# Edgefront Realty Corp.

Condensed Interim Financial Statements
(Unaudited)

Three Month Period Ended March 31, 2013

# Edgefront Realty Corp.

Condensed Interim Statements of Financial Position
(unaudited)

| | March 31, 2013 $ | December 31, 2012 $ |
|---|---|---|
| **Non-Current Asset** | | |
| Investment property (notes 3 and 4) | 1,150,000 | - |
| **Current Assets** | | |
| Cash and cash equivalents | 3,911,988 | 4,939,718 |
| Prepaid expenses | 6,623 | - |
| Deposits | 360,000 | - |
| Other receivables | 1,300 | - |
| | 4,279,911 | 4,939,718 |
| **Total Assets** | 5,429,911 | 4,939,718 |
| **Non-Current Liabilities** | | |
| Mortgage payable (note 5) | 468,712 | - |
| **Current Liabilities** | | |
| Current portion of mortgage payable (note 5) | 16,961 | - |
| Accounts payable and accrued liabilities | 57,629 | 11,042 |
| | 74,590 | 11,042 |
| **Total Liabilities** | 543,302 | 11,042 |
| **Shareholders' Equity** | | |
| Capital stock | 4,947,451 | 4,947,451 |
| Contributed surplus | 271,000 | 271,000 |
| Retained deficit | (331,842) | (289,775) |
| | 4,886,609 | 4,928,676 |
| **Total Liabilities and Shareholders' Equity** | 5,429.911 | 4,939,718 |

On behalf of the Board:

"Kelly Hanczyk" Director

"Peter Vukanovich" Director

The accompanying notes are an integral part of these financial statements.

# Edgefront Realty Corp.

Condensed Interim Statement of Loss and Comprehensive Loss
(unaudited)

**For the three month period ended March 31, 2013**

| | $ |
|---|---|
| **Net rental income** | |
| Property income | 10,498 |
| Property expenses | (4,641) |
| Net rental income | 5,857 |
| **Expenses** | |
| General and administrative | (27,931) |
| Fair value adjustment of investment property (note 4) | (29,563) |
| **Loss before finance income** | (51,637) |
| **Finance income (expense)** | |
| Interest income | 11,862 |
| Interest expense (note 5) | (2,292) |
| | 9,570 |
| **Net loss and comprehensive loss for the period** | (42,067) |
| **Weighted average number of common shares outstanding during the period** | 55,000,000 |
| **Net loss per share,** basic and diluted | 0.001 |

The accompanying notes are an integral part of these financial statements.

# Edgefront Realty Corp.

Condensed Interim Statements of Changes in Shareholders' Equity
(unaudited)

**For the three month period ended March 31, 2013**

| | Share capital $ | Contributed Surplus $ | Cumulative net loss $ | Total $ |
|---|---|---|---|---|
| **Balance – December 31, 2012** | 4,947,451 | 271,000 | (289,775) | 4,928,676 |
| Net loss for the period | - | - | (42,067) | (42,067) |
| **Balance - March 31, 2013** | 4,947,451 | 271,000 | (331,842) | 4,886,609 |

The accompanying notes are an integral part of these financial statements.

# Edgefront Realty Corp.

Condensed Interim Statement of Cash Flows
(unaudited)
**For the three month period ended March 31, 2013**

| | $ |
|---|---|
| **Cash (used in)** | |
| **Operating activities** | |
| Net loss for the period | (42,067) |
| Adjustment for items not involving cash: | |
| Amortization of deferred financing costs | 285 |
| Fair value adjustment of investment property (note 4) | 29,563 |
| Changes in non-cash working capital | |
| Decrease in prepaid expenses | 478 |
| Increase in deposits | (360,000) |
| Increase in other receivables | (1,300) |
| Increase in accounts payable and accrued liabilities | 46,587 |
| Total cash used in operating activities | (326,454) |
| **Investing activities** | |
| Acquisition of investment property | (689,609) |
| Total cash used in Investing activities | (689,609) |
| **Financing activities** | |
| Financing costs | (11,667) |
| Total cash used in financing activities | (11,667) |
| **Decrease in cash and cash equivalents during the period** | (1,027,730) |
| **Cash and cash equivalents - beginning of period (note 2)** | 4,939,718 |
| **Cash and cash equivalents - end of period (note 2)** | 3,911,988 |

The accompanying notes are an integral part of these financial statements.

