan"), under the terms of which options to purchase REIT Units may from time to time, be granted to trustees, officers, employees and consultants, exercisable for a maximum period of 10 years from the date of grant. The maximum number of REIT Units reserved for issuance under the Plan is 10% of the total number of REIT Units issued and outstanding from time to time.

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

On May 27, 2014, the REIT granted 200,000 options to certain officers of the REIT and employees of Welsh at an exercise price of \$9.81, expiring May 27, 2024. These options vest

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

as to one-third on the first anniversary of the grant date, and one-third on each of the second and third anniversaries.

As at September 30, 2014, a total of 130,000 options had vested. The total fair value of all options granted as at September 30, 2014 and as at December 31, 2013 was \$132 and \$185, respectively.

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

Balance, March 4, 2013	\$	–
Deferred compensation expense		97
Fair value adjustments		(30)
<hr/>		
Balance, December 31, 2013	\$	67
<hr/>		
Deferred compensation expense		106
Fair value adjustments		(103)
<hr/>		
Balance, September 30, 2014	\$	70

Total compensation (income) expense recognized for the three and nine months ended September 30, 2014 was (\$13) and \$3, respectively. These amounts include adjustments based on the fair value of the options as at September 30, 2014 using the Black-Scholes option pricing model with the following assumptions:

Average expected option term	5.55 years
Risk-free interest rate	2.00%
Expected volatility	12.50%
Dividend yield	6.96%

Compensation expense of \$32 and \$43 for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013, respectively, for these options was determined based on the fair value of the options as at September 30, 2013 using the Black-Scholes option pricing model.



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

## 13. Related party transactions:

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

### (a) Acquisition of investment properties

On April 26, 2013, in connection with its IPO, the REIT acquired, through the Partnership, 37 investment properties from Welsh, which was accounted for as a business combination. Please refer to the REIT's annual audited financial statements for the period from March 4, 2013 to December 31, 2013 for details.

On July 15, 2013, the REIT acquired, through the Partnership, the Illinois Property for a purchase price of \$53,000 (exclusive of closing costs). Please refer to the REIT's annual audited financial statements for the period from March 4, 2013 to December 31, 2013 for details.

On April 4, 2014, the REIT indirectly acquired from Welsh, the Kentucky Property for cash (note 3).

On June 18, 2014, the REIT indirectly acquired from Welsh, the Louisville Property. The purchase price was satisfied by the issuance of Class B Units to Welsh, cash, and also by a new mortgage payable (note 3).

### (b) Asset management fees:

On April 26, 2013, the REIT entered into an asset management agreement with Welsh, under which Welsh provides certain asset management services to the REIT and its subsidiaries. The asset management agreement provides for the following fees:

- Asset management fees at 0.25% of gross book value, as defined in the asset management agreement. Asset management fees paid to Welsh for the three and nine months ended September 30, 2014 were \$376 and \$1,029, respectively. Asset management fees paid to Welsh for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013 were \$306 and \$503, respectively. Asset management fees payable to Welsh as at September 30, 2014 and December 31, 2013 were \$129 and \$105, respectively.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

- 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. Acquisition fees paid to Welsh for the three and nine months ended September 30, 2014 were \$0 and \$703, respectively. Acquisition fees paid to Welsh for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013 were \$530. There were no acquisition fees payable to Welsh as at September 30, 2014 or December 31, 2013.
- 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 paid to Welsh for the three and nine months ended September 30, 2014 were \$68. There were no construction management fees paid to Welsh for the three months ended September 30, 2013 or the period from March 4, 2013 to September 30, 2013. Construction management fees payable to Welsh as at September 30, 2014 and December 31, 2013 were \$53 and \$0, respectively.

(c) Property management fees:

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

Property management fees are described below for all 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.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

Property management fees paid to Welsh for the three and nine months ended September 30, 2014 were \$364 and \$1,004, respectively. Property management fees paid to Welsh for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013 were \$305 and \$526, respectively. There were no property management fees payable to Welsh as at September 30, 2014 and December 31, 2013.

