

Edgefront Real Estate Investment Trust

Condensed Consolidated Interim Financial Statements
(Unaudited)

For the three months ended March 31, 2015

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

	March 31, 2015	December 31, 2014
	\$	\$
Non-Current Assets		
Investment properties (notes 3 and 4)	117,070,000	117,070,000
Other non-current asset	14,000	14,000
Deferred tax assets, net (note 15)	-	21,802
	<u>117,084,000</u>	<u>117,105,802</u>
Current Assets		
Cash and cash equivalents	432,270	428,512
Tenant and other receivables	933,975	706,395
Prepaid expenses	32,921	26,357
Deposits	-	100,000
Other current assets	396,999	-
	<u>1,796,165</u>	<u>1,261,264</u>
Total Assets	<u>118,880,165</u>	<u>118,367,066</u>
Non-Current Liabilities		
Mortgages payable (note 6)	2,807,516	2,864,623
Revolving credit facility (note 7)	54,307,717	54,393,110
Deferred income tax liabilities, net (note 15)	29,466	-
Unit options (note 11)	105,000	99,000
Class B LP units (note 8)	640,800	673,200
	<u>57,890,499</u>	<u>58,029,933</u>
Current Liabilities		
Current portion of mortgage payable (note 6)	235,137	232,957
Distributions payable	381,214	379,373
Accounts payable and accrued liabilities	1,630,043	1,309,152
	<u>2,246,394</u>	<u>1,921,482</u>
Total Liabilities	<u>60,136,893</u>	<u>59,951,415</u>
Equity		
Unitholders' equity (note 9)	58,597,184	58,345,456
Retained earnings	146,088	70,195
Total Unitholders' Equity	<u>58,743,272</u>	<u>58,415,651</u>
Total Liabilities and Unitholders' Equity	<u>118,880,165</u>	<u>118,367,066</u>

Commitments and contingencies (note 13)

On behalf of the Board:

"Kelly Hanczyk" Trustee

"Robert Dickson" Trustee

Edgefront Real Estate Investment Trust

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

	For the three months ended	
	March 31, 2015 \$	March 31, 2014 \$
Net rental income		
Property revenue	2,714,375	1,528,471
Property expenses	<u>(511,282)</u>	<u>(264,032)</u>
Net rental income	2,203,093	1,264,439
General and administrative expense (note 16)	(368,430)	(262,098)
Fair value adjustment of investment properties (note 4)	-	(915,346)
Fair value adjustment of class B LP units (note 8)	32,400	-
Fair value adjustment of unit options (note 11)	<u>(6,000)</u>	<u>1,000</u>
	<u>1,861,063</u>	<u>87,995</u>
Finance income (expense)		
Interest income	-	1,176
Interest expense (notes 6 and 7)	(576,063)	(365,823)
Distributions on Class B LP Units (note 8)	<u>(14,396)</u>	<u>(12,269)</u>
	(590,459)	(376,916)
Income (loss) before taxes	1,270,604	(288,921)
Deferred income taxes (note 15)	<u>(51,268)</u>	<u>-</u>
Net income (loss) and comprehensive income (loss) for the period	<u>1,219,336</u>	<u>(288,921)</u>

Edgefront Real Estate Investment Trust

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

	Unit Capital \$	Contributed Surplus	Retained Earnings \$	Total \$
Balance – January 1, 2015	58,345,456	-	70,195	58,415,651
Income for the period	-	-	1,219,336	1,219,336
Distributions	-	-	(1,143,443)	(1,143,443)
Issue of units under distribution reinvestment plan (note 10)	28,486	-	-	28,486
Issue of units to Manager (note 16)	223,242	-	-	223,242
Balance - March 31, 2015	58,597,184	-	146,088	58,743,272

	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 3)	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 exchange for common shares	-	-	(104,000)	(104,000)
Fair value adjustment on conversion of share options to unit options	-	(271,000)	239,000	(32,000)
Balance - March 31, 2014	41,607,846	-	(1,427,445)	40,180,401

