

Edgefront Real Estate Investment Trust

Condensed Consolidated Interim Financial Statements
(Unaudited)

For the three months ended March 31, 2014

Edgefront Real Estate Investment Trust
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)

	March 31, 2014 \$	December 31, 2013 \$
Non-Current Assets		
Investment properties (notes 3 and 4)	78,380,000	7,140,000
Other non-current asset	14,000	14,000
	<u>78,394,000</u>	<u>7,154,000</u>
Current Assets		
Cash and cash equivalents (note 2)	136,825	681,636
Tenant and other receivables	70,128	-
Prepaid expenses	28,631	22,441
Deposits	-	200,000
Other current assets	148,055	573,907
	<u>383,639</u>	<u>1,477,984</u>
Total Assets	<u>78,777,639</u>	<u>8,631,984</u>
Non-Current Liabilities		
Mortgages payable (note 5)	3,032,394	3,087,154
Revolving credit facility (note 6)	33,598,594	-
Unit options (notes 2 and 10)	31,000	-
Class B LP units (note 7)	684,000	-
	<u>37,345,988</u>	<u>3,087,154</u>
Current Liabilities		
Current portion of mortgage payable (note 5)	226,538	224,437
Distributions payable	258,472	-
Accounts payable and accrued liabilities	766,240	714,652
	<u>1,251,250</u>	<u>939,089</u>
Total Liabilities	<u>38,597,238</u>	<u>4,026,243</u>
Equity		
Capital Stock		4,947,451
Unitholders' equity (note 8)	41,607,846	-
Contributed surplus	-	271,000
Retained deficit	(1,427,445)	(612,710)
Total Unitholders' Equity	<u>40,180,401</u>	<u>4,605,741</u>
Total Liabilities and Unitholders' Equity	<u>78,777,639</u>	<u>8,631,984</u>

Commitments (note 12)

On behalf of the Board:

"Kelly Hanczyk" Trustee

"Robert Dickson" Trustee

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

Edgefront Real Estate Investment Trust

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (Unaudited)

	Three months ended March 31, 2014 \$	Three months ended March 31, 2013 \$
Net rental income		
Property income	1,528,471	10,498
Property expenses	<u>(264,032)</u>	<u>(4,641)</u>
Net rental income	1,264,439	5,857
General and administrative expense (note14)	(262,098)	(27,931)
Fair value adjustment of investment properties (note 4)	(915,346)	(29,563)
Fair value adjustment of unit options (note10)	<u>1,000</u>	<u>-</u>
Income (loss) before finance income (expense)	<u>87,995</u>	<u>(51,637)</u>
Finance income (expense)		
Interest income	1,176	11,862
Interest expense (notes 5 and 6)	(365,823)	(2,292)
Distributions on Class B LP Units (note 7)	<u>(12,269)</u>	<u>-</u>
	(376,916)	9,570
Net loss and comprehensive loss for the period	<u>(288,921)</u>	<u>(42,067)</u>

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

Edgefront Real Estate Investment Trust

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity (Unaudited)

	Unit Capital \$	Contributed Surplus	Retained Deficit \$	Total \$
Balance – January 1, 2014	4,947,451	271,000	(612,710)	4,605,741
Units issued as acquisition consideration (note 4)	37,240,000	-	-	37,240,000
Loss for the period	-	-	(288,921)	(288,921)
Common shares exchanged for Class B LP Units	(580,000)	-	-	(580,000)
Distributions	-	-	(660,814)	(660,814)
Issue of units under distribution reinvestment plan	395	-	-	395
Fair value adjustment of Class B LP Units on exchanged for common shares	-	-	(104,000)	(104,000)
Fair value adjustment on conversion of share options to unit options (note 10)	-	(271,000)	239,000	(32,000)
Balance - March 31, 2014	41,607,846	-	(1,427,445)	40,180,401

