

# **Edgefront Real Estate Investment Trust**

Condensed Consolidated Interim Financial Statements  
(Unaudited)

For the three and six months ended June 30, 2016

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

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	\$	\$
<b>Non-current Assets</b>		
Investment properties (note 4)	161,174,872	161,174,872
Other non-current assets	15,886	-
Deferred income tax assets (note 15)	98,075	121,000
	<u>161,288,833</u>	<u>161,295,872</u>
<b>Current Assets</b>		
Cash	1,147,390	1,152,168
Tenant and other receivables	208,918	236,753
Deposits	125,000	-
Prepaid expenses	88,116	266,725
Other current assets	556,960	333,962
	<u>2,126,384</u>	<u>1,989,608</u>
<b>Total Assets</b>	<u>163,415,217</u>	<u>163,285,480</u>
<b>Non-current Liabilities</b>		
Mortgages payable (note 6)	25,387,209	25,847,976
Credit Facility (note 7)	54,000,085	55,683,324
Unit options (note 11)	178,500	126,000
Class B LP units (note 8)	8,932,618	9,398,202
	<u>88,498,412</u>	<u>91,055,502</u>
<b>Current Liabilities</b>		
Current portion of mortgages payable (note 6)	957,846	942,633
Distributions payable	470,501	456,683
Accounts payable and accrued liabilities (note 16)	2,212,310	1,406,799
Income taxes payable (note 15)	2,394	34,123
	<u>3,643,051</u>	<u>2,840,238</u>
<b>Total Liabilities</b>	<u>92,141,463</u>	<u>93,895,740</u>
<b>Equity</b>		
Unitholders' equity (note 9)	65,231,004	63,484,740
Retained earnings	6,042,750	5,905,000
<b>Total Unitholders' Equity</b>	<u>71,273,754</u>	<u>69,389,740</u>
<b>Total Liabilities and Unitholders' Equity</b>	<u>163,415,217</u>	<u>163,285,480</u>

Commitments and contingencies (note 13)

On behalf of the Board:

"Cody Church" Trustee  
"Robert Dickson" Trustee

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

# Edgefront Real Estate Investment Trust

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

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	\$	\$	\$	\$
<b>Net rental income</b>				
Property revenue	3,810,928	2,697,831	7,535,469	5,412,206
Property expenses	<u>(672,481)</u>	<u>(496,580)</u>	<u>(1,246,667)</u>	<u>(1,007,862)</u>
Net rental income	3,138,447	2,201,251	6,288,802	4,404,344
General and administrative expense (note 16)	(437,979)	(370,432)	(925,805)	(738,862)
Loss on disposal of investment property (note 3)	-	(133,357)	-	(133,357)
Fair value adjustment of investment properties (note 4)	(6,073)	(340,000)	(155,897)	(340,000)
Fair value adjustment of Class B LP units (note 8)	(1,066,066)	3,600	(513,231)	36,000
Fair value adjustment of unit options (note 11)	(72,500)	(25,000)	(52,500)	(31,000)
Other income (note 3)	<u>-</u>	<u>-</u>	<u>256,528</u>	<u>-</u>
	<u>1,555,829</u>	<u>1,336,062</u>	<u>4,897,897</u>	<u>3,197,125</u>
<b>Finance income (expense)</b>				
Interest income	2,551	-	8,698	-
Interest expense (notes 6 and 7)	(773,307)	(572,444)	(1,563,579)	(1,148,507)
Distributions on Class B LP Units (note 8)	<u>(205,995)</u>	<u>(14,396)</u>	<u>(427,074)</u>	<u>(28,792)</u>
	(976,751)	(586,840)	(1,981,955)	(1,177,299)
<b>Income before taxes</b>	579,078	749,222	2,915,942	2,019,826
Income taxes (note 15)	<u>13,728</u>	<u>107,466</u>	<u>3,616</u>	<u>56,198</u>
<b>Net income and comprehensive income for the period</b>	<u>592,806</u>	<u>856,688</u>	<u>2,919,558</u>	<u>2,076,024</u>