(d) Class B Units:

As part of the consideration for the IPO, 10,867,362 Class B Units were issued to Welsh at a unit price of \$10.00.

As part of the consideration for the Illinois Property acquisition on July 15, 2013, 2,192,347 Class B Units were issued to Welsh at a price of \$9.67 per Class B Unit.

As part of the consideration for the Louisville Property acquisition on June 18, 2014, 2,165,605 Class B Units were issued to Welsh at a price of \$9.30 per Class B Unit.

Distributions on Class B Units of \$2,663 and \$7,231 were paid to Welsh during the three and nine months ended September 30, 2014, respectively. Distributions on Class B Units of \$2,156 and \$2,907 were paid to Welsh during the three months ended September 31, 2013 and for the period from March 4, 2013 to September 30, 2013, respectively. Distributions payable to Welsh on Class B Units as at September 30, 2014 and December 31, 2013 were \$888 and \$761, respectively.

(e) REIT Units:

As part of the Offering (note 12), Welsh purchased \$7,000 of the REIT Units being offered, or 752,700 REIT Units, at the offering price of \$9.30 per REIT Unit. Distributions related to these REIT Units of \$131 and \$219 were paid to Welsh for the three and nine months ended September 30, 2014, respectively. Distributions payable to Welsh on these REIT Units as at September 30, 2014 were \$44.

(f) Office rent:

A subsidiary of the REIT has a lease with an affiliate of Welsh for an investment property located at 4350 Baker Road, Minnetonka, Minnesota. Rental revenue earned by the subsidiary from the affiliate of Welsh for the three and nine months ended September 30, 2014 was approximately \$265 and \$787, respectively. Rental revenue earned by the

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended September 30, 2013 and the period from March 4, 2013 to September 30, 2013

subsidiary from the affiliate of Welsh for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013 was approximately \$260 and \$446, respectively. The lease commenced on June 1, 2008 and expires on May 31, 2020, with annual rent increases of 2%.

In addition, the REIT will reimburse Welsh 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 Welsh agree in writing are to be provided from time to time by Welsh. As at September 30, 2014 and December 31, 2013, the net payable due to Welsh was \$0 and \$17 related to these reimbursements, respectively.

## 14. Finance costs:

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

	Three months ended		Nine	Period from March
	September 30,		months ended	4, 2013 to
	2014	2013	September 30,	September 30,
			2014	2013
Interest on mortgages payable incurred at stated rate	\$ 2,780	\$ 2,330	\$ 7,619	\$ 3,887
Bank indebtedness interest	369	254	970	465
Class B Unit issuance costs	-	-	83	-
Amortization of financing costs	346	126	636	211
Amortization of mark-to-market adjustments on fixed interest rate mortgages payable	(194)	(205)	(608)	(341)
Distributions on Class B Units	2,663	2,285	7,357	3,668
Fair value adjustment on Class B Units and financial instruments	762	(18,406)	17,435	(22,772)
	\$ 6,726	\$ (13,616)	\$ 33,492	\$ (14,882)

## 15. Segment reporting:

The REIT owns, manages and operates primarily industrial investment properties located throughout the United States. Management, when measuring the investment properties performance, does not distinguish or group its operations on a geographical or any other basis.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

Accordingly, the REIT has a single reportable segment for disclosure purposes in accordance with IFRS.