## 1 Organization

Edgefront Realty Corp. (the Company) was incorporated under the Business Corporation Act (Ontario) on July 30, 2012. The registered office of the Company is located at 1 Toronto Street, Suite 201, Toronto, Ontario.

On March 8, 2013, the Company completed the purchase of a leasehold interest in a property located at 695 University Avenue, Charlottetown, Prince Edward Island (QT Property) for a purchase price of $1,148,000. The purchase was approved by the TSX Venture Exchange as the Corporation's qualifying transaction as defined in Policy 2.4 "Capital Pool Companies" of the TSX Venture Exchange Policies (note 3).

Pursuant to a plan of arrangement (the Arrangement) to be voted on by the shareholders of Edgefront Realty Corp. (the Corporation) on June 14, 2013, the Corporation will enter into a plan of arrangement with Edgefront Real Estate Investment Trust, and shares of Edgefront Realty Corp. will be exchanged for units of Edgefront Real Estate Investment Trust (the REIT). The REIT is an unincorporated, open-ended real estate investment trust established pursuant to the Declaration of Trust dated May 10, 2013, and governed by the laws of the province of Ontario.

## 2 Summary of significant accounting policies

The condensed interim financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements for the period from July 30, 2012 (date of incorporation) to December 31, 2012. The accounting policies applied by the Company in the preparation of these condensed interim financial statements are consistent with those applied for the period from July 30, 2012 (date of incorporation) to December 31, 2012, except as noted in the following section "Changes in accounting policies".

These condensed interim financial statements are presented in Canadian dollars, which is the functional currency of the Company. The financial statements were authorized for issue by the board of directors of the Company on May 30, 2013.

### Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less. As at March 31, 2013, there were cash equivalents of $3,911,988 (December 31, 2012 - $4,939,718). The cash equivalents are comprised of guaranteed investment certificates of a Canadian chartered bank which can be cashed at any time without penalty.

### Investment property

The Company has selected the fair value method to account for real estate classified as investment property. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment property is initially recognized at the purchase price, including directly attributable costs. Subsequent to initial recognition, investment property is carried at fair value, with gains or losses in the fair value of the investment property recognized in the statement of income (loss) in the period in which they arise.

### Revenue recognition

Revenue includes base rents earned from tenants under lease agreements, realty tax and operating cost recoveries, lease termination fees, parking revenue and other incidental income. Lease related revenue is recognized as revenue over the term of the underlying leases. Other revenue is recognized at the time the service is provided.

The Company follows the straight-line method of recognizing rental revenue, whereby the total amount of rental revenue to be received from leases is accounted for on a straight-line basis over the term of the lease. Accordingly, an accrued rent receivable is recorded for the difference, if any, between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenant.

### Financial instruments

The Company's financial instruments consist of cash and cash equivalents, other receivables, accounts payable and accrued liabilities and mortgage payable. All financial instruments are initially recognized at fair value. Subsequent measurement depends on the nature and classification adopted for the financial instrument as follows:

| Financial instrument | Classification | Measurement |
|---|---|---|
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| Other receivables | Loans and receivables | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Mortgage payable | Other liabilities | Amortized cost |

The Corporation determines the fair value measurement based on the following hierarchy:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other that quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Transaction costs relating to financial instruments measured at amortized cost are deferred and amortized for the expected useful life of the instrument using the effective interest method. Financial assets are derecognized when contractual rights to the cash flow from the assets expire.

### Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Income tax is recognized in the statement of income (loss) except to the extent it relates to items recognized in equity, in which case the income tax is also recognized in equity. Current tax assets and liabilities are recognized at the amount expected to be paid or received from tax authorities using rates enacted or substantially enacted at the date of the statement of financial position. Deferred tax assets and liabilities are recognized at the tax rates enacted or substantially enacted at the date of the statement of financial position for the years that an asset is expected to be realized or a liability is expected to be settled. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be generated and available for the asset to be utilized against. As at March 31, 2013 and December 31, 2012, no deferred tax asset has been recognized as it is not probable that future taxable profit will be generated.

**Loss per share**

Basic loss per share is calculated by dividing net loss for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The diluted weighted average number of common shares is calculated by applying the treasury method. The treasury method assumes that any proceeds on exercise of options are used to purchase common shares at the average market price during the period. Diluted loss per share excludes the impact of the exercise of share options if the exercise would be anti-dilutive.