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

# Edgefront Real Estate Investment Trust

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

	Unitholders' Equity \$	Retained Earnings \$	Total \$
<b>Balance – January 1, 2016</b>	63,484,740	5,905,000	69,389,740
Net income for the period	-	2,919,558	2,919,558
Class B LP Units exchanged for REIT Units	978,815		978,815
Distributions	-	(2,781,808)	(2,781,808)
Issue of units under distribution reinvestment plan (note 10)	139,923	-	139,923
Issue of units to Manager (note 16)	573,316	-	573,316
Issue of units to Trustees (note 16)	54,210	-	54,210
<b>Balance – June 30, 2016</b>	<b>65,231,004</b>	<b>6,042,750</b>	<b>71,273,754</b>
	<b>Unitholders' Equity \$</b>	<b>Retained Earnings \$</b>	<b>Total \$</b>
<b>Balance – January 1, 2015</b>	53,405,456	5,010,195	58,415,651
Net income for the period		2,076,024	2,076,024
Distributions	-	(2,294,300)	(2,294,300)
Issue of units under distribution reinvestment plan (note 10)	58,069	-	58,069
Issue of units to Manager (note 16)	444,866	-	444,866
<b>Balance – June 30, 2015</b>	<b>53,908,391</b>	<b>4,791,919</b>	<b>58,700,310</b>

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

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

	Three months ended		Six months ended	
	June 30, 2016 \$	June 30, 2015 \$	June 30, 2016 \$	June 30, 2015 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income for the period	592,806	856,688	2,919,558	2,076,024
Adjustment for items not involving cash:				
Asset management fees settled in REIT units (note 16)	291,362	218,748	582,691	440,372
Trustee fees settled in REIT units (note 16)	27,105	26,120	54,210	46,745
Amortization of deferred financing costs (notes 6 and 7)	39,104	31,618	80,308	63,279
Straight-line adjustments of ground lease and rent	(33,056)	4,034	(66,111)	8,068
Loss on sale of investment property	-	133,357	-	133,357
Fair value adjustment of investment properties	6,073	340,000	155,897	340,000
Fair value adjustment of Class B LP Units (note 8)	1,066,066	(3,600)	513,231	(36,000)
Fair value adjustment of unit options (note 11)	72,500	25,000	52,500	31,000
Deferred income taxes (note 15)	15,425	(149,466)	22,925	(98,198)
Changes in non-cash working capital				
Tenant and other receivables	193,030	179,904	27,835	(47,676)
Prepaid expenses	224,763	(21,124)	178,609	(27,688)
Deposits	(125,000)	(50,000)	(125,000)	50,000
Other current assets	(108,963)	(9,650)	(148,818)	(9,650)
Accounts payable and accrued liabilities	(44,203)	108,628	788,068	9,477
Income taxes payable	(34,341)	42,000	(31,729)	42,000
Changes in other non-current assets	-	14,000	(15,886)	14,000
Total cash generated by operating activities	<u>2,182,671</u>	<u>1,746,257</u>	<u>4,988,288</u>	<u>3,035,110</u>
<b>Investing activities</b>				
Capital expenditures	(6,073)	-	(155,897)	-
Net proceeds on disposition of investment property (note 3)	-	2,981,531	-	2,981,531
Total cash used in investing activities	<u>(6,073)</u>	<u>2,981,531</u>	<u>(155,897)</u>	<u>2,981,531</u>
<b>Financing activities</b>				
Mortgage principal repayments	(234,708)	(57,966)	(467,545)	(115,394)
Net repayments of the credit facility	(459,437)	(541,513)	(1,741,557)	(656,065)
Distributions to unitholders	(1,313,990)	(1,117,565)	(2,628,067)	(2,230,680)
Total cash used in financing activities	<u>(2,008,135)</u>	<u>(1,717,044)</u>	<u>(4,837,169)</u>	<u>(3,002,139)</u>
<b>Change in cash and cash equivalents during the period</b>	168,463	3,010,744	(4,778)	3,014,502
<b>Cash and cash equivalents - beginning of period</b>	978,927	432,270	1,152,168	428,512
<b>Cash and cash equivalents - end of period</b>	<u>1,147,390</u>	<u>3,443,014</u>	<u>1,147,390</u>	<u>3,443,014</u>

Supplemental cash flow information (note 17)

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

# Edgefront Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three and six months ended June 30, 2016

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### 1 Organization

Edgefront Real Estate Investment Trust (the REIT) was established under the laws of Ontario pursuant to its declaration of trust, as amended and restated effective April 28, 2014. The REIT owns and operates commercial real estate properties in western Canada, Ontario and Atlantic Canada.

