InterRent Real Estate Investment Trust

Consolidated Financial Statements

For the Years Ended December 31, 2019 and 2018

RSM

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of InterRent Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of InterRent Real Estate Investment Trust and its subsidiaries, (the "Trust"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018 and the consolidated statements of income, changes in unitholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Trust as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Grand Lui.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 3, 2020
Toronto, Ontario

InterRent Real Estate Investment Trust

Consolidated Balance Sheets
(Cdn $ Thousands)

	Note	**December 31, 2019**	December 31, 2018
Assets			
Investment properties	4	**$ 2,748,342**	$ 2,077,051
Investment in joint ventures	7	**25,200**	17,337
Prepaids and deposits		**2,229**	6,334
Receivables and other assets	8	**15,332**	16,747
Cash		**753**	523
Total assets		**$ 2,791,856**	$ 2,117,992
Liabilities			
Mortgages payable	9	**$ 881,509**	$ 799,571
Credit facilities	10	**26,865**	23,550
Class B LP unit liability	12	**53,345**	44,511
Unit-based compensation liabilities	13	**66,070**	48,392
Tenant rental deposits		**11,722**	10,609
Accounts payable and accrued liabilities	11	**30,409**	28,571
Total liabilities		**1,069,920**	955,204
Unitholders' equity			
Unit capital	15	**766,282**	558,615
Retained earnings		**955,654**	604,173
Total unitholders' equity		**1,721,936**	1,162,788
Total liabilities and unitholders' equity		**$ 2,791,856**	$ 2,117,992

Commitments and contingencies (note 25)

Subsequent events (note 26)

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

Approved on behalf of the Trust

Ronald Leslie
Trustee

Michael McGahan
Trustee

InterRent Real Estate Investment Trust

Consolidated Statements of Income
For the Years Ended December 31
(Cdn $ Thousands)

	Note	2019	2018
Operating revenues			
Revenue from investment properties	16	**$ 145,302**	$ 127,286
Operating expenses			
Property operating costs		**20,988**	18,933
Property taxes		**17,443**	16,097
Utilities		**10,677**	10,038
Total operating expenses		**49,108**	45,068
Net operating income		**96,194**	82,218
Financing costs	17	**26,273**	25,565
Administrative costs		**12,034**	10,772
Income before other income and expenses		**57,887**	45,881
Other income and expenses			
Fair value adjustments on investment properties	4	**353,160**	195,651
Loss on disposition of investment properties	6	**(675)**	-
Income from joint ventures	7	**24**	-
Other fair value losses	18	**(23,302)**	(27,411)
Interest on units classified as financial liabilities	19	**(2,205)**	(1,831)
Property management internalization cost	21	**-**	(43,993)
Net income for the year		**$ 384,889**	$ 168,297

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

InterRent Real Estate Investment Trust

Consolidated Statements of Changes in Unitholders' Equity
For the Years Ended December 31
(Cdn $ Thousands)

	Trust units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings	Total Unitholders' equity
Balance, January 1, 2018	$ 341,528	$ 547,241	$ (84,669)	$ 462,572	$ 804,100
Units issued (note 15)	217,087	-	-	-	217,087
Net income for the year	-	168,297	-	168,297	168,297
Distributions declared to Unitholders	-	-	(26,696)	(26,696)	(26,696)
Balance, December 31, 2018	**$ 558,615**	**$ 715,538**	**$ (111,365)**	**$ 604,173**	**$ 1,162,788**
Balance, January 1, 2019	$ 558,615	$ 715,538	$ (111,365)	$ 604,173	$ 1,162,788
Units issued (note 15)	207,667	-	-	-	207,667
Net income for the year	-	384,889	-	384,889	384,889
Distributions declared to Unitholders	-	-	(33,408)	(33,408)	(33,408)
Balance, December 31, 2019	**$ 766,282**	**$ 1,100,427**	**$ (144,773)**	**$ 955,654**	**$ 1,721,936**

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

InterRent Real Estate Investment Trust

Consolidated Statements of Cash Flows
For the Years Ended December 31
(Cdn $ Thousands)

