

Edgefront Real Estate Investment Trust

Condensed Consolidated Interim Financial Statements
(Unaudited)

For the three and nine months ended September 30, 2016

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

	September 30, 2016	December 31, 2015
	\$	\$
Non-current Assets		
Investment properties (notes 3 and 4)	169,574,872	161,174,872
Other non-current assets	113,612	121,000
	<u>169,688,484</u>	<u>161,295,872</u>
Current Assets		
Cash	928,680	1,152,168
Tenant and other receivables	362,596	236,753
Prepaid expenses	163,060	266,725
Other current assets	244,969	333,962
	<u>1,699,305</u>	<u>1,989,608</u>
Total Assets	<u>171,387,789</u>	<u>163,285,480</u>
Non-current Liabilities		
Mortgages payable (note 6)	30,458,015	25,847,976
Credit Facility (note 7)	54,780,400	55,683,324
Unit options (note 11)	160,000	126,000
Class B LP units (note 8)	10,374,864	9,398,202
	<u>95,773,279</u>	<u>91,055,502</u>
Current Liabilities		
Current portion of mortgages payable (note 6)	1,117,968	942,633
Distributions payable	473,616	456,683
Accounts payable and accrued liabilities (note 16)	1,889,308	1,440,922
	<u>3,480,892</u>	<u>2,840,238</u>
Total Liabilities	<u>99,254,171</u>	<u>93,895,740</u>
Equity		
Unitholders' equity (note 9)	65,646,505	63,484,740
Retained earnings	6,487,113	5,905,000
Total Unitholders' Equity	<u>72,133,618</u>	<u>69,389,740</u>
Total Liabilities and Unitholders' Equity	<u>171,387,789</u>	<u>163,285,480</u>
Commitments and contingencies (note 13)		
On behalf of the Board:		
<u>"Cody Church"</u>	Trustee	
<u>"Brad Cutsey"</u>	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		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
	\$	\$	\$	\$
Net rental income				
Property revenue	3,882,500	2,987,548	11,417,969	8,399,754
Property expenses	(690,531)	(417,029)	(1,937,198)	(1,424,891)
Net rental income	3,191,969	2,570,519	9,480,771	6,974,863
General and administrative expense (note 16)	(433,986)	(367,273)	(1,359,791)	(1,106,135)
Loss on disposal of investment property (note 3)	-	-	-	(133,357)
Fair value adjustment of investment properties (note 4)	(321,249)	274,918	(477,146)	(65,082)
Fair value adjustment of Class B LP Units (note 8)	426,729	233,459	(86,502)	269,459
Fair value adjustment of unit options (note 11)	18,500	10,000	(34,000)	(21,000)
Other income (note 3)	-	-	256,528	-
	<u>2,881,963</u>	<u>2,721,623</u>	<u>7,779,860</u>	<u>5,918,748</u>
Finance income (expense)				
Interest income	-	-	-	-
Interest expense (notes 6 and 7)	(778,957)	(639,742)	(2,333,838)	(1,788,249)
Distributions on Class B LP Units (note 8)	(225,113)	(153,201)	(652,187)	(181,993)
	<u>(1,004,070)</u>	<u>(792,943)</u>	<u>(2,986,025)</u>	<u>(1,970,242)</u>
Income before taxes	1,877,893	1,928,680	4,793,835	3,948,506
Income taxes (note 15)	(13,439)	1,934	(9,823)	58,132
Net income and comprehensive income for the period	<u>1,864,454</u>	<u>1,930,614</u>	<u>4,784,012</u>	<u>4,006,638</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 \$
Balance – January 1, 2016	63,484,740	5,905,000	69,389,740
Net income for the period	-	4,784,012	4,784,012
Class B LP Units exchanged for REIT Units	978,815	-	978,815
Distributions	-	(4,201,899)	(4,201,899)
Issue of units under distribution reinvestment plan (note 10)	236,670	-	236,670
Issue of units to Manager (note 16)	864,965	-	864,965
Issue of units to Trustees (note 16)	81,315	-	81,315
Balance – September 30, 2016	<u>65,646,505</u>	<u>6,487,113</u>	<u>72,133,618</u>