## 16. Commitment and contingencies:

- (a) In connection with the IPO, the REIT has agreed to indemnify the underwriters against certain liabilities, including liabilities under applicable securities legislation, or to contribute to payments the underwriters may be required to make in respect of those liabilities. The REIT has agreed to indemnify, in certain circumstances, the trustees and the officers of the REIT in respect of any taxes, penalties or interest imposed upon the trustee or officer in consequence of his/her performance of his/her duties as a trustee or officer.
- (b) The REIT has a contingent obligation to expand the gross leasable area at two of its investment properties at the option of the tenant. Management estimates the cost associated with these expansions, should they occur, to range between \$10,000 and \$12,000 in the aggregate. Such expansions are conditional on mutual agreement between the tenants and the REIT with regard to the base rental rates to be charged for occupying such expansion space. These obligations terminate at expiration of the underlying leases.
- (c) The REIT has entered into a non-cancellable ground lease for land related to one of its investment properties. Annual payments under the lease are approximately \$100 through May 31, 2023. Annual payments thereafter are adjusted based on changes in the consumer price index until expiration in 2093.
- (d) In conjunction with the acquisition of certain Initial Properties, \$29,500 of self-funded industrial revenue bonds ("Bonds") were assumed. The authorized amount of the Bonds is \$29,500, of which \$29,500 was outstanding as at September 30, 2014 and December 31, 2013. In connection with the Atlanta Property acquisition on April 29, 2014, \$40,170 of Bonds were assumed. The authorized amount of the Bonds is \$41,500, of which \$40,170 was outstanding as at September 30, 2014. The Bonds provide for real estate tax abatement for the acquired investment properties. Through a series of transactions, the REIT is both the bondholder and the obligor of the Bonds. Therefore, in accordance with IAS 32, the Bonds are not recorded in the condensed consolidated interim statements of financial position.

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

## 17. Fair value measurement:

### (a) Fair value of financial instruments:

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

	Carrying amount	Fair value
Mortgages payable – As at September 30, 2014	\$ 264,971	\$ 270,204
Mortgages payable – As at December 31, 2013	\$ 216,662	\$ 217,514

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

### (i) Mortgages payable:

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

### (ii) Interest rate swap:

The REIT was party to an interest rate swap agreement to limit exposure to the fluctuations in its LIBOR-based variable interest payments on a mortgage note payable. The swap covered the notional amount of \$3,550 at a fixed interest rate of 5.5% and expired on April 1, 2014. The interest rate swap was not designed as a hedge for accounting purposes. The fair value of the interest rate swap was a liability of \$26 as at December 31, 2013, and was included in the accompanying condensed consolidated interim statements of financial position within the "other financial instruments" caption. The REIT recognized an adjustment to interest expense in the amount of \$0 and \$26 for the three and nine months ended September 30, 2014, respectively. The REIT recognized an adjustment to interest expense in the amount of \$19 and \$34 for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013, respectively. The interest rate swap fair value was determined by a

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

model-derived valuation, in which significant inputs and value drivers were observable in active markets for a similar instrument, i.e., Level 2 inputs. Changes in fair value were recognized as adjustments to interest expense in the accompanying condensed consolidated interim statement of net income and comprehensive income. The interest rate swap was not renewed upon its expiration as the related mortgage payable was paid off in full on April 8, 2014.

(iii) Interest rate cap:

On April 26, 2013, the REIT entered into an interest rate cap, which expires on May 1, 2015, and covers up to a principal amount of \$50,000 of the REIT's variable interest rate debt and provides for a U.S. LIBOR cap of 50-basis points. The fair value of the interest rate cap was an asset of \$0 and \$25 as at September 30, 2014 and December 31, 2013, respectively, and was included in the accompanying condensed consolidated interim statements of financial position within the other non-current assets caption. The REIT recognized an adjustment to interest expense in the amount of \$1 and \$25 for the three and nine months ended September 30, 2014, respectively. The REIT recognized an adjustment to interest expense in the amount of \$50 and \$46 for the three months ended September 30, 2013 and for the period from March 4, 2013 to September 30, 2013, respectively. The interest rate cap fair value is determined by a model-derived valuation in which significant inputs and value drivers are observable in active markets for a similar instrument, i.e., Level 2 inputs. Changes in fair value are recognized as adjustments to interest expense in the accompanying condensed consolidated interim statement of income and comprehensive income.

As at September 30, 2014, the \$59,000 outstanding principal balance related to the Revolving Facility is subject to a variable interest rate. An interest rate cap hedges against the risk of fluctuating interest rates of \$50,000 in outstanding principal balances, resulting in aggregate exposure of \$9,000 in outstanding principal balances.

(iv) Deferred compensation:

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

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

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

(v) Class B Units:

The fair value of the Class B Units is estimated based on the market trading prices of the REIT Units (Level 2).