**Segment reporting**

The Company owns and operates an investment property in Canada. In measuring performance, the Company does not distinguish its operations on a geographic or any other basis and accordingly, has a single reportable segment for disclosure purposes.

**Significant accounting judgments, estimates and assumptions**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and the reported amount of expenses during the period. Actual results may differ from these estimates. The estimates and judgements used in determining the recorded amount for asset, liabilities and equity in the financial statements include the following:

Investment Property

The critical assumptions and estimates used when determining the fair value of investment property are normalized income and capitalization rates (see note 4). Management determines fair value internally utilizing financial information, external market data and capitalization rates determined by reference to third party appraisals and reports published by industry experts including commercial real estate brokerages.

**Changes in Accounting Policies**

The Company has adopted the following new and revised standards, along with consequential amendments, effective January 1, 2013. These changes were required due to changes in IFRS, and were made in accordance with the applicable transitional provisions and are summarised as follows:

**Fair value measurement**

IFRS 13, "Fair Value measurement" (IFRS 13), provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that the market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 in accordance with the transition provisions. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. Furthermore, adoption of this standard will result in additional fair value disclosures, and will also result in additional disclosures in the Company's financial statements for the year ended December 31, 2013.

### Presentation of items of other comprehensive income

The Company has adopted the amendments to IAS 1, "Presentation of items of Financial Statements", effective January 1, 2013. The amendments require the Company to group other comprehensive items by those that will be reclassified subsequently to the statement of comprehensive income and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income.

### Standards issued but not yet effective

There are several pending changes to IFRS which are not yet effective for the period ended March 31, 2013 which have not been applied in the preparation of the Company's unaudited interim financial statements for the period ended March 31, 2013. These changes are not expected to have a material impact on the financial statements of the Company. The standards issued or amended but not yet effective at March 31, 2013 include the following:

IFRS 9, Financial Instruments, is a new standard which will replace IAS 39, Financial Instruments: Recognition and Measurement, and addresses classification and measurement of financial assets, as well as providing guidance on financial liabilities and derecognition of financial instruments. IFRS 9 provides a single approach, based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IAS 32, Financial Instruments: Presentation, clarifies requirements for offsetting of financial assets and financial liabilities and is effective for annual periods beginning on or after January 1, 2014.

## 3 Acquisition

On March 8, 2013, the Company acquired the rights in a 66 year ground lease to a property located at 695 University Avenue, Charlottetown, Prince Edward Island for a purchase price of $1,148,000. The ground lease commenced May 1, 2006, and has two ten year options to renew. The purchase was funded by the assumption of a mortgage maturing September 1, 2017, with a remaining principal balance at the date of acquisition of $497,055, with the remainder of the purchase price settled in cash, net of closing adjustments. On closing the Company received a credit equal to the amount required to buy down the mortgage interest rate to its estimated fair value of 4.0%, and the interest rate was bought down to 4.0% at closing. The carrying amount of the mortgage approximates its fair value.

The impact of acquiring the QT Property is as follows:

| | $ |
|---|---|
| Investment property acquired, including transaction costs of $31,563 | 1,179,563 |
| Assumption of mortgage (net of deferred financing costs of $11,667) | (485,388) |
| Working capital acquired (prepaid ground lease rent) | 7,101 |
| Net assets acquired | 701,276 |
| | |
| Consideration paid: | |
| Cash | 701,276 |

## 4 Investment property

| | March 31, 2013<br>$ | December 31, 2012<br>$ |
|---|---|---|
| Balance, beginning of period | - | - |
| Acquisition of investment property | 1,179,563 | - |
| Fair value adjustment | (29,563) | - |
| Balance, end of period | 1,150,000 | - |

A third party appraisal dated January 3, 2013, using the direct capitalization method and applying a capitalization rate of 6.25% arrived at an appraised value of $1,150,000 for the investment property. As at March 31, 2013, the fair value of the investment property was determined internally by management through the application of the direct capitalization method using a capitalization rate of 6.25%.

The fair value of the investment property is sensitive to changes in the capitalization rate. A 0.25% change in the capitalization rate would result in an approximately $45,000 change in the determination of the fair value of the investment property.