	Unitholders' Equity \$	Retained Earnings \$	Total \$
Balance – January 1, 2015	53,405,456	5,010,195	58,415,651
Units issued as acquisition consideration (notes 3 and 9)	7,229,474	-	7,229,474
Unit issue costs	(60,900)	-	(60,900)
Net income for the period	-	4,006,638	4,006,638
Distributions	-	(3,568,691)	(3,568,691)
Issue of units under distribution reinvestment plan (note 10)	86,191	-	86,191
Issue of units to Manager (note 16)	656,649	-	656,649
Issue of units to Trustees (note 16)	56,696	-	56,696
Balance – September 30, 2015	<u>61,373,566</u>	<u>5,448,142</u>	<u>66,821,708</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 Cash Flows
(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2016 \$	September 30, 2015 \$	September 30, 2016 \$	September 30, 2015 \$
Cash provided by (used in)				
Operating activities				
Net income for the period	1,864,454	1,930,614	4,784,012	4,006,638
Adjustment for items not involving cash:				
Asset management fees settled in REIT units (note 16)	297,543	261,000	880,234	701,372
Trustee fees settled in REIT units (note 16)	25,386	25,528	79,596	72,273
Amortization of deferred financing costs (notes 6 and 7)	41,719	33,371	122,027	96,650
Straight-line adjustments of ground lease and rent	(34,476)	(19,442)	(100,587)	(11,374)
Loss on sale of investment property	-	-	-	133,357
Fair value adjustment of investment properties	321,249	(274,918)	477,146	65,082
Fair value adjustment of Class B LP Units (note 8)	(426,729)	(233,459)	86,502	(269,459)
Fair value adjustment of unit options (note 11)	(18,500)	(10,000)	34,000	21,000
Deferred income taxes (note 15)	349	9,169	23,274	(89,029)
Changes in non-cash working capital				
Tenant and other receivables	(153,678)	(90,754)	(125,843)	(138,430)
Prepaid expenses	(74,944)	(78,502)	103,665	(106,190)
Deposits	125,000	-	-	50,000
Other current assets	349,501	9,650	200,683	-
Accounts payable and accrued liabilities	(332,605)	(88,193)	423,734	(36,716)
Changes in other non-current assets	-	-	(15,886)	14,000
Total cash generated by operating activities	<u>1,984,269</u>	<u>1,474,064</u>	<u>6,972,557</u>	<u>4,509,174</u>
Investing activities				
Acquisition of investment properties (note 3)	(6,793,599)	(12,608,876)	(6,793,599)	(12,608,876)
Capital expenditures	(47,650)	-	(203,547)	-
Net proceeds on disposition of investment property (note 3)	-	-	-	2,981,531
Total cash used in investing activities	<u>(6,841,249)</u>	<u>(12,608,876)</u>	<u>(6,997,146)</u>	<u>(9,627,345)</u>
Financing activities				
Unit issue costs	(11,025)	(60,900)	(11,025)	(60,900)
Mortgage principal repayments	(236,594)	(37,892)	(704,139)	(153,286)
Proceeds from new financing	5,500,000	10,517,097	5,500,000	10,517,097
Financing costs (note 3)	(45,038)	(181,272)	(45,038)	(181,272)
Net borrowing (repayments) of the credit facility	751,156	(573,648)	(990,401)	(1,229,713)
Distributions to unitholders	(1,320,229)	(1,191,866)	(3,948,296)	(3,422,546)
Total cash used in financing activities	<u>4,638,270</u>	<u>8,471,519</u>	<u>(198,899)</u>	<u>5,469,380</u>
Change in cash and cash equivalents during the period	(218,710)	(2,663,293)	(223,488)	351,209
Cash and cash equivalents - beginning of period	<u>1,147,390</u>	<u>3,443,014</u>	<u>1,152,168</u>	<u>428,512</u>
Cash and cash equivalents - end of period	<u>928,680</u>	<u>779,721</u>	<u>928,680</u>	<u>779,721</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 nine months ended September 30, 2016

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.

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 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 November 11, 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.