	Unit Capital \$	Contributed Surplus	Retained Deficit \$	Total \$
Balance – January 1, 2013	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 Real Estate Investment Trust
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	(288,921)	(42,067)
Adjustment for items not involving cash:		
Amortization of deferred financing costs (notes 5 and 6)	27,552	285
Straight-line adjustment of ground lease	4,034	-
Fair value adjustment of investment properties (note 4)	915,346	29,563
Fair value adjustment of unit options (note 10)	(1,000)	
Changes in non-cash working capital:		
Tenant and other receivables	(70,128)	-
Prepaid expenses	(6,190)	478
Deposits	-	(360,000)
Other current assets	45,196	(1,300)
Accounts payable and accrued liabilities	(336,335)	46,587
Total cash generated by (used in) operating activities	<u>289,554</u>	<u>(326,454)</u>
Investing activities		
Acquisition of investment properties (note 3)	<u>(34,076,127)</u>	<u>(689,609)</u>
Total cash used in Investing activities	<u>(34,076,127)</u>	<u>(689,609)</u>
Financing activities		
Proceeds from new financing (note 3)	34,400,000	-
Financing costs (note 3)	(372,340)	(11,667)
Principal repayments	(383,950)	-
Distributions to unitholders	(401,948)	-
Total cash provided by (used in) financing activities	<u>33,241,762</u>	<u>(11,667)</u>
Change in cash and cash equivalents during the period	(544,811)	(1,027,730)
Cash and cash equivalents - beginning of period (note 2)	<u>681,636</u>	<u>4,939,718</u>
Cash and cash equivalents - end of period (note 2)	<u>136,825</u>	<u>3,911,988</u>

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

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

1 Organization

Edgefront Real Estate Investment Trust (the REIT) is the successor to Edgefront Realty Corp. (the Corporation) following the conversion of the Corporation to a real estate investment trust. The Corporation was incorporated under the Business Corporation Act (Ontario) on July 30, 2012. On January 6, 2014, shareholders of the Corporation voted to approve a plan of arrangement (the Arrangement) providing for the conversion of the Corporation into the REIT. The Arrangement became effective January 13, 2014. The conversion was accounted for as a continuity of interest, and accordingly, these condensed consolidated interim financial statements are reflective as if the REIT had always carried on the business formerly carried on by the Corporation. Further details of the Arrangement are contained in the information circular dated December 5, 2013 which can be found at www.sedar.com. All references to “the REIT” within these financial statements refer to Edgefront Real Estate Investment Trust as of January 13, 2014.

The REIT owns and operates commercial real estate properties in Western Canada and Atlantic Canada.

On January 14, 2014, the REIT acquired RW Real Estate Holdings Limited Partnership (RW LP), 17367366 Alberta Limited (the RW LP GP), which is the general partner of RW LP, and 1781339 Alberta Limited, which was the sole limited partner of RW LP immediately preceding the purchase of these entities by the REIT. Following the acquisition of these entities by the REIT, the REIT is the sole limited partner of RW LP.

2 Summary of significant accounting policies

The condensed consolidated interim financial statements of the REIT 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 as at and for year ended December 31, 2013. The accounting policies applied by the REIT in the preparation of these condensed consolidated interim financial statements are consistent with those applied for the year ended December 31, 2013 except as noted in the following section “Changes in accounting policies”.

The condensed consolidated interim financial statements have been prepared on a going concern basis and under the historical cost convention, except for the revaluation of investment property, Class B LP units, and unit options, and are presented in Canadian dollars, which is the functional currency of the REIT. The financial statements were authorized for issue by the board of trustees of the REIT on May 20, 2014.

Principles of consolidation

The condensed consolidated interim financial statements include the accounts of the REIT and its subsidiaries. Subsidiaries are all entities over which the REIT has control. These statements include the accounts of the REIT, Edgefront REIT Limited Partnership (the LP), Edgefront GP Inc. (the GP), RW LP, RW LP GP, and the Corporation. All inter-entity transactions between the REIT and its subsidiaries have been eliminated in the condensed consolidated financial statements.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

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, 2014, there were no cash equivalents (December 31, 2013 - \$554,864). The cash equivalents are comprised of guaranteed investment certificates of a Canadian chartered bank which can be cashed at any time without penalty.