## 5 Mortgage payable

The mortgage payable is secured by a charge against the investment property, bears interest at 4.0% and matures September 1, 2017. Interest expense recorded in the period includes the amortization of deferred financing costs in the amount of $285. As at March 31, 2013, unamortized deferred financing costs of $11,382 are netted against mortgage payable.

| | March 31, 2013<br>$ | December 31, 2012<br>$ |
|---|---|---|
| Mortgage payable | 497,055 | - |
| Less deferred financing costs | (11,382) | - |
| | 485,673 | - |
| Less current portion | (16,961) | - |
| | 468,712 | - |

| | Scheduled repayments<br>$ | Principal maturities<br>$ | Total<br>$ |
|---|---|---|---|
| 2013 | 12,584 | - | 12,584 |
| 2014 | 17,771 | - | 17,771 |
| 2015 | 18,489 | - | 18,489 |
| 2016 | 19,236 | - | 19,236 |
| 2017 | 14,935 | 414,040 | 428,975 |
| Total | 83,015 | 414,040 | 497,055 |

## 6 Capital stock

There were no changes in the share capital of the Company during the three month period ended March 31, 2013.

## 7 Financial Instruments

*Fair Value*
The Company's financial instruments consist of cash and cash equivalents and accounts payable and accrued liabilities, the fair value of which approximates carrying values due to the short-term nature of these instruments. In the case of the mortgage payable, the fair value approximates carrying value due to the fact that the mortgage interest rate was bought down to a market rate on March 8, 2013, the date of assumption of the mortgage.

*Liquidity risk*
Liquidity risk is the risk that the Company will not have the financial resources required to meet its financial obligations as they become due. The Company manages this risk by ensuring it has sufficient cash and cash equivalents on hand to meet obligations as they become due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at March 31, 2013, the Company had cash and cash equivalents of $3,911,988, a mortgage payable of $485,673 and accounts payable and accrued liabilities of $57,629, and was not subject to significant liquidity risk.

The contractual maturities and repayment obligations of the Company's financial liabilities are as follows:

| | Accounts payable and accrued liabilities $ | Mortgage payable $ | Mortgage interest $ | Total $ |
|---|---|---|---|---|
| 2013 | 57,629 | 12,584 | 12,984 | 83,197 |
| 2014 | - | 17,771 | 18,898 | 36,669 |
| 2015 | - | 18,489 | 18,181 | 36,670 |
| 2016 | - | 19,236 | 17,434 | 36,670 |
| 2017 | - | 428,975 | 12,567 | 441,542 |
| Total | 57,629 | 497,055 | 80,064 | 634,748 |

*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. There is a risk that the Company may not be able to renegotiate its mortgage at maturity on terms as favourable as the existing mortgage payable. The Company's cash equivalents consist of investments in guaranteed investment certificates which bear interest at fixed rates for a period of one year, and there is a risk that the interest rate the Company earns on its cash equivalents in the future may not be as favourable as current rates. The Company mitigates interest rate risk by maintaining reasonable levels of debt to gross book value and aims to structure new debt to stagger the maturities to ensure that the majority of debt does not become due for repayment in any one particular year.

*Credit risk*
Credit risk is the risk that one party to a financial instrument will cause a loss to another party by failing to pay for its obligations. The Company is subject to credit risk with respect to its cash and cash equivalents. The Company mitigates credit risk by depositing cash with and investing in guaranteed investment certificates of a Canadian schedule I chartered bank and monitoring the bank's credit ratings.

As at March 31, 2013, the Company had a single tenant, resulting in concentration of credit risk, however, the tenant is a Canadian schedule I chartered bank with a strong credit rating, which mitigates credit risk.

## 8 Commitments

On March 8, 2013, the Company acquired the income property located at 695 University Avenue, Charlottetown, Prince Edward Island. The property is subject to a 66 year land lease which commenced May 1, 2006, and has two ten year options to renew. The land lease provides for annual base rent and additional rent comprised of the property's proportionate share of common area maintenance and property tax expense. The full annual ground lease payment is due in advance each May 1st. As at March 31, 2013, annual future minimum ground lease payments on account of base rent are as follows:

| | 2013<br>$ | 2014<br>$ | 2015<br>$ | 2016<br>$ | 2017<br>$ | Thereafter<br>$ |
|---|---|---|---|---|---|---|
| Minimum annual rent | 48,000 | 48,000 | 48,000 | 52,800 | 52,800 | 3,581,714 |