The registered office of the REIT is located at Suite 4600, 400 3 Avenue S.W., Calgary, Alberta, T2P 4H2.

### 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 consolidated financial statements as at and for the year ended December 31, 2015. 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, 2015.

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 condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the REIT. The condensed consolidated interim financial statements were authorized for issue by the board of trustees of the REIT on August 17, 2016.

#### Changes in accounting policies

Effective January 1, 2016, the REIT has retrospectively adopted the following new accounting guidance which did not have any impact on financial reporting or results of operations.

IAS 1, Presentation of Financial Statements, provides guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and disclosure of accounting policies. The amendment gives guidance that information within the consolidated balance sheets and statements of income and comprehensive income should not be aggregated or disaggregated in a manner that obscures information, and that disaggregation may be required in the statements of income and comprehensive income in the form of additional subtotals as they are relevant to understanding the entity's financial position or performance.

### 3 Acquisitions and dispositions

On July 17, 2015, the REIT acquired an industrial property located in Barrie, Ontario (the Barrie Property) for a contractual purchase price of \$8,494,872. The purchase price was satisfied through the issuance of 3,470,985 Class B LP Units and 1,000,000 REIT Units at a deemed value of \$1.90 per unit. The Barrie Property was initially recorded at \$7,868,934, the fair value, on the date of issuance, of the REIT and Class B LP Units issued as purchase consideration, measured at the closing price of the REIT's units on July 17, 2015 of \$1.76 per unit. The carrying amount of the Barrie Property was subsequently adjusted to its fair value of \$8,494,872.

# Edgefront Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

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For the three and six months ended June 30, 2016

On August 4, 2015, the REIT acquired an industrial property located in Kelowna, British Columbia (the Kelowna Property) for a contractual purchase price of \$7,500,000. The purchase price was satisfied through the issuance of 2,000,000 REIT Units at a deemed value of \$1.90 per unit, with the balance, net of closing adjustments, satisfied in cash. The Kelowna Property was initially recorded at \$7,380,000, the fair value of the purchase consideration paid. The fair value of the REIT units issued as purchase consideration was measured at the closing price of the REIT's units on August 4, 2015 of \$1.84 per unit. The carrying amount of the Kelowna Property was subsequently adjusted to its fair value of \$7,500,000.

On August 25, 2015, the REIT acquired an industrial property located in Calgary, Alberta (the Calgary Property) for a contractual purchase price of \$21,877,838. The purchase price was satisfied through the issuance of 1,052,632 REIT units at a deemed value of \$1.90 per unit, the assumption of a mortgage with a principal balance of \$11,500,000, and the remainder, net of closing adjustments, settled in cash. The Calgary Property was initially recorded at \$21,667,312, the fair value of the consideration paid. The fair value of the REIT units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on August 25, 2015 of \$1.70. The carrying amount of the Calgary Property was subsequently adjusted to its fair value of \$22,000,000.

On December 1, 2015, the REIT acquired an industrial property located in Prince George, British Columbia (the Prince George Property) for a contractual purchase price of \$7,500,000. The purchase price was satisfied through the issuance of 1,697,369 Class B LP Units at a deemed value of \$1.90 per unit, with the balance, net of closing adjustments, settled in cash. The Prince George Property was initially recorded at \$7,075,659, the fair value of the consideration paid. The fair value of the Class B LP Units issued as purchase consideration, on the date of issuance, was measured at the closing price of the REIT's units on December 1, 2015 of \$1.65. The carrying amount of the Prince George Property was subsequently adjusted to its fair value of \$7,500,000.

On December 15, 2015, the REIT acquired an industrial property located in Prince Albert, Saskatchewan (the Prince Albert Property) for a contractual purchase price of \$4,600,000. The purchase price was satisfied through the issuance of 1,089,473 REIT Units at a deemed value of \$1.90 per unit, with the balance, net of closing adjustments, satisfied in cash. The Prince Albert Property was initially recorded at \$4,316,736, the fair value of the purchase consideration paid. The fair value of the REIT units issued as purchase consideration was measured at the closing price of the REIT's units on December 15, 2015 of \$1.64 per unit. The carrying amount of the Prince Albert Property was subsequently adjusted to its fair value of \$4,600,000.