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 REIT 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 REIT's financial instruments consist of cash and cash equivalents, tenant and other receivables, accounts payable and accrued liabilities, Class B LP Units, unit options, the revolving credit facility, and mortgages 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
Tenant and other receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Class B LP Units	Other liabilities	Amortized cost
Unit options	Other liabilities	Amortized cost
Revolving credit facility	Other liabilities	Amortized cost
Mortgages payable	Other liabilities	Amortized cost

The REIT 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 than 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.

As of March 31, 2014 and December 31, 2013, investment properties and mortgages payable are considered level 3. There have been no transfers in or out of Level 3 during the reporting period.

Transaction costs relating to financial instruments measured at amortized cost are included in the carrying value of the financial instrument and amortized over 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.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

Investment properties

The REIT has selected the fair value method to account for its investment properties. 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 properties are initially recognized at the purchase price, including directly attributable costs. Subsequent to initial recognition, investment properties are carried at fair value. Fair value is determined with reference to external valuations and internal valuations based on the direct income capitalization method, with gains or losses in the fair value of the investment properties recognized in the statement of income (loss) in the period in which they arise. Internal valuations are prepared by the REIT's Chief Financial Officer, and are reviewed and approved by the REIT's Chief Executive Officer.

The application of the direct income capitalization method results in these measurements being classified as Level 3 in the fair value hierarchy. In applying the direct income capitalization method, the stabilized net operating income of each property is divided by a capitalization rate appropriate for the property based on the market in which the property is located and the specific details of the property. Investment properties are valued based on the highest and best use for the properties. For all of the REIT's investment properties, the current use is considered to be the highest and best use. The significant unobservable inputs used in the Level 3 valuation of the investment properties are the capitalization rate and the stabilized net operating income used in the calculations.

Current and deferred income taxes

The REIT currently qualifies as a "mutual fund trust" under the Income Tax Act (Canada). The REIT expects to distribute or designate all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, except for the REIT's subsidiaries, no provision for income taxes payable is required.

The legislation relating to the federal income taxation of a Specified Investment Flow Through (SIFT) trust or partnership was enacted on June 22, 2007. Under the SIFT rules, certain distributions from a SIFT will not be deductible in computing the SIFT's taxable income and the SIFT will be subject to tax on such distributions at a rate this is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as a return of capital should generally not be subject to tax. Under the SIFT rules, the taxation regime will not apply to a real estate investment trust that meet prescribed conditions relating to the nature of its assets and revenue (the REIT Conditions). The REIT has reviewed the SIFT rules and has assessed their interpretation and application to the REIT's assets and revenue. While there are uncertainties in the interpretation and application of the SIFT rules, the REIT believes that it meets the REIT Conditions and accordingly, no net current income tax expense or deferred income tax expense has been recorded in the condensed consolidated interim statements of loss and comprehensive loss in respect of the REIT.

However, certain of the REIT's subsidiaries are incorporated companies. For these companies, the REIT follows the asset and liability method of accounting for income taxes. Under this method, income tax is recognized in the condensed consolidated interim statement of loss and comprehensive 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

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

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.

Unit equity

The REIT is an open-ended real estate investment trust, and units of the REIT are redeemable (puttable) at the option of the REIT's unitholders. IAS 32 requires puttable instruments to be accounted for as financial liabilities, except where certain conditions as detailed in IAS 32 are met. This exemption is known as the Puttable Instrument Exemption. The units of the REIT meet the Puttable Instrument Exemption criteria and, accordingly, are classified and presented as equity in the condensed consolidated interim statement of financial position. In addition to the REIT units, Class B LP units may be issued. These units do not qualify for the Puttable Instrument Exemption, and are classified as liabilities on the condensed consolidated interim statement of financial position. They are remeasured at each reporting date at their amortized cost which approximated fair value.

Unit options are recorded as a liability and compensation expense is recognized over the vesting period (if any) at amortized cost based on the fair value of the units.

Segment reporting

The REIT owns and operates investment properties in Canada. In measuring performance, the REIT 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 materially 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 Properties

The critical assumptions and estimates used when determining the fair value of investment properties 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. The REIT also applies judgement in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. The REIT considers all the properties it has acquired to date to be asset acquisitions.