## 9 Capital Management

The Company defines its capital as its capital stock net of deficit. The Company manages its capital to ensure that sufficient funds are available to fund operations, including the identification and acquisition of businesses or assets. On March 8, 2013, the Company completed its qualifying transaction as defined within the Capital Pool Company Policy of the TSX Venture Exchange. Until the Company completed its qualifying transaction, the amount of capital it was permitted to raise was limited to $5 million by the Capital Pool Company Policy of the TSX Venture Exchange. Subsequent to the completion of the qualifying transaction, the Company will ensure that it has sufficient capital to fund the operations of the Company as a going concern, and to identify, analyze, and finance further potential acquisitions (see Note 9 "Subsequent events").

## 10 Subsequent events

On April 15, 2013, the Company announced that it had entered into conditional agreements to purchase three properties located in the Halifax and Bedford, Nova Scotia areas for an aggregate purchase price of approximately $31.3 million. The purchase price is expected to be satisfied through cash generated from new mortgages, the issuance of new securities by the Company, and the assumption of an existing mortgage on the properties. The mortgage to be assumed matures in December, 2020, and has a principal balance of approximately $3.0 million. The Company will receive a credit at closing equal to the amount required to buy the interest rate on the assumed mortgage down to 4.10%. The transaction is expected to close in July 2013.

On April 29, 2013, the Company entered into a conditional agreement to purchase an industrial property located in Ajax Ontario for a purchase price of $25.5 million, subject to a holdback for environmental remediation of $1.25 million. The purchase price is expected to be satisfied through cash generated from new mortgages and the issuance of new securities by the Company. Approximately $5.0 million of the purchase price is expected to be satisfied by issuing new securities of the Company to the vendor of the property. The transaction is expected to close in July 2013.

On May 1, 2013, the Company acquired an office building located in Miramichi, New Brunswick, for a purchase price of approximately $5.5 million, subject to customary closing adjustments. The purchase price was satisfied with cash on hand as well as a new mortgage in the amount of approximately $3.0 million with a 10 year term and bearing interest as 3.74%.

On May 3, 2013, the Company entered into a conditional agreement to purchase an industrial property located in Cambridge, Ontario for a purchase price of approximately $12.4 million, and a retail property located in Oakville, Ontario for a purchase price of approximately $6.4 million. The properties are being sold by a company owned in part by the Chairman and a director of the Company. The purchase price is expected to be satisfied through cash generated from new mortgages on the properties and the issuance of new securities by the Company. Approximately $2.0 million of the purchase price is expected to be satisfied by issuing new securities of the Company to the vendor of the property. The transaction is expected to close in July 2013.

On May 10, 2013, Edgefront Real Estate Investment Trust (the REIT), an unincorporated, open-ended real estate investment trust governed by the laws of the province of Ontario, was established pursuant to the Declaration of Trust then dated, and the Company acquired 1 Trust Unit of the REIT for cash of $100.

On May 13, 2013, Edgefront GP Inc. (GP) was incorporated by the REIT, and the REIT subscribed for 10 shares of GP, representing all of the outstanding shares of GP, for $1 per share, or total consideration of $10. Also on May 13, 2013, the REIT and GP together formed Edgefront REIT LP (LP). In connection with the formation of LP, the REIT subscribed for 15 Class A LP units representing 99.99% ownership interest in LP. The class A LP Units were acquired by the REIT for $6 per unit or total consideration of $90. GP subscribed for 10 Class A GP Units of LP, representing a 0.01% ownership interest in the LP for $1 per unit or total consideration of $10.

On May 17, 2013, the Company mailed an information circular to its shareholders detailing its intention to complete a plan of arrangement with Edgefront Real Estate Investment Trust, pursuant to which the shares of Edgefront Realty Corp. will be exchanged for units of Edgefront Real Estate Investment Trust (the Arrangement). The Company also detailed its intention to complete a private placement of 300,000,000 shares at a price of $0.15 per share, for gross proceeds of $45,000,000, immediately prior to the completion of the Arrangement. The Company intends for the funds to be used, among other purposes, to finance the acquisition of properties acquisitions described above. A shareholder vote will be held on June 14, 2013 at which the Company’s shareholders will vote on the Plan of Arrangement and the purchase of properties from a corporation owned in part by the Company’s Chairman and director.