	Note	2019	2018
Cash flows from (used in) operating activities			
Net income for the year		**$ 384,889**	$ 168,297
Add items not affecting cash			
Income from joint ventures	7	**(24)**	-
Amortization		**533**	459
Loss on disposition of investment properties	6	**675**	-
Property management internalization cost	21	**-**	35,387
Fair value adjustments on investment properties	4	**(353,160)**	(195,651)
Other fair value losses	18	**23,302**	27,411
Unit-based compensation expense	13	**6,616**	5,805
Financing costs	17	**26,273**	25,565
Interest expense	17	**(25,552)**	(24,393)
Tenant inducements		**601**	730
		64,153	43,610
Net income items related to financing activities	19	**1,000**	860
Changes in non-cash operating assets and liabilities	20	**7,435**	(4,344)
Cash from operating activities		**72,588**	40,126
Cash flows from (used in) investing activities			
Acquisition of investment properties	5	**(244,583)**	(179,578)
Investment in joint venture	7	**(1,901)**	(6,197)
Proceeds from sale of investment properties	6	**75,634**	-
Additions to investment properties	4	**(81,160)**	(62,084)
Cash used in investing activities		**(252,010)**	(247,859)
Cash flows from (used in) financing activities			
Mortgage and loan repayments	20	**(23,991)**	(152,746)
Mortgage advances	20	**30,250**	219,264
Financing fees		**(350)**	(6,060)
Credit facility advances (repayments)	20	**3,315**	(35,580)
Trust units issued, net of issue costs	15	**193,624**	205,447
Trust units cancelled	15	**-**	(5)
Deferred units purchased and cancelled	13	**(1,251)**	(1,195)
Interest paid on units classified as financial liabilities	19	**(1,000)**	(860)
Distributions paid	20	**(20,945)**	(20,394)
Cash from financing activities		**179,652**	207,871
Increase in cash during the year		**230**	138
Cash at the beginning of year		**523**	385
Cash at end of year		**$ 753**	$ 523

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

1. ORGANIZATIONAL INFORMATION

InterRent Real Estate Investment Trust (the “Trust” or the "REIT") is an unincorporated, open-ended real estate investment trust created pursuant to a Declaration of Trust, dated October 10, 2006, and most recently amended and restated on May 21, 2019, under the laws of the Province of Ontario.

The Trust was created to invest in income producing residential properties within Canada. InterRent REIT Trust Units are listed on the Toronto Stock Exchange under the symbol IIP.UN. The registered office of the Trust and its head office operations are located at 485 Bank Street, Suite 207, Ottawa, Ontario, K2P 1Z2.

These consolidated financial statements were authorized for issuance by the Trustees of the Trust on March 3, 2020.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The accounting policies set out below have been applied consistently to all periods presented.

Basis of presentation

The Trust presents its consolidated balance sheets based on the liquidity method, whereby all assets and liabilities are presented in increasing order of liquidity. The notes to the consolidated financial statements distinguish between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within one year from the reporting period, and non-current assets and liabilities are those where the recovery or settlement is expected to be greater than a year from the reporting period.

These consolidated financial statements have been prepared on a historical cost basis except for:

i) Investment properties, which are measured at fair value (except for investment properties under development where fair value is not reliably determinable);
ii) Financial assets and financial liabilities classified as “fair value through profit and loss”, which are measured at fair value; and
iii) Unit-based compensation liabilities and Class B LP unit liability which are measured at fair value.

The Trust has not presented a statement of comprehensive income as there is no other comprehensive income.

Basis of consolidation

The consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. Subsidiaries are entities over which the Trust has control and are consolidated from the date control commences until control ceases. Control is achieved when the Trust has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

2. BASIS OF PRESENTATION (Continued)

Functional currency

The Trust and its subsidiaries' functional currency is Canadian dollars.

Critical accounting estimates

The preparation of these consolidated financial statements requires management to apply judgment when making estimates and assumptions that have a risk of causing material adjustment to the reported amounts recognized in the consolidated financial statements. Estimates made by management are based on events and circumstances at the balance sheet date. Accordingly actual results may differ from these estimates.

Investment properties

Investment properties, except for investment properties under development where fair value is not reliably determinable, are re-measured to fair value at each reporting date, determined based on internal valuation models incorporating market evidence and valuations performed by third-party appraisers. When estimating the fair value of investment properties, management makes multiple estimates and assumptions that have a significant effect on the measurement of investment properties. Estimates used in determining the fair value of the investment properties include capitalization rates, inflation rates, turnover estimates, market rent, vacancy rates, standard costs and net operating income used in the overall capitalization rate valuation method as well as direct comparison model for vacant land held for development.