Unit options

The estimates used when determining the fair value of unit-based compensation are the average expected share option holding period, the average expected volatility rate, and the average risk-free interest rate. The average expected unit option holding period used is estimated to be half of the life of the option. The average expected volatility rate is estimated based on the historical volatility of comparable companies over a period

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

of time approximating the average expected unit option holding period. The average risk-free interest rate is based on government of Canada bonds with terms consistent with the average expected share option holding period.

Changes in accounting policies

The REIT has adopted the following new accounting guidance effective January 1, 2014.

Levies

IFRS Interpretation Committee (IFRIC) 21, "Levies" (IFRIC 21) provides an interpretation on the accounting for levies imposed by governments. IFRIC 21 clarifies that the obligating event that gives rise to liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The adoption of IFRIC 21 did not have any impact on the condensed consolidated interim financial statements of the REIT.

Standards issued but not yet effective

There are pending changes to IFRS which are not yet effective for the period ended March 31, 2014 which have not been applied in the preparation of the REIT's financial statements. The REIT is currently considering the impact that these standards changes will have on the financial statements. The standards issued or amended but not yet effective at March 31, 2014 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. In November 2013, amendments were made to IFRS 9 which include new hedge accounting guidelines. Also in November 2013, the previously published effective date requirements were removed. There is now no mandatory effective date for IFRS 9, but early adoption is permitted.

3 Acquisitions

On January 14, 2014, the REIT acquired 10 industrial properties located in Western Canada (the RTL Westcan Properties). The purchase price for the RTL Westcan Properties was \$68,000,000, \$34,000,000 of which was satisfied through the issuance of 17,000,000 REIT units to the vendor, with the remainder settled in cash generated through new financing secured against the RTL Westcan Properties. The fair values of the RTL Westcan Properties were determined by reference to appraisal reports prepared by qualified third party appraisers. The aggregate appraised value of the RTL Westcan Properties is \$71,240,000. The carrying amount of the REIT Units issued as partial consideration for the acquisition was determined in accordance with IFRS 2 by reference to the fair value of the assets acquired in exchange for the units.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

The impact of acquiring the properties is as follows:

	RTL Westcan Properties \$
Investment properties acquired	71,240,000
Transaction costs (note 14)	915,346
Working capital acquired	(235,834)
Net assets acquired	<u>71,919,512</u>
Consideration:	
Cash on hand	777,178
Issuance of REIT units to vendor	37,240,000
Proceeds from new financing secured against the RTL Westcan Properties	34,400,000
Deferred financing costs – new mortgage financing	(497,666)
	<u>71,919,512</u>

A total of \$728,711, representing \$403,385 of acquisition costs, \$125,326 of financing costs, and a \$200,000 deposit was advanced in connection with the Acquisition in the period ended December 31, 2013, and was recorded in the REIT's statement of financial position at December 31, 2013 under other current assets and deposits.

An amount of \$300,000 has been placed in escrow by the vendors of the Acquisition Properties to fund anticipated environmental monitoring and sampling costs at those Acquisition Properties where environmental consultants have recommended monitoring and sampling programs (the Monitored Properties). The funds will be held in escrow for two years, after which time they will be released to the REIT so long as environmental consultants do not conclude that monitoring and sampling may be discontinued at any of the Monitored Properties and provided that the REIT continues to own the Monitored Properties. Should environmental consultants determine that, at the end of the two year escrow period, monitoring and sampling activities at any of the Monitored Properties may be discontinued, or if any of the Monitored Properties are sold during the two year escrow period, the REIT will negotiate with the vendors, in good faith, an amount by which the funds to be released to the REIT will be reduced, with any funds not released to the REIT being returned to the vendors. Management is unable to determine the probability that funds will be released to the REIT, nor is management able to quantify the amount of the escrowed funds, if any, that may be released to the REIT. Therefore no amount has been recognized in the condensed consolidated interim financial statements with respect to the amount held in escrow.

On March 8, 2013, The Corporation acquired the rights in a 66 year ground lease to a property located at 695 University Avenue, Charlottetown, Prince Edward Island (TD PEI) 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 Corporation 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.