Edgefront Real Estate Investment Trust
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)

	For the three months ended	
	March 31,	March 31,
	2015	2014
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	1,219,336	(288,921)
Adjustment for items not involving cash:		
Asset management fees payable in REIT units (note 16)	221,624	125,735
Trustee fees payable in REIT units (note 16)	20,625	20,625
Amortization of deferred financing costs (notes 6 and 7)	31,661	27,552
Straight-line adjustment of ground lease	4,034	4,034
Fair value adjustment of investment properties (note 4)	-	915,346
Fair value adjustment of class B LP units (note 8)	(32,400)	-
Fair value adjustment of unit options (note 11)	6,000	(1,000)
Deferred income taxes (note 15)	51,268	-
Changes in non-cash working capital		
Tenant and other receivables	(227,580)	(70,128)
Prepaid expenses	(6,564)	(6,190)
Deposits	100,000	-
Other current assets	-	45,196
Accounts payable and accrued liabilities	(99,151)	(482,695)
Total cash generated by operating activities	<u>1,288,853</u>	<u>289,554</u>
Investing activities		
Acquisition of investment properties (note 3)	<u>-</u>	<u>(34,076,127)</u>
Total cash used in Investing activities	<u>-</u>	<u>(34,076,127)</u>
Financing activities		
Proceeds from new financing (note 3)	-	34,400,000
Financing costs (note 3)	-	(372,340)
Mortgage principal repayments	(57,428)	(55,326)
Net proceeds from borrowings on (repayments of) the credit facility	(114,552)	(328,624)
Distributions to unitholders	<u>(1,113,115)</u>	<u>(401,948)</u>
Total cash provided by (used in) financing activities	<u>(1,285,095)</u>	<u>33,241,762</u>
Change in cash and cash equivalents during the period	3,758	(544,811)
Cash and cash equivalents - beginning of period	<u>428,512</u>	<u>681,636</u>
Cash and cash equivalents - end of period	<u>432,270</u>	<u>136,825</u>
Supplemental cash flow information (note 17)		

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

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), 1767366 Alberta Limited (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. On July 15, 2014, the REIT, through its subsidiary RW LP, acquired Triple M Real Estate Ltd. (TMRE), which was amalgamated with 184829 Alberta Ltd., a corporation formed by the REIT on May 28, 2014.

The registered office of the REIT is located at Suite 4050, 525 8 Avenue S.W., Calgary, Alberta, T2P 1G1.

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 Financial 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 consolidated financial statements as at and for the year ended December 31, 2014. 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, 2014.

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current period.

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 properties, Class B LP units, and unit options, which are presented at fair value. These financial statements 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 22, 2015.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

Standards issued but not yet effective

There are pending changes to IFRS which are not yet effective for the period ended March 31, 2015 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, 2015 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 and a single forward-looking expected loss impairment model. 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. In July 2014, further amendments were made to include an effective date of annual periods beginning on or after January 1, 2018.

IFRS 15, Revenue from Contracts with Customers, is a new standard providing accounting guidance on the recognition, measurement and disclosure of revenue from contracts with customers. IFRS 15 does not apply to contracts within the scope of the standard on leases. IFRS 15 is effective for annual periods beginning on or after January 1, 2017 and must be applied retrospectively.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the REIT.

3 Acquisitions

On July 15, 2014, the REIT acquired 3 industrial properties located in Rycroft, Clairmont (the Rycroft and Clairmont properties collectively, the Northern Mat Properties) and Lethbridge, Alberta (the Triple M Property). The total purchase price for the properties was \$36,744,000, which was satisfied with cash generated through new financing secured against the properties and cash generated through a prospectus offering of REIT units.

The impact of acquiring the properties is as follows:

	\$
Investment properties acquired	36,744,000
Transaction costs	630,589
Net assets acquired	<u>37,374,589</u>
Consideration:	
Cash	17,159,877
Proceeds from new financing secured against the properties	20,350,000
Deferred financing costs – new financing	(135,288)
	<u>37,374,589</u>

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

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, of which \$34,000,000 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 was \$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.