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3 Acquisitions and dispositions

On August 22, 2016, the REIT acquired an industrial property located in Cambridge, Ontario (the Cambridge Property) for a contractual purchase price of \$8,400,000. The purchase price was satisfied through the issuance of 1,000,000 Class B LP Units at a deemed value of \$1.90 per unit, with the balance, net of closing adjustments, satisfied in cash. The Cambridge Property was initially recorded at \$8,380,000, the fair value of the consideration paid. The fair value of the Class B LP Units issued as purchase consideration was measured at the closing price of the REIT's units on August 22, 2016 of \$1.88 per unit. The carrying amount of the Cambridge Property was subsequently adjusted to its fair value of \$8,400,000.

The impact of acquiring the property is as follows:

	\$
Investment property acquired	8,380,000
Transaction costs	293,599
Net assets acquired	<u>8,673,599</u>
Consideration:	
Cash	1,338,637
Issuance of Class B LP Units to the vendor	1,880,000
Proceeds from new financing secured against the property	5,500,000
Deferred financing costs – new financing	(45,038)
	<u>8,673,599</u>

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.

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.

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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>
	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>

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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.

4 Investment properties

	September 30, 2016 \$	December 31, 2015 \$
Balance, beginning of period	161,174,872	117,070,000
Acquisition of investment properties, including acquisition costs of \$293,599 (2015 - \$803,708)	8,673,599	49,493,240
Additions – capital expenditures	203,547	-
Fair value adjustment	(477,146)	261,632
Disposition of investment property	-	(5,650,000)
Balance, end of period	<u>169,574,872</u>	<u>161,174,872</u>

The fair value of the investment properties as at September 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:

	September 30, 2016	December 31, 2015
Weighted average capitalization rate	7.42%	7.41%
Range of capitalization rates	6.25% - 11.0%	6.25% - 11.0%
Stabilized net operating income	12,539,000	11,909,000

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The fair value of the investment properties is most sensitive to changes in capitalization rates. As at September 30, 2016, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$5,512,000 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 \$5,897,000 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:

	September 30, 2016
	\$
Remainder of 2016	3,280,558
2017 – 2020	51,849,181
2021 – 2030	63,749,210
	<u>118,878,949</u>

6 Mortgages payable

As at September 30, 2016, the mortgages payable are secured by charges against six of the REIT's investment properties. The weighted average interest rate, including deferred financing costs, on the mortgages payable is 3.32% and the weighted average term to maturity is 4.81 years. Interest expense recorded in the period includes the amortization of deferred financing costs relating to mortgages payable in the amount of \$12,560 (2015 - \$2,458) for the three months ended September 30, 2016 and \$34,550 for the nine-month period then ended (2015 - \$4,960).

	September 30, 2016	December 31, 2015
	\$	\$
Mortgages payable	31,798,775	27,002,914
Less: Deferred financing costs	<u>(222,792)</u>	<u>(212,305)</u>
	31,575,983	26,790,609
Less: Current portion	<u>(1,117,968)</u>	<u>(942,633)</u>
	<u>30,458,015</u>	<u>25,847,976</u>

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	Scheduled Repayments \$	Principal Maturities \$	Total \$
Remainder of 2016	276,189	-	276,189
2017	1,121,754	414,040	1,535,794
2018	1,142,178	-	1,142,178
2019	1,178,677	-	1,178,677
2020	1,116,729	12,562,444	13,679,173
Thereafter	951,229	13,035,535	13,986,764
Total	<u>5,786,756</u>	<u>26,012,019</u>	<u>31,798,775</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 and 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.

Funds drawn against the \$7,500,000 term facility are as follows:

	September 30, 2016 \$	December 31, 2015 \$
Fixed rate and term borrowing	7,500,000	7,500,000

Details of amounts drawn against the term facility at September 30, 2016 are as follows:

	Principal Amount \$	Interest Rate	Repricing Date
Fixed rate and term borrowing	7,500,000	3.63%	July 15, 2019

Funds drawn against the \$52,500,000 revolving facility are as follows:

	September 30, 2016 \$	December 31, 2015 \$
Fixed rate and term borrowing	42,850,000	42,850,000
Bankers' acceptance borrowings	4,500,000	5,500,000
Prime rate advances	251,156	241,557
	<u>47,601,156</u>	<u>48,591,557</u>