On May 1, 2013, the Corporation acquired an office property located in Miramichi, New Brunswick (Miramichi), for a purchase price of \$5,465,000. The purchase price was funded with the proceeds of new mortgage financing in the amount of \$3,000,000 with a ten year term, a 12 year amortization period, and bearing interest at a rate of 3.74%, with the remainder of the purchase price funded from cash on hand.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

The impact of acquiring the properties is as follows:

	Miramichi \$	TD PEI \$
Investment property acquired	5,465,000	1,148,000
Transaction costs	56,537	31,563
Assumption of mortgage	-	(497,055)
Deferred financing costs on assumed mortgage	-	11,667
Working capital acquired (prepaid ground lease rent)	-	7,101
Net assets acquired	<u>5,521,537</u>	<u>701,276</u>
Consideration paid:		
Cash on hand	2,573,510	701,276
Proceeds from new mortgage financing	3,000,000	-
Deferred financing costs – new mortgage financing	(51,973)	-
	<u>5,521,537</u>	<u>701,276</u>

4 Investment properties

	March 31, 2014 \$	December 31, 2013 \$
Balance, beginning of period	7,140,000	-
Acquisition of investment properties, including acquisition costs of \$915,346	72,155,346	6,701,100
Fair value adjustment	(915,346)	438,900
Balance, end of period	<u>78,380,000</u>	<u>7,140,000</u>

RTL Westcan Properties

The fair value of the RTL Westcan Properties was derived by reference to appraisal reports prepared by a qualified independent appraiser with effective dates ranging between August 1, 2013 and September 6, 2013. At March 31, 2014, the fair value of the investment property was determined internally by management through the application of the direct capitalization method using capitalization rates ranging between 6.50% and 10.5% with a weighted average capitalization rate of approximately 7.35% and stabilized and stabilized operating income of approximately \$5,365,000 adjusted for an allowance for vacancy and estimates of required structural reserves. The fair value of the RTL Westcan Properties is sensitive to changes in the capitalization rates. A 0.25% increase in the capitalization rate applied would result in an approximately \$2,325,000 decrease in the determination of the fair value of the RTL Westcan Properties. A 0.25% decrease would result in an increase in the determination of fair value of approximately \$2,475,000.

TD PEI Property

A third party appraisal dated January 3, 2013, using the direct income 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, 2014, the fair value of the investment property of \$1,150,000 was determined internally by management through the application of the direct capitalization method using a capitalization rate of 6.25% and stabilized operating income of \$71,700.

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.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

Miramichi

A third party appraisal dated February 7, 2013, using the discounted cash flow method and applying a discount rate of 7.5% and a terminal capitalization rate of 7.0% arrived at an appraised value of \$6,170,000 for the investment property. Based on the direct capitalization approach, applying a capitalization rate of 6.75%, the same appraisal valued the property at \$5,990,000. As at March 31, 2014, the fair value of the investment property of \$5,990,000 was determined internally by management through the application of the direct capitalization method using a capitalization rate of 6.75% and stabilized net operating income of \$404,160.

The fair value of investment property is sensitive to changes in capitalization rates. A 0.25% change in the capitalization rate would result in an approximately \$225,000 change in the determination of the fair value of the investment property.

The calculation of the fair value of investment properties using the direct income capitalization method results in the measurement being classified as Level 3 in the fair value hierarchy. Significant unobservable inputs used in the Level 3 valuation of the investment properties are the capitalization rate and the stabilized net operating income applied in the valuations. Generally, an increase in stabilized net operating income or a decrease in capitalization will result in an increase in the fair value of investment properties. Conversely, a decrease in stabilized net operating income or an increase in capitalization rates will generally result in a decrease in the fair value of investment properties.

5 Mortgages payable

The mortgages payable are secured by charges against the investment properties. At March 31, 2014, deferred financing costs of \$53,144 are netted against mortgages payable (December 31, 2013 -\$55,813). The weighted average interest rate, including deferred financing costs, on the mortgages payable is 4.07% and the weighted average term to maturity is 8.26 years. Interest expense recorded in the period includes the amortization of deferred financing costs relating to mortgages payable in the amount of \$2,699.