The acquisition is considered a reverse take-over under securities regulations due to the vendors receiving units totalling more than 50 percent of the outstanding units of the REIT as consideration for the acquisition of the properties. For accounting purposes, the acquisition has been accounted for as an asset acquisition, and IFRS 2 has been applied in accounting for the units issued in connection with the acquisition.

In the context of a reverse takeover, the REIT concluded that it is the accounting acquirer, as it is the entity whose former management dominates the combined entity. Furthermore, the composition of the REIT's board, in conjunction with the REIT's nominating agreement, allow the REIT to nominate the majority of the members of the governing body of the combined entity, and the vendor is required to support the REIT's nominees.

The impact of acquiring the properties is as follows:

	RTL Westcan Properties \$
Investment properties acquired	71,240,000
Transaction costs	915,346
Working capital acquired	(235,834)
Net assets acquired	<u>71,919,512</u>
Consideration:	
Cash	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 RTL Westcan Properties acquisition in the year 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 RTL Westcan Properties to fund anticipated environmental monitoring and sampling costs at those RTL Westcan 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 provided that the REIT continues to own the Monitored Properties and provided that environmental consultants do not conclude that monitoring and sampling may be discontinued at any of 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

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

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. At the time of acquisition, Management was unable to determine the probability that funds will be released to the REIT, nor was management able to quantify the amount of the escrowed funds, if any, that may be released to the REIT. Therefore, no amount was recognized in the consolidated financial statements with respect to the amount held in escrow as part of the purchase accounting.

4 Investment properties

	March 31, 2015	December 31, 2014
	\$	\$
Balance, beginning of period	117,070,000	7,140,000
Acquisition of investment properties, including acquisition costs of \$nil (2014: \$1,545,935)	-	109,529,935
Fair value adjustment	-	400,065
Balance, end of period	<u>117,070,000</u>	<u>117,070,000</u>

The fair value of the investment properties at March 31, 2015 was determined primarily through the application of the direct capitalization method, with certain adjustments for excess land. The key valuation metrics used in determining the fair value of the investment properties are as detailed below:

	March 31, 2015	December 31, 2014
Weighted average capitalization rate	7.40%	7.40%
Range of capitalization rates	6.25% - 11.0%	6.25% - 11.0%
Stabilized net operating income	8,468,000	8,468,000

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at March 31, 2015, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$3,750,000 in the determination of the fair value of the investment properties. A 0.25% decrease in the weighted average capitalization rate would result in an increase of approximately \$4,000,000 in the determination of the fair value of the investment properties.

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 rates 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.

At March 31, 2015, investment properties with an aggregate fair value of \$nil (December 31, 2014 - \$49,838,229) were valued by qualified external valuation professionals.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

5 Tenant and other receivables

The REIT leases industrial properties to tenants under operating leases. Minimum rental commitments on non-cancellable tenant operating leases over their remaining term are as follows:

	March 31, 2015
	\$
Remainder of 2015	6,297,514
2016 – 2019	36,524,641
2020 – 2029	58,620,790
	<u>101,442,945</u>

6 Mortgages payable

The mortgages payable are secured by charges against the PEI and Miramichi investment properties. At March 31, 2015, deferred financing costs of \$42,885 are netted against mortgages payable (December 31, 2014 - \$45,386). The weighted average interest rate, including deferred financing costs, on the mortgages payable is 4.07% and the weighted average term to maturity is 7.23 years. Interest expense recorded in the period includes the amortization of deferred financing costs relating to mortgages payable in the amount of \$2,501 (2014 - \$2,699).