The impact of acquiring the properties is as follows:

	Barrie \$	Kelowna \$	Calgary \$	Subtotal \$
Investment properties acquired	7,868,934	7,380,000	21,667,312	36,916,246
Transaction costs	304,753	244,298	254,657	803,708
Assumption of mortgage	-	-	(11,500,000)	(11,500,000)
Working capital acquired	-	18,699	(291,370)	(272,671)
Net assets acquired	<u>8,173,687</u>	<u>7,642,997</u>	<u>10,130,599</u>	<u>25,947,283</u>
Consideration:				
Cash	304,753	3,962,997	8,341,125	12,608,875
Issuance of REIT units to the vendors	1,760,000	3,680,000	1,789,474	7,229,474
Issuance of Class B LP units to the vendors	6,108,934	-	-	6,108,934
	<u>8,173,687</u>	<u>7,642,997</u>	<u>10,130,599</u>	<u>25,947,283</u>

# Edgefront Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three and six months ended June 30, 2016

	Subtotal from above \$	Prince George \$	Prince Albert \$	Total \$
Investment properties acquired	36,916,246	7,075,659	4,316,736	48,308,641
Transaction costs	803,708	286,817	94,074	1,184,599
Assumption of mortgage	(11,500,000)	-	-	(11,500,000)
Working capital acquired	(272,671)	(33,394)	-	(306,065)
Net assets acquired	<u>25,947,283</u>	<u>7,329,082</u>	<u>4,410,810</u>	<u>37,687,175</u>
Consideration:				
Cash	12,608,875	68,104	2,624,074	15,301,053
Issuance of REIT units to the vendors	7,229,474	-	1,786,736	9,016,210
Issuance of Class B LP units to the vendors	6,108,934	2,800,659	-	8,909,593
Proceeds from new financing secured against the properties	-	4,500,000	-	4,500,000
Deferred financing costs – new financing	-	(39,681)	-	(39,681)
	<u>25,947,283</u>	<u>7,329,082</u>	<u>4,410,810</u>	<u>37,687,175</u>

On June 23, 2015, the REIT sold an investment property located in Miramichi, New Brunswick, for a selling price of \$5,650,000. Net of selling costs and related mortgage debt with a principal amount of \$2,570,026 assumed by the purchaser, the REIT received cash proceeds of \$2,981,531 on the sale. The sale of the property generated a loss on sale of \$133,357.

On January 14, 2014, the REIT acquired ten industrial properties located in western Canada (the RTL Westcan Properties). An amount of \$300,000 was 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 funds were held in escrow for two years, after which time they were released to the REIT after certain conditions were met over and at the end of the two-year period.

At the time of acquisition of the RTL Westcan Properties, management was unable to determine the probability that funds would be released to the REIT, nor was management able to quantify the amount of the escrowed funds, if any, that would 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.

Over the two-year escrow period, the REIT incurred monitoring costs, net of tenant reimbursements, amounting to \$43,472. On January 29, 2016, all conditions relating to the escrow agreement were satisfied and the \$300,000 environmental escrow was released to the REIT. \$256,528 of other income was recognized in the condensed consolidated interim statement of income and comprehensive income in the period.



# Edgefront Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three and six months ended June 30, 2016

### 4 Investment properties

	June 30, 2016 \$	December 31, 2015 \$
Balance, beginning of period	161,174,872	117,070,000
Acquisition of investment properties, including acquisition costs of \$nil (2015 - \$803,708)	-	49,493,240
Additions – capital expenditures	155,897	-
Fair value adjustment	(155,897)	261,632
Disposition of investment property	-	(5,650,000)
Balance, end of period	<u>161,174,872</u>	<u>161,174,872</u>

The fair value of the investment properties as at June 30, 2016 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:

	June 30, 2016	December 31, 2015
Weighted average capitalization rate	7.41%	7.41%
Range of capitalization rates	6.25% - 11.0%	6.25% - 11.0%
Stabilized net operating income	11,909,000	11,909,000

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at June 30, 2016, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$5,240,000 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 \$5,610,000 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.