	March 31, 2014	December 31, 2013
	\$	\$
Mortgages payable	3,312,076	3,367,404
Less deferred financing costs	(53,144)	(55,813)
	<u>3,258,932</u>	<u>3,311,591</u>
Less current portion	(226,538)	(224,437)
	<u>3,032,394</u>	<u>3,087,154</u>

	Scheduled repayments	Principal Maturities	Total
	\$	\$	\$
Remainder of 2014	169,111	-	169,111
2015	232,957	-	232,957
2016	241,800	-	241,800
2017	245,901	414,040	659,941
2018	239,685	-	239,685
Thereafter	1,171,601	596,981	1,768,582
Total	<u>2,301,055</u>	<u>1,011,021</u>	<u>3,312,076</u>

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

6 Revolving credit facility

On January 14, 2014, through the acquisition of a limited partnership the REIT assumed the rights and obligations of a revolving credit facility (the Credit Facility). The Credit Facility is secured against the 10 RTL Westcan Properties, and allows the REIT to draw against the facility in the form of prime advances, bankers' acceptance advances, or fixed rate and term advances. Prime rate advances bear interest at 125 basis points per annum over the Canadian prime borrowing rate. Banker's acceptance advances bear interest at 225 basis points per annum over the floating bankers' acceptance rate. Total financing costs in the amount of \$497,666 were incurred in connection with the establishment of the Credit Facility.

On January 14, 2014, \$34,400,000 was drawn against the Credit Facility to finance the acquisition of the RTL Westcan Properties. At March 31, 2014 \$30,000,000 was drawn against the Credit Facility in the form of fixed rate and term borrowings, bearing interest at a rate of 3.90% and maturing on January 10, 2019. \$4,000,000 was drawn in the form of bankers' acceptance borrowings, at an interest rate, including the applicable stamping fee, of 3.47%, and maturing April 4, 2014, and \$71,376 was in the form of prime rate borrowings. At March 31, 2014 deferred financing costs of \$472,782 are netted against the Credit Facility. Interest expense recorded in the period includes the amortization of deferred financing costs relating to the Credit Facility in the amount of \$24,883.

7 Class B LP units

Pursuant to the Arrangement which was completed on January 13, 2014, 7,200,000 common shares of the Corporation were exchanged for Class B LP units of the LP on the basis of 1 Class B LP Unit for every 20 common shares of the Corporation, resulting in 360,000 Class B LP Units being issued at a value of \$580,000, which represented the carrying value of these units at the date of the Arrangement.

The Class B LP Units are exchangeable, on a one for one basis, for Units at the option of the holder, and have economic and voting rights equivalent, in all material respects, to Units.

The following table summarizes the changes in Class B LP Units for the three months ended March 31, 2014.

	Class B LP Units	Amount \$
December 31, 2013	-	-
Issuance of Class B LP Units – Plan of Arrangement	360,000	580,000
Fair value adjustment on initial recognition	-	104,000
March 31, 2014	<u>360,000</u>	<u>684,000</u>

During the period ended March 31, 2014, distributions in the amount of \$12,669 were declared payable to holders of Class B LP Units, and this amount has been recognized as finance costs in the condensed consolidated interim statement of loss and comprehensive loss.

The fair value adjustment on initial recognition has been recognized in retained deficit in the condensed consolidated interim statement of financial position.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

8 Unitholders' equity

The REIT is authorized to issue an unlimited number of Units and Special Voting Units. Each Unit entitles the holder to a single vote at any meeting of unitholders and entitles the holder to receive a pro-rata share of all distributions and in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. The Units are redeemable at any time at the demand of the holders to receive a price per Unit as determined by the REIT's declaration of trust. Among other conditions for redemption, the total amount payable by the REIT in respect of Units surrendered for redemption shall not exceed \$50,000 in any one calendar month.

The declaration of trust provides for the issuance of Special Voting Units which have no economic entitlement in the REIT or in the distribution of assets of the REIT, but are used to provide voting rights proportionate to the votes of the Units to holders of securities exchangeable into Units, including Class B LP Units.