	March 31, 2015	December 31, 2014
	\$	\$
Mortgages payable	3,085,538	3,142,966
Less deferred financing costs	(42,885)	(45,386)
	<u>3,042,653</u>	<u>3,097,580</u>
Less current portion	(235,137)	(232,957)
	<u>2,807,516</u>	<u>2,864,623</u>

	Scheduled	Principal	Total
	repayments	Maturities	
	\$	\$	\$
Remainder of 2015	175,529	-	175,529
2016	241,800	-	241,800
2017	245,901	414,040	659,941
2018	239,685	-	239,685
2019	248,733	-	248,733
Thereafter	922,869	596,981	1,519,850
Total	<u>2,074,517</u>	<u>1,011,021</u>	<u>3,085,538</u>

7 Revolving credit facility

On January 14, 2014, through the acquisition of RW LP, the REIT assumed the rights and obligations of a revolving credit facility (the Credit Facility). On July 15, 2014, the Credit Facility was amended to increase the revolving credit limit under the Credit Facility to \$52,500,000 and to add a \$7,500,000 term facility. The amended Credit Facility matures July 15, 2019.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

The Credit Facility is secured against the 10 RTL Westcan Properties, the Northern Mat Properties and the Triple M Property 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, and financing costs in the amount of \$135,288 were incurred in connection with the amendment to the Credit Facility.

At March 31, 2015, a total of \$54,803,427 was drawn against the Credit Facility (December 31, 2014 - \$54,917,979). Of the total drawn at March 31, 2015, \$50,350,000 (December 31, 2014 - \$50,350,000) was drawn in the form of fixed rate and term borrowings, \$4,300,000 (December 31, 2014 - \$3,300,000) was drawn in the form of bankers' acceptance borrowings, at an interest rate, including the applicable 2.25% stamping fee, of 3.24% (December 31, 2014 - 3.53%), and \$153,427 (December 31, 2014 - \$1,267,979) was drawn in the form of prime rate borrowings. Of the fixed rate and term borrowings, \$30,000,000 bears interest at a rate of 3.90% and matures on January 10, 2019, and \$20,350,000 bears interest at a rate of 3.63% and matures on July 15, 2019.

At March 31, 2015, deferred financing costs of \$495,710 (December 31, 2014 - \$524,869) 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 \$29,159 (2014 - \$24,883).

8 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, 2015.

	Class B LP Units	Amount \$
December 31, 2014	360,000	673,200
Fair value adjustment during the period	-	(32,400)
December 31, 2014	<u>360,000</u>	<u>640,800</u>

During the three months ended March 31, 2015, distributions in the amount of \$14,396 (2014 - \$12,669) were declared payable to holders of Class B LP Units. These amounts have been recognized as finance expense in the condensed consolidated interim statement of income (loss) and comprehensive income (loss).

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

9 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 Units for the three months ended March 31, 2015.

	Units	Amount \$
Unitholders' equity, December 31, 2014	28,460,081	58,345,456
Units issued as consideration for management services	121,183	223,242
Units issued under distribution reinvestment plan	16,961	28,486
Unitholders' equity, March 31, 2015	28,598,225	58,597,184

10 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 three months ended March 31, 2015, 16,691 units (2014 – 213) were issued under the DRIP for a stated value of \$28,486 (2014 - \$395).

11 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.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

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. For vested options, the average expected unit option holding period used is estimated to be half of the life of the option. For unvested options, the average expected unit option holding period is estimated to be the period until the options vest plus half of the period from vesting to expiry.

As at December 31, 2013, 5,740,000 share options which had been granted to officers, trustees, and the REIT's agents in connection with the Corporation's initial public offering 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, and are fully vested. 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. On April 5, 2014, 5,000 of these unit options, which were held by a former director of the Corporation, were cancelled. On November 22, 2014, 12,000 of these unit options expired. As at March 31, 2015, 270,000 (December 31, 2014 - 270,000) of these unit options remained outstanding.

These unit options expire November 22, 2017 and have an exercise price of \$2.00. Fair value was computed as at January 13, 2014 using a weighted average expected unit option life of 1.93 years, a volatility rate of 25%, 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, 2015, fair value was calculated using an expected unit option life of 1.32 years (December 31, 2014 - 1.45 years), a volatility rate of 25% (December 31, 2014 - 25%), a risk free interest rate of 0.55% (December 31, 2014 - 1.00%), and a distribution yield of 8.99% (December 31, 2014 - 8.56%), based on the trading price at that date.