### 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:

	June 30, 2016 \$
Remainder of 2016	6,246,116
2017 – 2020	49,516,681
2021 – 2030	63,749,210
	<u>119,512,007</u>

# Edgefront Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three and six months ended June 30, 2016

### 6 Mortgages payable

As at June 30, 2016, the mortgages payable are secured by charges against five of the REIT's investment properties. The weighted average interest rate, including deferred financing costs, on the mortgages payable is 3.37% and the weighted average term to maturity is 4.97 years. Interest expense recorded in the period includes the amortization of deferred financing costs relating to mortgages payable in the amount of \$9,945 (2015 - \$2,458) for the three months ended June 30, 2016 and \$21,990 for the six-month period then ended (2015 - \$4,960).

	June 30, 2016	December 31, 2015
	\$	\$
Mortgages payable	26,535,370	27,002,914
Less: Deferred financing costs	(190,315)	(212,305)
	<u>26,345,055</u>	<u>26,790,609</u>
Less: Current portion	(957,846)	(942,633)
	<u>25,387,209</u>	<u>25,847,976</u>

	Scheduled Repayments	Principal Maturities	Total
	\$	\$	\$
Remainder of 2016	475,088	-	475,088
2017	968,230	414,040	1,382,270
2018	984,168	-	984,168
2019	1,016,052	-	1,016,052
2020	949,354	12,562,444	13,511,798
Thereafter	822,496	8,343,498	9,165,994
Total	<u>5,215,388</u>	<u>21,319,982</u>	<u>26,535,370</u>

### 7 Credit facility

The REIT has a revolving credit facility of \$52,500,000 and a \$7,500,000 term facility (together the Credit Facility). The Credit Facility matures on July 15, 2019.

The Credit Facility is secured against the ten 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. Bankers' 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 addition of the \$7,500,000 term facility to the Credit Facility.

# Edgefront Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three and six months ended June 30, 2016

	June 30, 2016 \$	December 31, 2015 \$
Fixed rate and term borrowing	50,350,000	50,350,000
Bankers' acceptance borrowings	4,000,000	5,500,000
Prime rate advances	-	241,557
	<u>54,350,000</u>	<u>56,091,557</u>
Less: Deferred financing costs	(349,915)	(408,233)
	<u>54,000,085</u>	<u>55,683,324</u>

Details of amounts drawn on the Credit facility at June 30, 2016 were as follows:

	Principal Amount \$	Interest Rate	Repricing Date
Fixed rate and term borrowing 1	30,000,000	3.90%	January 10, 2019
Fixed rate and term borrowing 2	20,350,000	3.63%	July 15, 2019
Bankers' acceptances	<u>4,000,000</u>	3.12%	July 27, 2016
	<u>54,350,000</u>		

Interest expense recorded in the period includes the amortization of deferred financing costs relating to the Credit Facility in the amount of \$29,159 (2015 - \$29,159) for the three months ended June 30, 2016 and \$58,318 for the six-month period then ended (2015 - \$58,319).

## 8 Class B LP units

The following table summarizes the changes in Class B LP Units for the period ended June 30, 2016.

	Class B LP Units	Amount \$
December 31, 2015	5,528,354	9,398,202
Class B LP Units exchanged for REIT Units	(565,789)	(978,815)
Fair value adjustment during the period	-	513,231
June 30, 2016	<u>4,962,565</u>	<u>8,932,618</u>

On May 19, 2016, 565,789 Class B LP Units were exchanged for the same number of REIT Units.

Distributions in the amount of \$205,995 (2015 - \$14,396) were declared payable to holders of Class B LP Units for the three months ended June 30, 2016, and distributions in the amount of \$427,074 were declared in the six-month period then ended (2015 - \$28,792). These amounts have been recognized as finance expense in the consolidated statement of income and comprehensive income. Distributions payable in the amount of \$66,151 were accrued at June 30, 2016 (December 31, 2015 - \$73,693).

# Edgefront Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three and six months ended June 30, 2016

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### 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 unitholders' equity for the period ended June 30, 2016.

	Units	Amount \$
Unitholders' equity, December 31, 2015	34,259,763	63,484,740
Class B LP Units exchanged for REIT Units	565,789	978,815
Units issued as consideration for management services	349,420	573,316
Units issued as consideration for trustee services	33,392	54,210
Units issued under distribution reinvestment plan	88,028	139,923
Unitholders' equity, June 30, 2016	<u>35,296,392</u>	<u>65,231,004</u>

On May 19, 2016, 565,789 Class B LP Units were exchanged for the same number of REIT Units.