The following table presents the changes in common shares and Units for the three months ended March 31, 2014:

	Shares	Units	Amount \$
Share Capital of the Corporation, December 31, 2013	55,000,000	-	4,947,451
Common Shares exchanged for REIT Units (One REIT unit for every 20 common shares)	(47,800,000)	2,390,000	-
Common Shares exchanged for Class B LP Units (One Class B LP unit for every 20 common shares) (note 7)	(7,200,000)	-	(580,000)
Units issued as consideration, purchase of Acquisition Properties (note 3)	-	17,000,000	37,240,000
Units issued under distribution reinvestment plan	-	213	395
Unitholders' equity, March 31, 2014	-	19,390,213	41,607,846

9 Distribution reinvestment plan

The REIT adopted a distribution reinvestment plan (DRIP) on February 20, 2014, pursuant to which resident Canadian holders of not less than 1,000 units are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional units at a price per unit calculated by reference to the weighted average of the trading price for the Units on the relevant stock exchange or marketplace for the five trading days immediately preceding the relevant distribution date. Eligible unitholders who so elect will receive a bonus distribution of units equal to 3% of each distribution that was reinvested by them under the DRIP. For the period ended March 31, 2014, 213 units were issued under the DRIP for a stated value of \$395.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

10 Unit options

The REIT has adopted a unit-based compensation plan (the Plan) effective January 13, 2014. Under the terms of the Plan, the Board of Trustees may from time to time, in its discretion, grant options to purchase units in the REIT to trustees, officers and employees of the REIT and its affiliates, agents in connection with equity offerings and other consultants. The maximum number of options that may be reserved under the plan is 10% of the outstanding units of the REIT.

As at December 31, 2013, 5,740,000 share options had been granted to officers, trustees, and the REIT's agents in connection with the Corporation's initial public offering and were outstanding. On January 13, 2014, pursuant to the Plan of Arrangement entered into between the Corporation and the REIT, shareholders exchanged common shares of the Corporation for units of the REIT on the basis of 1 REIT unit for every 20 common shares of the Corporation. On January 13, 2014 options were also exchanged on a 20 for 1 basis, with the 5,740,000 share options being exchanged for 287,000 unit options which have terms identical to the share options, are fully vested and remain outstanding at March 31, 2014. As part of this exchange of share options for unit options, the unit options were fair valued as at January 13, 2014, with the fair value adjustment on conversion of \$32,000 being recorded through equity. The value of the unit options at March 31, 2014 is \$31,000

Awards of options are fair valued applying the Black-Scholes option valuation method. The average expected volatility rate used in the valuation is estimated based on the historical volatility of comparable companies over a period of time approximating the average expected share option holding period. The average risk-free interest rate used is based on government of Canada bonds with terms consistent with the average expected share option holding period. The average expected share option life is estimated to be one half of the life of the options.

The unit options issued expire November 22, 2017 and have an exercise price of \$2.00. Fair value was computed as at January 13, 2014 using an expected unit option life of 1.93 years, a risk free interest rate of 1.04% and a distribution yield of 8.42% based on the trading price at that date. At March 31, 2014, fair value was calculated using an expected unit option life of 1.82 years, a risk free interest rate of 1.07% and a distribution yield of 8.42% based on the trading price at that date

11 Financial instruments

Liquidity risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they become due. The REIT 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, 2014, The REIT had cash and cash equivalents of \$136,825 (December 31, 2013 - \$681,636), mortgages payable of \$3,258,932 (December 31, 2013 - \$3,311,591), a balance of \$33,598,594 owing under a revolving credit facility and accounts payable and accrued liabilities of \$766,240 (December 31, 2013 - \$714,653). The REIT has negative working capital at March 31, 2014, however, the REIT has access to funds under the Credit Facility and expects to generate sufficient cash from operations to satisfy its financial liabilities. The REIT is not subject to significant liquidity risk.

