

Edgefront Real Estate Investment Trust

Condensed Consolidated Interim Financial Statements
(Unaudited)

For the three and six months ended June 30, 2015

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

	June 30, 2015 \$	December 31, 2014 \$
Non-Current Assets		
Investment properties (notes 3 and 4)	111,080,000	117,070,000
Other non-current asset	-	14,000
Deferred tax assets, net (note 15)	120,000	21,802
	<u>111,200,000</u>	<u>117,105,802</u>
Current Assets		
Cash and cash equivalents	3,443,014	428,512
Tenant and other receivables	754,071	706,395
Prepaid expenses	54,045	26,357
Deposits	50,000	100,000
Other current assets	333,450	-
	<u>4,634,580</u>	<u>1,261,264</u>
Total Assets	<u>115,834,580</u>	<u>118,367,066</u>
Non-Current Liabilities		
Mortgage payable (note 6)	433,362	2,864,623
Revolving credit facility (note 7)	53,795,363	54,393,110
Unit options (note 11)	130,000	99,000
Class B LP units (note 8)	637,200	673,200
	<u>54,995,925</u>	<u>58,029,933</u>
Current Liabilities		
Current portion of mortgage payable (note 6)	18,673	232,957
Distributions payable	384,923	379,373
Accounts payable and accrued liabilities	1,692,749	1,309,152
Taxes payable (note 15)	42,000	-
	<u>2,138,345</u>	<u>1,921,482</u>
Total Liabilities	<u>57,134,270</u>	<u>59,951,415</u>
Equity		
Unitholders' equity (note 9)	58,848,391	58,345,456
Retained earnings (deficit)	(148,081)	70,195
Total Unitholders' Equity	<u>58,700,310</u>	<u>58,415,651</u>
Total Liabilities and Unitholders' Equity	<u>115,834,580</u>	<u>118,367,066</u>

Commitments and contingencies (note 13)

On behalf of the Board:

"Cody Church" Trustee

"Robert Dickson" Trustee

Edgefront Real Estate Investment Trust

Condensed Consolidated Interim Statements of Income and Comprehensive Income

(Unaudited)

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	\$	\$	\$	\$
Net rental income				
Property revenue	2,697,831	1,771,095	5,412,206	3,299,566
Property expenses	<u>(496,580)</u>	<u>(310,371)</u>	<u>(1,007,862)</u>	<u>(574,403)</u>
Net rental income	2,201,251	1,460,724	4,404,344	2,725,163
General and administrative expense (note 16)	(370,432)	(246,770)	(738,862)	(508,868)
Loss on disposal of investment property (note 3)	(133,357)	-	(133,357)	-
Fair value adjustment of investment properties (note 4)	(340,000)	-	(340,000)	(915,346)
Fair value adjustment of class B LP units (note 8)	3,600	(93,600)	36,000	(93,600)
Fair value adjustment of unit options (note 11)	<u>(25,000)</u>	<u>(32,000)</u>	<u>(31,000)</u>	<u>(31,000)</u>
	<u>1,336,062</u>	<u>1,088,354</u>	<u>3,197,125</u>	<u>1,176,349</u>
Finance income (expense)				
Interest income	-	-	-	1,176
Interest expense (notes 6 and 7)	(572,444)	(374,193)	(1,148,507)	(740,016)
Distributions on Class B LP Units (note 8)	<u>(14,396)</u>	<u>(14,396)</u>	<u>(28,792)</u>	<u>(26,665)</u>
	(586,840)	(388,589)	(1,177,299)	(765,505)
Income before taxes	749,222	699,765	2,019,826	410,844
Income taxes (note 15)	<u>107,466</u>	<u>-</u>	<u>56,198</u>	<u>-</u>
Net income and comprehensive income for the period	<u>856,688</u>	<u>699,765</u>	<u>2,076,024</u>	<u>410,844</u>

Edgefront Real Estate Investment Trust

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

	Unit Capital \$	Contributed Surplus	Retained Earnings (Deficit) \$	Total \$
Balance – January 1, 2015	58,345,456	-	70,195	58,415,651
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
Balance – June 30, 2015	58,848,391	-	(148,081)	58,700,310