(vi) Other financial assets and liabilities:

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

## 18. Capital management:

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

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

Part of the REIT's objectives in securing mortgages for its investment properties and managing its long-term debt is to stagger the maturities in order to mitigate short-term volatilities in the debt markets. The REIT's declaration of trust stipulates that the REIT shall not incur indebtedness greater than 60% of gross book value. As at September 30, 2014 and December 31, 2013, the REIT's debt-to-gross book value ratio was 51.3% and 52.9%, respectively (total outstanding principal amounts of mortgages payable and Revolving Facility of \$323,971 as at September 30, 2014, divided by gross book value of \$631,367). The REIT has no convertible debentures outstanding.



# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

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

- (a) consolidated total indebtedness shall not exceed 65% of the consolidated gross asset value through October 26, 2014, and 60% at any time thereafter;
- (b) the outstanding principal balance of the Revolving Facility and letters of credit shall not be greater than the borrowing base availability (65% of the gross asset value of the borrowing base assets through October 26, 2014, and 60% at any time thereafter);
- (c) the ratio of adjusted consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges for the most recently ended four quarters shall not be less than 1.75 to 1.00;
- (d) consolidated tangible net worth shall not be less than the sum of (i) \$150,000 plus (ii) 80% of the sum of any additional net offering proceeds, plus (iii) 80% of the value of interests in the REIT issued upon the contribution of assets to the REIT or its subsidiaries;
- (e) aggregate occupancy for the borrowing base assets shall not be less than 85%; and
- (f) the borrowing base debt service coverage ratio shall not be less than 1.50 to 1.00.

The REIT is also required to meet certain diversification covenants under the Revolving Facility. In addition, certain mortgages payable require the REIT to meet financial covenant ratios (note 9).

The REIT complied with all financial covenants as at September 30, 2014 and December 31, 2013.

## **19. Financial risk management:**

Risk Management:

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

- (a) Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk,

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

---

currency risk and other market price risk. There is interest rate risk associated with the REIT's fixed interest rate mortgages payable due to the expected requirement to refinance such mortgages payable in the year of maturity. In order to manage exposure to interest rate risk, the REIT endeavors to manage maturities of fixed interest rate mortgages payable, and match the nature of the mortgages payable with the cash flow characteristics of the underlying asset. This risk is also minimized through the REIT having all of its mortgages payable in fixed term arrangements. Additionally, the interest rate cap on the Revolving Facility minimizes the REIT's interest rate risk. As such, the REIT's cash flows are not significantly impacted by a change in market interest rates.

As described in note 17(a)(iii), up to \$50,000 of the collective outstanding balance of the variable interest rate Revolving Facility is subject to an interest rate cap on LIBOR of 50 basis points. As at September 30, 2014, a 100-basis-point increase in interest rates including the change in interest rates under the interest rate cap, assuming all other variables are constant, would result in a \$262 increase in the REIT's interest expense.

The REIT has no material exposure to currency risk.

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

# WPT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

For the three and nine months ended September 30, 2014 and for the three months ended  
September 30, 2013 and the period from March 4, 2013 to September 30, 2013

## 20. Supplementary cash flow information:

Change in non-cash working capital comprises the following:

	Three months ended September 30,		Nine months ended	Period from
	2014	2013	September 30, 2014	March 4, 2013 to September 30, 2013
Amounts receivable	\$ (523)	\$ (695)	\$ (850)	\$ (550)
Prepaid expenses	85	268	48	153
Restricted cash	2	(492)	(405)	(334)
Amounts payable and accrued liabilities	744	(497)	2,180	(437)
Security deposits	15	-	10	25
	\$ 323	\$ (1,416)	\$ 983	\$ (1,143)

## 21. Subsequent events:

As at September 30, 2014, the REIT had a loan receivable from a tenant of the Louisville Property with an annual interest rate of 8.0% and monthly principal and interest payments in the amount of \$35. The loan had a maturity of July 1, 2019. The principal balance and interest due on the loan of \$2,112 were repaid in full on October 14, 2014.