Edgefront Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(Unaudited)
For the three months ended March 31, 2014

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

	Accounts payable and accrued liabilities \$	Credit facility principal repayment \$	Interest on fixed portion of credit facility \$	Mortgage payable \$	Mortgage interest \$	Total \$
Remainder of 2014	766,240	-	881,507	169,111	122,397	1,939,255
2015	-	-	1,170,000	232,957	113,878	1,516,835
2016	-	-	1,170,000	241,800	105,035	1,516,835
2017	-	-	1,170,000	659,941	91,767	1,921,708
2018	-	-	1,170,000	239,685	70,481	1,480,166
Thereafter	-	34,071,376	28,849	1,768,582	198,299	36,067,106
Total	766,240	34,071,376	5,590,356	3,312,076	701,857	44,441,905

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 REIT may not be able to renegotiate its mortgage at maturity on terms as favourable as the existing mortgage payable. At March 31, 2014, there was a total of \$4,071,376 drawn against the REIT's revolving credit facility which bears interest at floating bankers' acceptance and Canadian prime rates plus a fixed spread. There is a risk that prevailing interest rates could increase, and those increases could be significant. The REIT 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. The REIT may also convert borrowings under the revolving credit facility from floating rate to fixed rate borrowings as part of its interest rate risk management strategy.

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 REIT is subject to credit risk with respect to its cash and cash equivalents. The REIT 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, 2014, the REIT had four tenants, with one tenant accounting for approximately 83 percent of the REIT's rental income, resulting in concentration of credit risk, however, the major tenant is an established business with a history of profitable operations. The REIT will continue to monitor the credit worthiness of the tenants on an ongoing basis.

12 Commitments

On March 8, 2013, the Corporation 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 in May of each year.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

As at March 31, 2014, annual future minimum ground lease payments on account of base rent are as follows:

	2014	2015	2016	2017	2018	Thereafter
	\$	\$	\$	\$	\$	\$
Minimum annual rent	48,000	48,000	52,800	52,800	52,800	3,528,914

13 Capital management

The REIT defines its capital as its unitholders' equity net of retained earnings or deficit, mortgages payable, Class B LP Units, and the revolving credit facility. The REIT manages its capital to ensure that sufficient funds are available to fund operations, including the identification and acquisition of businesses or assets. The REIT ensures that it has sufficient capital to fund its operations as a going concern, and to identify, analyze, and finance further potential acquisitions. As part of the REIT's strategy to managing its capital, it may adjust the amount of distributions paid to unitholders, issue new units or debt, borrow against the Credit Facility, or repay debt. As at March 31, 2014 the REIT's Credit Facility contains interest coverage, distribution and loan to value covenants, all of which the REIT was in compliance with at March 31, 2014. The REIT was also in compliance with its declaration of trust.

14 Related party transactions

On January 14, 2014, pursuant to an asset management agreement (the Management Agreement) entered into between the REIT and Edgefront Realty Advisors (the Manager), the REIT engaged the Manager to provide management services to the REIT, including providing the services of a chief executive officer and a chief financial officer to the REIT. The Manager is owned by a group including the chief executive officer and chief financial officer of the REIT, as well as a group which owns or controls a majority of Units of the REIT.

In performing its obligations under the Management Agreement, the Manager will be entitled to receive the following fees from the REIT or its subsidiaries:

An annual asset management fee in the amount of:

0.75% of the gross book value, as defined in the Management Agreement, up to \$150 million, to be paid in Units;

0.65% of the gross book value, as defined in the Management Agreement, between \$150 million and \$300 million, to be paid 50% in Units and 50% in cash; and

0.50% of the gross book value, as defined in the Management Agreement, over \$300 million, to be paid 50% in Units and 50% in cash.

An acquisition fee in the amount of 0.50% of the purchase price of any property acquired by the REIT payable in cash on completion of each acquisition.

A construction management fee payable on capital projects in an amount equal to 5% of all hard construction costs incurred on a project, excluding any maintenance capital expenditures. The construction management fee will be paid in cash upon substantial completion of each capital project.

A property management fee, being the fee payable in respect of such services provided by the Manager that is deemed recoverable and recovered from the tenants, payable in cash on a cost recovery basis.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2014

In the period ended March 31, 2014, acquisition fees in the amount of \$340,000 were paid to the manager. An annual asset management fee in the amount of \$125,735 was expensed in the period and is accrued in the condensed consolidated interim statement of financial position at March 31, 2014. Trustee fees in respect of annual retainers and meeting fees in the amount of \$25,125 have been accrued at March 31, 2014.

During the year ended December 31, 2013, cash bonuses totalling \$190,000 were paid to the REIT's CEO and CFO. No director or trustee compensation was paid during the year ended December 31, 2013.