	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
Income for the period	-	-	410,844	410,844
Common shares exchanged for Class B LP Units	(580,000)	-	-	(580,000)
Distributions	-	-	(1,439,181)	(1,439,181)
Issue of units under distribution reinvestment plan	22,332	-	-	22,332
Issue of units to Manager	125,734	-	-	125,734
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 – June 30, 2014	41,755,517	-	(1,506,047)	40,249,470

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

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
			\$	\$
Cash provided by (used in)				
Operating activities				
Net income for the period	856,688	699,765	2,076,024	410,844
Adjustment for items not involving cash:				
Asset management fees payable in REIT units (note 16)	218,748	150,900	440,372	276,635
Trustee fees payable in REIT units (note 16)	26,120	20,625	46,745	41,250
Amortization of deferred financing costs (notes 6 and 7)	31,618	27,511	63,279	55,063
Straight-line adjustment of ground lease	4,034	4,034	8,068	8,068
Loss on sale of investment property	133,357	-	133,357	-
Fair value adjustment of investment properties (note 4)	340,000	-	340,000	915,346
Fair value adjustment of class B LP units (note 8)	(3,600)	93,600	(36,000)	93,600
Fair value adjustment of unit options (note 11)	25,000	32,000	31,000	31,000
Deferred income taxes (note 15)	(149,466)	-	(98,198)	-
Changes in non-cash working capital				
Tenant and other receivables	179,904	(52,333)	(47,676)	(122,461)
Prepaid expenses	(21,124)	(119,878)	(27,688)	(126,068)
Deposits	(50,000)	(325,000)	50,000	(325,000)
Other current assets	(9,650)	(718,425)	(9,650)	(673,229)
Accounts payable and accrued liabilities	108,628	581,940	9,477	99,245
Income taxes payable	42,000	-	42,000	-
Changes in other non-current assets	14,000	-	14,000	-
Total cash generated by operating activities	1,746,257	394,739	3,035,110	684,293
Investing activities				
Acquisition of investment properties (note 3)	-	-	-	(34,076,127)
Net proceeds on disposition of investment properties (note 3)	2,981,531	-	2,981,531	-
Total cash provided by (used in) Investing activities	2,981,531	-	2,981,531	(34,076,127)
Financing activities				
Proceeds from new financing (note 3)	-	-	-	34,400,000
Financing costs (note 3)	-	-	-	(372,340)
Mortgage principal repayments	(57,966)	(55,846)	(115,394)	(111,172)
Net proceeds from borrowings on (repayments of) the credit facility	(541,513)	422,605	(656,065)	93,981
Distributions to unitholders	(1,117,565)	(755,400)	(2,230,680)	(1,157,348)
Total cash provided by (used in) financing activities	(1,717,044)	(388,641)	(3,002,139)	32,853,121
Change in cash and cash equivalents during the period	3,010,744	6,098	3,014,502	(538,713)
Cash and cash equivalents - beginning of period	432,270	136,825	428,512	681,636
Cash and cash equivalents - end of period	3,443,014	142,923	3,443,014	142,923

Supplemental cash flow information (note 17)

Edgefront Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

For the six months ended June 30, 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, Ontario 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 August 18, 2015.

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(Unaudited)

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Standards issued but not yet effective

There are pending changes to IFRS which are not yet effective for the period ended June 30, 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 June 30, 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, 2018 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 and dispositions

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 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>

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For the six months ended June 30, 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

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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

	June 30, 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	(340,000)	400,065
Disposition of investment property	(5,650,000)	-
Balance, end of period	<u>111,080,000</u>	<u>117,070,000</u>

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

	June 30, 2015	December 31, 2014
Weighted average capitalization rate	7.44%	7.40%
Range of capitalization rates	6.25% - 11.0%	6.25% - 11.0%
Stabilized net operating income	8,071,000	8,468,000

The fair value of the investment properties is most sensitive to changes in capitalization rates. As at June 30, 2015, a 0.25% increase in the weighted average capitalization rate would result in a decrease of approximately \$3,525,000 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 \$3,775,000 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 June 30, 2015, investment properties with an aggregate fair value of \$nil (December 31, 2014 - \$49,838,229) were valued by qualified external valuation professionals.