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Details of amounts drawn on the Credit facility at September 30, 2016 are 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	12,850,000	3.63%	July 15, 2019
Bankers' acceptances	4,500,000	3.08%	October 26, 2016
Prime rate advances	251,156	3.95%	variable
	<u>47,601,156</u>		
		September 30, 2016	December 31, 2015
		\$	\$
Funds drawn against term facility		7,500,000	7,500,000
Funds drawn against revolving facility		47,601,156	48,591,557
Total drawn against the Credit Facility		<u>55,101,156</u>	<u>56,091,557</u>
Less: deferred financing		<u>(320,756)</u>	<u>(408,233)</u>
		<u>54,780,400</u>	<u>55,683,324</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 September 30, 2016 and \$87,478 for the nine-month period then ended (2015 - \$87,478).

8 Class B LP units

The following table summarizes the changes in Class B LP Units for the period ended September 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)
Issuance of Class B LP Units as purchase consideration	1,000,000	1,880,000
Unit issuance costs	-	(11,025)
Fair value adjustment during the period	-	86,502
September 30, 2016	<u>5,962,565</u>	<u>10,374,864</u>

On August 22, 2016, 1,000,000 Class B LP Units of a subsidiary of the REIT were issued as partial purchase consideration to the vendor of the Cambridge Property. The Class B LP Units issued were valued at \$1.88 per unit, the August 22, 2016 closing price of the REIT units on the TSXV.

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

Distributions in the amount of \$225,113 (2015 - \$14,396) were declared payable to holders of Class B LP Units for the three months ended September 30, 2016, and distributions in the amount of \$652,187 were declared in the nine-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 \$79,481 were accrued at September 30, 2016 (December 31, 2015 - \$73,693).

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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 September 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	512,638	864,965
Units issued as consideration for trustee services	48,499	81,315
Units issued under distribution reinvestment plan	143,325	236,670
Unitholders' equity, September 30, 2016	<u>35,530,014</u>	<u>65,646,505</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 September 30, 2016, 55,297 units (2015 - 16,703) were issued under the DRIP for a stated value of \$96,747 (2015 - \$28,122) and for the nine-month period then ended, 143,325 units (2015 - 50,559) with a stated value of \$236,670 (2015 - \$86,191) 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.

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The following table presents the changes in unit options for the period ended September 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
Unit options issued	1,325,000	1.88	5.00	-
Outstanding, September 30, 2016	2,465,000	1.94	3.73	856,666

On August 24, 2016, 1,325,000 unit options were issued to officers and trustees of the REIT at an exercise price of \$1.88 per unit. These options vest one-third on the first anniversary of the grant date, and one-third on each of the second and third anniversaries of the grant date and expire on the fifth anniversary of the grant date.

The following table presents the changes in unit options for the period ended September 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, September 30, 2015	1,160,000	2.00	3.36	573,333

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 September 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:

	September 30, 2016	December 31, 2015
Weighted average expected unit option life (in years)	2.41	2.28
Weighted average volatility rate	31.9%	40%
Weighted average risk free interest rate	0.57%	0.49%
Distribution yield	9.20%	9.41%

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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 September 30, 2016, the REIT had cash and cash equivalents of \$928,680 (December 31, 2015 - \$1,152,168), mortgages payable of \$31,798,775 (December 31, 2015 - \$27,002,914), a Credit facility balance of \$55,101,156 (December 31, 2015 - \$56,091,557) and accounts payable and accrued liabilities of \$1,889,308 (December 31, 2015 - \$1,440,922). The REIT had a working capital deficit of \$1,781,587 as at September 30, 2016 (December 31, 2015 - \$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	1,889,308	-	481,098	276,189	248,805	2,895,400
2017	-	-	1,908,705	1,535,794	969,061	4,413,560
2018	-	-	1,908,705	1,142,178	921,135	3,972,018
2019	-	55,101,156	423,500	1,178,677	884,636	57,587,969
2020	-	-	-	13,679,173	785,075	14,464,248
Thereafter	-	-	-	13,986,764	611,421	14,598,185
Total	1,889,308	55,101,156	4,722,008	31,798,775	4,420,133	97,931,380

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 September 30, 2016 there was a total of \$4,751,156 (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.