### 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 or the five trading days immediately preceding the relevant distribution date. Eligible unitholders who so elect will receive a bonus distribution of units equal to 4% of each distribution that was reinvested by them under the DRIP (3% prior to the June 2015 distribution). During the three-month period ended June 30, 2016, 47,616 units (2015 - 16,895) were issued under the DRIP for a stated value of \$78,493 (2015 - \$29,583) and for the six-month period then ended, 88,028 units (2015 - 33,856) with a stated value of \$139,923 (2015 - \$58,069) were issued under the DRIP.

### 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, at 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 and six months ended June 30, 2016

The following table presents the changes in unit options for the period ended June 30, 2016.

	Number of unit options	Weighted average exercise price	Weighted average remaining contract life	Number of vested unit options
Outstanding, December 31, 2015	1,140,000	2.00	3.13	573,333
Outstanding, June 30, 2016	1,140,000	2.00	2.63	573,333

The following table presents the changes in unit options for the period ended June 30, 2015.

	Number of unit options	Weighted average exercise price	Weighted average remaining contract life	Number of vested unit options
Outstanding, December 31, 2014	1,120,000	2.00	4.15	270,000
Unit options issued	40,000	2.00	3.00	-
Outstanding, June 30, 2015	1,160,000	2.00	3.63	270,000

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 unit 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.

The fair value of the unit options as at June 30, 2016 was determined through the application of the Black-Scholes method. The key assumptions used in determining the fair value of the unit options are as detailed below:

	June 30, 2016	December 31, 2015
Weighted average expected unit option life (in years)	1.45	2.28
Weighted average volatility rate	40%	40%
Weighted average risk free interest rate	0.52%	0.49%
Distribution yield	8.89%	9.41%

## 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 come 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 come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at June 30, 2016, the REIT had cash and cash equivalents of \$1,147,390 (December 31, 2015 - \$1,152,168), mortgages payable of \$26,535,370 (December 31, 2015 - \$27,002,914), a Credit facility balance of \$54,350,000 (December 31, 2015 - \$56,091,557) and accounts payable and accrued liabilities of \$2,212,310 (December 31, 2015 - \$1,406,799). The REIT had a working capital deficit of \$1,516,667 as at June 30, 2016 (December 31, 2015 -

# Edgefront Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

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\$850,630). The REIT has access to undrawn 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	Mortgages payable	Mortgage interest	Total
	\$	\$	\$	\$	\$	\$
2016	2,212,310	-	962,196	475,088	420,420	4,070,014
2017	-	-	1,908,705	1,382,270	813,621	4,104,596
2018	-	-	1,908,705	984,168	770,179	3,663,052
2019	-	54,350,000	423,500	1,016,052	738,295	56,527,847
2020	-	-	-	13,511,798	643,485	14,155,283
Thereafter	-	-	-	9,165,994	508,429	9,674,423
Total	2,212,310	54,350,000	5,203,106	26,535,370	3,894,429	92,195,215

### *Interest rate risk*

Interest rate risk is the risk that the fair value or 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 mortgages and Credit Facility at maturity on terms as favourable as the existing mortgages payable and Credit Facility. As at June 30, 2016 there was a total of \$4,000,000 (December 31, 2015 - \$5,741,557) 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 come 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 June 30, 2016, the REIT had thirteen tenants, with one tenant accounting for approximately 44% of the REIT's rental income, resulting in concentration of credit risk. The REIT monitors the creditworthiness of the tenants on an ongoing basis.

# Edgefront Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three and six months ended June 30, 2016

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### 13 Commitments and contingencies

The REIT has a leasehold interest in a property subject to a 66-year land lease, which commenced on 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 June 30, 2016, annual future minimum ground lease payments on account of base rent are as follows:

	Remainder of 2016 \$	2017 \$	2018 \$	2019 \$	2020 \$	Thereafter \$
Minimum annual rent	-	52,800	52,800	52,800	52,800	3,423,314

A REIT tenant 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 REIT entered into a mutual release with the tenant and others dated November 11, 2015, which settled the environmental issues at the Saskatoon and Yellowknife locations. The REIT was reimbursed for legal costs with respect to these two matters. The only matter remaining unresolved is the foundation issue at the Saskatoon location. Work to repair the foundation is complete and management does not believe the REIT will be subject to any material liability in respect of this remaining matter.