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Notes to Condensed Consolidated Interim Financial Statements

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For the six months ended June 30, 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:

	June 30, 2015
	\$
Remainder of 2015	4,244,255
2016 – 2019	33,592,240
2020 – 2029	56,563,308
	<u>94,399,803</u>

6 Mortgage payable

On disposition of the Miramichi investment property on June 23, 2015, the acquirer assumed the mortgage secured against the Miramichi investment property. At June 30, 2015, the mortgage payable is secured by a charge against the PEI investment property, and deferred financing costs of \$5,512 are netted against the mortgage payable (December 31, 2014 - \$45,386 netted against the mortgages payable). The interest rate, including deferred financing costs, on the mortgage payable is 4.53% and the term to maturity is 2.18 years. Interest expense recorded in the period includes the amortization of deferred financing costs relating to mortgages payable in the amount of \$2,458 (2014 - \$2,628) for the three months ended June 30, 2015 and \$4,960 for the six month period then ended (2014 - \$5,297).

	June 30, 2015	December 31, 2014
	\$	\$
Mortgages payable	457,547	3,142,966
Less deferred financing costs	(5,512)	(45,386)
	<u>452,035</u>	<u>3,097,580</u>
Less current portion	(18,673)	(232,957)
	<u>433,362</u>	<u>2,864,623</u>

	Scheduled repayments	Principal Maturities	Total
	\$	\$	\$
Remainder of 2015	9,336	-	9,336
2016	19,236	-	19,236
2017	14,935	414,040	428,975
Total	<u>43,507</u>	<u>414,040</u>	<u>457,547</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.

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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 June 30, 2015, a total of \$54,261,914 was drawn against the Credit Facility (December 31, 2014 - \$54,917,979). Of the total drawn at June 30, 2015, \$50,350,000 (December 31, 2014 - \$50,350,000) was drawn in the form of fixed rate and term borrowings, \$nil (December 31, 2014 - \$3,300,000) was drawn in the form of bankers' acceptance borrowings, and \$3,911,914 (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 June 30, 2015, deferred financing costs of \$466,551 (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) for the three months ended June 30, 2015 and \$58,319 for the six month period then ended (2014 - \$49,766).

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 six months ended June 30, 2015.

	Class B LP Units	Amount \$
December 31, 2014	360,000	673,200
Fair value adjustment during the period	-	(36,000)
June 30, 2015	<u>360,000</u>	<u>637,200</u>

During the period ended June 30, 2015, distributions in the amount of \$14,396 (2014 - \$14,396) were declared payable to holders of Class B LP Units in the three months ended June 30, 2015, and distributions in the amount of \$28,792 were declared in the six month period then ended (2014 - \$26,665). These amounts have been recognized as finance expense in the condensed consolidated interim statement of income and comprehensive income.

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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 Units for the six months ended June 30, 2015.

	Units	Amount \$
Unitholders' equity, December 31, 2014	28,460,081	58,345,456
Units issued as consideration for management services	244,417	444,866
Units issued under distribution reinvestment plan	33,856	58,069
Unitholders' equity, June 30, 2015	28,738,354	58,848,391

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. Commencing with the June 2015 distribution, 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 period ended June 30, 2015, 16,895 units (2014 – 10,973) were issued under the DRIP for a stated value of \$29,583 (2014 - \$21,938) for the three month period then ended, and 33,856 units (2014 – 11,186) with a stated value of \$58,069 (2014 - \$22,332) were issued under the DRIP during the six months then ended.

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.

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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 June 30, 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 June 30, 2015, fair value was calculated using an expected unit option life of 1.20 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 9.04% (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 June 30, 2015 was \$203,096 (December 31, 2014 - \$258,904).

The fair value of these unit options as at June 30, 2015 was determined using an expected unit option life of 2.55 years (December 31, 2014 – 3.04 years), a weighted average volatility rate of 45% (December 31, 2014 – 45%), a risk free interest rate of 0.48% (December 31, 2014 – 1.06%) and a distribution yield of 9.04% (December 31, 2014 – 8.56%) based on the trading price on that date.