On July 16, 2014, 850,000 unit options were issued to officers and directors of the REIT at an exercise price of \$2.00 per unit, expiring July 16, 2019. These unit options vest one third on the first anniversary of the grant date, and one third each of the second and third anniversaries of the grant date. The total fair value of the options on the grant date was \$298,875. The total fair value of the options at March 31, 2015 was \$211,359 (December 31, 2014 - \$258,904).

The fair value of these unit options as at March 31, 2015 was determined using an expected unit option life of 2.79 years (December 31, 2014 - 3.04 years), a weighted average volatility rate of 45% (December 31, 2014 - 45%), a risk free interest rate of 0.49% (December 31, 2014 - 1.06%) and a distribution yield of 8.56% (December 31, 2014 - 8.56%) based on the trading price on that date.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

There has been no change in the number of unit options outstanding in the three month period ended March 31, 2015. For the period ended December 31, 2014, the number of options outstanding changed as follows:

	Number of share options	Number of unit options	Weighted average exercise price \$
Balance, January 1, 2014	5,740,000	-	2.00
Exchange of share options for unit options	(5,740,000)	287,000	2.00
Options cancelled	-	(17,000)	2.00
Options granted	-	850,000	2.00
Total	-	1,120,000	2.00

Of the 1,120,000 unit options outstanding at March 31, 2015, 270,000 had vested and were exercisable (December 31, 2014 – 270,000).

12 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 or borrowing capacity 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, 2015, the REIT had cash and cash equivalents of \$432,270 (December 31, 2014 - \$428,512), mortgages payable of \$3,085,538 (December 31, 2014 - \$3,142,966), a revolving credit facility balance of \$54,803,427 (December 31, 2014 - \$54,917,979) and accounts payable and accrued liabilities of \$1,630,043 (December 31, 2014 - \$1,309,152). The REIT has negative working capital of \$450,229 at March 31, 2015 (December 31, 2014 – \$660,218), however, the REIT has access to funds under the Credit Facility and expects to generate sufficient cash from operations to satisfy its financial liabilities as they come due. The REIT is not subject to significant liquidity risk.

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 2015	1,630,043	-	1,438,065	175,529	84,598	3,328,235
2016	-	-	1,908,705	241,800	105,035	2,255,540
2017	-	-	1,908,705	659,941	91,767	2,660,413
2018	-	-	1,908,705	239,685	70,481	2,218,871
2019	-	54,803,427	423,500	248,733	61,433	55,537,093
Thereafter	-	-	-	1,519,850	136,866	1,656,716
Total	1,630,043	54,803,427	7,587,680	3,085,538	550,180	67,656,868

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

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, 2015, there was a total of \$4,453,427 (December 31, 2014 - \$4,567,979) drawn against the Credit Facility which bears interest at floating bankers' acceptance or 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 investment property 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 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 and tenant and other receivables. 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, 2015, the REIT had six tenants, with one tenant accounting for approximately 57 percent of the REIT's rental income, resulting in concentration of credit risk. The REIT monitors the credit worthiness of the tenants on an ongoing basis.

13 Commitments and contingencies

The REIT has a leasehold interest in a property 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.

As at March 31, 2015, annual future minimum ground lease payments on account of base rent are as follows:

	Remainder of 2015	2016	2017	2018	2019	Thereafter
	\$	\$	\$	\$	\$	\$
Minimum annual rent	48,000	52,800	52,800	52,800	52,800	3,476,114

A REIT tenant has commenced court and arbitration proceedings against the REIT and others for breach of contract, alleging certain environmental issues involving, and foundation issues at that tenant's Saskatoon location as well as an environmental issue at that tenant's Yellowknife property. The tenant is claiming damages in the amount of \$2,200,000 and additional unspecified costs. The REIT intends to vigorously defend these proceedings, and the REIT has numerous arguments available in its defense. At this early stage and subject to the vagaries inherent to litigation, after discussions with counsel for the REIT, management does not believe the REIT will be subject to material liability in respect of these claims. Additionally, the REIT is indemnified by third parties concerning the environmental claims of \$0.7 million involving both properties.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

14 Capital management

The REIT defines its capital as its total unitholders' equity net of retained earnings or deficit, mortgages payable, Class B LP Units, and the 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. It is the REIT's current intention to maintain a ratio of debt to gross book value, as defined in the REIT's declaration of trust, of between 50 and 55 percent.