### 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 for 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%.

The REIT's Credit Facility contains interest coverage, distribution and loan to value covenants, for which non-compliance would result in an event of default, allowing the lender to demand repayment of amounts outstanding under the Credit Facility. As at June 30, 2016, the REIT was in compliance with all of the financial covenants contained within the Credit Facility.

# Edgefront Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the three and six months ended June 30, 2016

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### 15 Income taxes

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 31.0% (December 31, 2015 - 29.6%). A deferred tax asset arises from 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. A deferred income tax expense of \$15,425 (2015 - recovery of \$149,446) was recorded in the condensed consolidated interim statement of income and comprehensive income for the three months ended June 30, 2016 and an expense of \$22,925 (2015 - recovery of \$98,198) was recorded for the six months then ended. Current income tax recovery of \$29,153 (2015 - expense of \$42,000) was recorded for the three months ended June 30, 2016 and a recovery of \$26,541 (2015 - expense of \$42,000) was recorded for the six months then ended.

### 16 Related party transactions

Pursuant to an asset management agreement (the Management Agreement) dated January 14, 2014 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% of the Manager, as well as a group including TriWest Capital Partners (TriWest) which owns 50% of the manager. TriWest controls RTL-Westcan LP, which holds an approximately 27.2% economic and voting interest in the REIT as at June 30, 2016. Two members of TriWest are trustees 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.

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.



# Edgefront Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

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During the three-month period ended June 30, 2016, asset management fees in the amount of \$302,244 were expensed (2015 - \$218,748) and for the six-month period then ended \$604,422 was expensed (2015 - \$440,372).

During the six months ended June 30, 2016, 349,420 units (2015 - 244,417) at an average price per unit of \$1.64 (2015 - \$1.82) were issued to the Manager in respect of asset management fees.

Asset management fees in the amount of \$302,244 were accrued as at June 30, 2016 (December 31, 2015 - \$286,140).

During the three months ended June 30, 2016, property management fees in the amount of \$15,482 (2015 - \$nil) were recovered from tenants and expensed as property management fees to the Manager, and for the six-month period then ended, property management fees in the amount of \$30,964 (2015 - \$nil) were expensed as property management fees payable to the manager.

During the three-month period ended June 30, 2016, trustee retainer fees in the amount of \$33,125 were expensed (2015 - \$26,240), and 17,032 units (2015 - nil) at an average price per unit of \$1.59 were issued to trustees as payment of retainer fees, net of associated withholding taxes. For the six-month period then ended, trustee retainer fees in the amount of \$66,250 were expensed (2015 - \$46,745) and 33,392 units (2015 - nil) at an average price per unit of \$1.62 were issued to trustees as payment of retainer fees.

Trustee retainer fees in the amount of \$33,125 were accrued as at June 30, 2016 (December 31, 2015 - \$33,125).

Trustee meeting fees in the amount of \$5,500 (2015 - \$5,000) were expensed for the three-month period ended June 30, 2016, and for the six-month period then ended, meeting fees in the amount of \$11,000 (2015 - \$9,500) were expensed.

Trustee meeting fees in the amount of \$28,950 were accrued as at June 30, 2016 (December 31, 2015 - \$17,950).

The REIT received lease payments from companies controlled by funds associated with TriWest Capital Partners totalling \$1,717,301 during the six months ended June 30, 2016 (2015 - \$1,501,955).

### 17 Supplemental cash flow disclosure

Cash interest and income taxes paid and received are as follows:

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	\$	\$	\$	\$
Cash interest paid	938,214	554,871	1,890,417	1,121,093
Cash interest received	2,551	-	8,698	-
Cash income taxes paid	5,188	-	5,188	-
Cash income taxes received	-	-	9,367	-

# **Edgefront Real Estate Investment Trust**

## Notes to Condensed Consolidated Interim Financial Statements

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**For the three and six months ended June 30, 2016**

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### **18 Subsequent events**

On July 27, 2016, the REIT announced that it had waived due diligence conditions to acquire a property located in Cambridge, Ontario for a purchase price of \$8,400,000. The purchase price will be partially satisfied through the issuance of 1,000,000 Class B LP Units at a deemed issuance price of \$1.90 per unit, with the remainder of the purchase price to be funded from the proceeds of new 5-year term mortgage financing and available cash. A trustee of the REIT controls the company from which the REIT is purchasing the property. The transaction was approved by the REIT's board of trustees, with the trustee party to the transaction abstaining from voting on this matter.