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There has been no change in the number of unit options outstanding in the three and six month periods ended June 30, 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 June 30, 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 June 30, 2015, the REIT had cash and cash equivalents of \$3,443,014 (December 31, 2014 - \$428,512), mortgages payable of \$457,547 (December 31, 2014 - \$3,142,966), a revolving credit facility balance of \$54,261,914 (December 31, 2014 - \$54,917,979) and accounts payable and accrued liabilities of \$1,692,749 (December 31, 2014 - \$1,309,152). The REIT has working capital of \$2,496,235 at June 30, 2015 (December 31, 2014 – \$660,218 working capital deficit), and 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	1,692,749	-	962,196	9,336	8,999	2,673,280
2016	-	-	1,908,705	19,236	17,434	1,945,375
2017	-	-	1,908,705	428,975	12,567	2,350,247
2018	-	-	1,908,705	-	-	1,908,705
2019	-	54,261,914	423,500	-	-	54,685,414
Total	1,692,749	54,261,914	7,111,811	457,547	39,000	63,563,021

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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 June 30, 2015, there was a total of \$3,911,914 (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 June 30, 2015, the REIT had five tenants, with one tenant accounting for approximately 62 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 June 30, 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	-	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 defend these proceedings if required, and the REIT has numerous arguments available in its defense. At this stage, 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.

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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 June 30, 2015, 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 29.36% (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. A deferred income tax recovery of \$149,466 (2014 - \$nil) was recorded in the condensed consolidated interim statement of income and comprehensive income for the three months ended June 30, 2015 and a recovery \$98,198 (2014 - \$nil) was recorded for the six months then ended. Current income tax expense of \$42,000 (2014 - \$nil) was recorded for the three and six months ended June 30, 2015.

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

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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.

During the three and six months ended June 30, 2015, acquisition fees in the amounts of \$nil were paid to the manager (2014 - \$340,000). During the period ended June 30, 2015, asset manager fees in the amount of \$218,748 were expensed for the three month period then ended (2014 - \$150,900) and \$440,372 was expensed for the six month period then ended (2014 - \$276,635). During the six months ended June 30, 2015, 244,417 units (2014 - 66,176) at an average price per unit of \$1.82 (2014 - \$1.90) were issued to the manager in respect of asset management fees. Asset management fees in the amount of \$218,748 were accrued at June 30, 2015 (December 31, 2014 - \$223,581).

During the period ended June 30, 2015, trustee retainer fees in the amount of \$26,120 (2014 - \$20,625) were expensed for the three months period then ended and \$46,745 (2014 - \$41,250) was expensed for the six months then ended. Trustee retainer fees in the amount of \$67,370 were accrued at June 30, 2015 (December 31, 2014 - \$20,625).

During the period ended June 30, 2015, trustee meeting fees in the amount of \$5,000 (2014 - \$4,500) were expensed for the three months period then ended and \$9,500 (2014 - \$9,000) was expensed for the six months then ended.

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 \$1,501,955 during the six months ended June 30, 2015.

As at June 30, 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.

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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		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	\$	\$	\$	\$
Cash interest paid	554,871	372,074	1,121,093	712,348
Cash interest received	-	-	-	6,060

18 Subsequent Events

On July 17, 2015, the REIT completed the purchase of an industrial property located in Barrie, Ontario (the Barrie Property) for a purchase price of \$8,500,000. The purchase price was satisfied through the issuance of 1,000,000 REIT Units and 3,470,985 LP units of a subsidiary limited partnership of the REIT to the vendor, at an issuance price of \$1.90 per unit.

On August 4, 2015, the REIT completed the purchase of an industrial property located in Kelowna, British Columbia (the Kelowna Property), for a purchase price of \$7,500,000. The purchase price was satisfied through the issuance of 2,000,000 REIT Units at an issuance price of \$1.90 per unit and cash.

Subsequent to June 30, 2015, the REIT entered into a binding agreement to purchase an industrial property located in Calgary, Alberta for a purchase price of \$22,000,000. The purchase price is to be satisfied through the issuance of 1,052,632 REIT Units at an issuance price of \$1.90 per unit and the balance in cash.