The REIT's Credit Facility contains interest coverage, distribution and loan to value covenants, which non-compliance with would result in an event of default, allowing the lender to demand repayment of amounts outstanding under the Credit Facility. As at March 31, 2015, the REIT was in compliance with all of the financial covenants contained within the Credit Facility.

15 Income tax

The REIT is subject to taxation in Canada on taxable income earned by its investment properties held through Canadian subsidiaries at a rate of approximately 27.72% (December 31, 2014 – 27.72%). A deferred tax asset arises from the loss carry-forwards of the Canadian subsidiary corporations, and the un-deducted balances of eligible capital expenditures for tax purposes. A deferred tax liability arises from the temporary differences between the carrying values and tax values of the investment properties held by the Canadian subsidiary corporations. During the period ended March 31, 2015, a deferred income tax expense of \$51,268 (2014 - \$nil) was recorded in the condensed consolidated interim statement of income (loss) and comprehensive income (loss).

16 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, who collectively own 50 percent of the Manager, as well as a group which owns or controls a significant number 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:

i) 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.

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three months ended March 31, 2015

ii) 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.

iii) 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.

iv) 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.

During the three months ended March 31, 2015, acquisition fees in the amounts of \$nil were paid to the manager (2014 - \$340,000). Asset manager fees in the amount of \$221,624 were expensed during the period (2014 - \$125,735). During the period, 121,183 units at an average price per unit of \$1.84 were issued to the manager in settlement of asset management fees in the amount of \$223,242 which were accrued at December 31, 2014. Subsequent to March 31, 2015, 123,234 units at an average price per unit of \$1.80 were issued to the manager in settlement \$221,624 of asset management fees for the period then ended.

Trustee retainer fees in the amount of \$20,625 were expensed during the three months ended March 31, 2015 (2014 - \$20,625). Trustee retainer fees in the amount of \$41,250 were accrued at March 31, 2015 (December 31, 2014 - \$20,625). Trustee meeting fees in the amount of \$4,500 were expensed in the period (2014 - \$4,500) and meeting fees in the amount of \$4,500 were accrued at March 31, 2015 (December 31, 2014 - \$nil).

On July 15, 2014, the REIT acquired the Northern Mat and Triple M properties (see note 3) from companies which are controlled by funds associated with TriWest Capital Partners (TriWest). TriWest also controls RTL-Westcan LP, which holds an approximately 38 percent economic and voting interest in the REIT. Two members of TriWest are trustees of the REIT. The transaction was completed for a negotiated purchase price of \$36,744,000, which was supported by third party appraisals. The transaction was approved by the REIT's independent Trustees and by a vote of the REIT's Unitholders. The REIT received lease payments related to the Northern Mat and Triple M properties totaling \$750,977 during the three months ended March 31, 2015.

As at March 31, 2015, the amount of \$644,567 was recorded as receivable from the vendors of the RTL-Westcan Properties, one of which vendors is RTL-Westcan LP. The receivable relates to costs of remediating an environmental issue which was identified at one of the RTL Westcan Properties prior to the REIT purchasing the properties. The vendors have committed to covering the costs of the remediation.

17 Supplemental cash flow disclosure

The REIT has not paid or received any cash in respect of income taxes. Cash interest paid and received is as follows:

	Three months ended	
	March 31, 2015	March 31, 2014
	\$	\$
Cash interest paid	566,222	340,274
Cash interest received	-	6,060