Financial liabilities

The fair value measurement of the Class B LP unit and unit-based compensation liabilities require management to make estimates and assumptions that affect the reported amount of the liabilities and the corresponding compensation expense, property management internalization cost and gain or loss on changes in fair value. Estimates and assumptions used in determining the fair value of these liabilities include the expected life of the instruments and the volatility of the Trust’s unit prices.

3. SIGNIFICANT ACCOUNTING POLICIES

Property asset acquisitions

At the time of acquisition of a property or a portfolio of investment properties, the Trust evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, Business Combinations (“IFRS 3”) is only applicable if it is considered that a business has been acquired. A business, according to IFRS 3, is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to the Trust. When an acquisition does not represent a business as defined under IFRS 3, the Trust classifies these properties or a portfolio of properties as an asset acquisition. Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at their relative fair values at the acquisition date. Acquisition-related transaction costs are capitalized to the property.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

The Trust uses the fair value method to account for real estate classified as investment properties. The Trust's investment properties include multi-family residential properties that are held to earn rental income, capital appreciation, or both or properties (including land) that are being developed or redeveloped for future use as investment properties. Investment properties acquired through an asset purchase are initially recognized at cost, which includes all amounts directly related to the acquisition of the properties. Investment properties acquired through a business combination are recognized at fair value. All costs associated with upgrading and extending the economic life of the existing properties, other than ordinary repairs and maintenance, are capitalized to investment properties.

Investment properties are re-measured to fair value at each reporting date in accordance with International Accounting Standard 40 - Investment Property ("IAS 40"). Fair value is determined based on internal valuation models incorporating market evidence and valuations performed by third-party appraisers. Changes in the fair value of investment properties are recorded in the consolidated statement of income in the period in which they arise. Investment properties are not amortized.

Investment properties under development

Properties under development include properties that are undergoing activities that will take a substantial period of time and effort to complete in order to prepare the property for its intended use to earn rental income. The cost of development properties includes the cost of acquiring the property and direct development costs, realty taxes and borrowing costs directly attributable to the development. Capitalization of costs continue until all activities necessary to prepare the property for its intended use as a rental property are substantially complete. Land held for development is transferred to investment properties under development when development type of activities begin that will change the property condition.

Under the requirements of IAS 40, an investment property under development is measured at fair value at each reporting date, with the recognition of gains or losses in the consolidated statement of income. If the fair value of an investment property under development is not reliably determinable, but the Trust expects the fair value of the property to be reliably determinable when development is complete, it measures that investment property under development at cost until either its fair value becomes reliably determinable or development is completed (whichever is earlier).

Investment in joint venture

Joint arrangements that involve the establishment of a separate entity in which parties to the arrangement have joint control over the economic activity of the entity and rights to the net assets are referred to as a joint venture.

Joint control exists when the joint arrangements require the unanimous consent of the parties sharing control for decisions about relevant activities.

The Trust's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost, which includes cost directly attributable to the acquisition. The carrying amount of the investment is adjusted to recognize changes in the Trust's share of net assets of the joint venture since the acquisition date less any identified impairment loss. Distributions received from a joint venture reduce the carrying amount of the investment. The consolidated statement of income reflects the Trust's share of the results of operations of the joint venture.

3.SIGNIFICANT ACCOUNTING POLICIES (Continued)

If the Trust's share of losses of a joint venture exceeds the Trust's interest in that joint venture, the Trust discontinues recognizing its share of further losses, unless it has undertaken obligations or made payments on behalf of the joint venture.

Revenue recognition

Revenue from investment properties includes rents from tenants under leases, parking, laundry and other ancillary revenues. Most leases are for one-year terms or less; consequently, the Trust accounts for leases with its tenants as operating leases as the Trust has retained substantially all of the risks and benefits of ownership of its investment properties. Lease revenue earned directly from leasing the asset is recognized and measured in accordance with IFRS 16 – Leases. In addition to revenue generated directly from the operating lease, rental revenue includes non-lease revenue earned from the tenant, which is recognized and measured under IFRS 15. Non-lease revenue includes laundry, income earned from telephone and cable providers, commercial common area maintenance and ancillary services. These revenues are recognized when earned.

Any gain or loss from the sale of an investment property is recognized when the significant risks and rewards have been transferred to the buyer (usually at the time when title passes to the purchaser).

Tenant inducements such as free rent or move-in allowances are initially deferred and included in other assets. The balance is amortized over the term of the related lease, reducing the revenue recognized. In the event that a tenant vacates its leased space prior to the contractual term of the lease, any unamortized balance is recorded as an expense in the consolidated statement of income.