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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 September 30, 2016, the REIT had fourteen tenants, with one tenant accounting for approximately 42% of the REIT's rental income, resulting in concentration of credit risk. The REIT monitors the creditworthiness 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 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 September 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%.

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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 September 30, 2016, the REIT was in compliance with all of the financial covenants contained within the Credit Facility.

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 \$349 (2015 - \$9,169) was recorded in the condensed consolidated interim statement of income and comprehensive income for the three months ended September 30, 2016 and an expense of \$23,274 (2015 - recovery of \$89,029) was recorded for the nine months then ended. Current income tax expense of \$13,090 (2015 - recovery of \$11,103) was recorded for the three months ended September 30, 2016 and a recovery of \$13,451 (2015 - expense of \$30,897) was recorded for the nine 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 26.4% economic and voting interest in the REIT as at September 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.

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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-month period ended September 30, 2016, asset management fees in the amount of \$311,524 were expensed (2015 - \$261,000) and for the nine-month period then ended \$915,946 was expensed (2015 - \$701,372).

During the nine months ended September 30, 2016, 512,638 units (2015 - 362,179) at an average price per unit of \$1.69 (2015 - \$1.81) were issued to the Manager in respect of asset management fees.

Asset management fees in the amount of \$311,524 were accrued as at September 30, 2016 (December 31, 2015 - \$286,140).

During the three and nine months ended September 30, 2016, acquisition fees in the amount of \$42,000 were paid to the manager (2015 - \$190,000).

During the three months ended September 30, 2016, property management fees in the amount of \$15,482 (2015 - \$7,114) were recovered from tenants and expensed as property management fees to the Manager, and for the nine-month period then ended, property management fees in the amount of \$46,446 (2015 - \$7,114) were expensed as property management fees payable to the manager.

During the three-month period ended September 30, 2016, trustee retainer fees in the amount of \$30,068 were expensed (2015 - \$33,125), and 15,107 units (2015 - 32,296) at an average price per unit of \$1.79 (2015 - \$1.76) were issued to trustees as payment of retainer fees, net of associated withholding taxes. For the nine-month period then ended, trustee retainer fees in the amount of \$96,318 were expensed (2015 - \$79,600) and 48,499 units (2015 - 32,296) at an average price per unit of \$1.68 (2015 - \$1.76) were issued to trustees as payment of retainer fees.

Trustee retainer fees in the amount of \$30,068 were accrued as at September 30, 2016 (December 31, 2015 - \$33,125).

Trustee meeting fees in the amount of \$5,500 (2015 - \$3,250) were expensed for the three-month period ended September 30, 2016, and for the nine-month period then ended, meeting fees in the amount of \$16,500 (2015 - \$12,750) were expensed.

Trustee meeting fees in the amount of \$34,450 were accrued as at September 30, 2016 (December 31, 2015 - \$17,950).

The REIT received lease payments from companies controlled by funds associated with TriWest Capital Partners totalling \$2,575,951 during the nine months ended September 30, 2016 (2015 - \$2,252,933).

On August 22, 2016, the REIT purchased the Cambridge Property for a contractual purchase price of \$8,400,000, with 1,000,000 Class B LP Units at a deemed value of \$1.90 per unit issued as partial purchase price consideration. The vendor of the property is an entity controlled by one of the REIT's trustees. The purchase price was supported by an appraisal completed by an accredited third party appraiser and the transaction was unanimously approved by the REIT's trustees, with the trustee that was party to the transaction abstaining from voting on this matter.

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17 Supplemental cash flow disclosure

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

	Three months ended		Nine months ended	
	September 30, 2016 \$	September 30, 2015 \$	September 30, 2016 \$	September 30, 2015 \$
Cash interest paid	925,036	653,235	2,815,453	1,774
Cash interest received	-	-	8,698	-
Cash income taxes paid	20,930	1,900	26,118	-
Cash income taxes received	-	-	9,367	-