IFRS 15 requires revenue recognized from customer contracts (non-lease components) to be disclosed separately from its other sources of revenue (note 16).

Financial instruments

The Trust recognizes financial assets and financial liabilities when the Trust becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets and financial liabilities classified as fair value through profit or loss, are measured at fair value plus or minus transaction costs on initial recognition. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

The following summarizes the Trust's classification and measurement of financial assets and financial liabilities:

- Cash, rents and other receivables and loan receivable long-term incentive plan, are classified as amortized cost.
- Mortgages and loans payable, credit facilities, tenant rental deposits and accounts payable and accrued liabilities are classified as amortized cost.
- Class B LP unit liability and unit-based compensation liabilities remain unchanged and continue as fair value through profit and loss.

Measurement in subsequent periods depends on the classification of the financial instrument:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets at amortized cost

Cash, rents and other receivables and loan receivable long-term incentive plan, mortgage holdbacks and mortgages receivable are held with the objective of collecting contractual cash flows and classified as amortized cost.

Subsequent to initial recognition, these assets are carried at amortized cost, using the effective interest method, less any impairment loss. The carrying amount of the financial asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statement of income. Any subsequent reversal of an impairment loss is recognized in profit or loss.

The Trust does not currently hold any derivative assets.

Financial liabilities at amortized cost

Credit facilities, accounts payable and accrued liabilities, tenant rental deposits and mortgages and loans payable are classified as amortized cost.

Subsequent to initial recognition, these liabilities are carried at amortized cost, using the effective interest method. The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

Financial liabilities at FVTPL

Financial liabilities are classified as FVTPL if it is classified as held for trading, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statement of income.

The Class B LP unit liability and unit-based compensation liability are measured at FVTPL.

Impairment of financial assets

At each reporting date, each financial asset measured at amortized cost is assessed for impairment under an expected credit loss (ECL) model. The Trust applies the simplified approach which uses lifetime ECLs for contractual rents receivable and the general approach for other and loans receivable.

The Trust uses an accounts receivable aging provision matrix to measure the ECL for contractual rents receivable and applies loss factors to aging categories greater than 30 days past due.

Other receivables and loans receivables are classified as impaired when there is objective evidence that the full carrying amount of the loan or mortgage receivable is not collectible.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

The Trust measures certain financial instruments and non-financial assets, such as investment properties, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests. A fair value measurement on a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Trust uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on either directly or indirectly observable market data
- Level 3: Valuation techniques for which any significant input is unobservable

Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the change occurred.

Trust units

Effective December 29, 2010, changes were made to the Declaration of Trust so that distributions are made at the discretion of the Trustees. Subsequent to this change the trust units, while still defined as a liability, meet the conditions that permit classification as equity. At this time, the trust units were reclassified from liabilities to unitholders' equity. The carrying value of the trust units reflects their fair value on the date of the reclassification to unitholders' equity. As a result of the redemption feature of the trust units, these units are not considered equity for the purposes of calculating net income on a per unit basis under IAS 33 Earnings per Share. Accordingly, the Trust has elected not to present an earnings per unit calculation, as is permitted under IFRS.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Class B LP unit liability

The Class B LP units are exchangeable on demand for trust units, which in turn are redeemable into cash at the option of the holder. As such, the Class B LP units are classified as a liability. Management has designated the Class B LP unit liability as FVTPL, and the Class B LP unit liability is re-measured to fair value at each reporting date with changes recorded in the consolidated statements of income. The distributions on the Class B LP units are recognized in the consolidated statements of income as interest expense.

Unit-based compensation

The Trust maintains compensation plans which include the granting of unit options and deferred units to Trustees and employees. The Trust records the expense associated with these awards over the vesting period. Unit options and deferred units are settled with the issuance of Trust Units. However, due to the fact that Trust Units are redeemable, awards of unit options and deferred units are considered to be cash-settled. As such, the fair value of unit options and deferred units are recognized as a liability and re-measured at each reporting date, with changes recognized in the consolidated statements of income. The additional deferred units earned on the deferred units granted are recognized in the consolidated statements of income as interest expense.

Provisions

Provisions are recognized when the REIT has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management’s best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value when the effect is material.

Income taxes

The Trust is taxed as a Mutual Fund Trust for income tax purposes and intends to distribute its income for income tax purposes each year to Unitholders to such an extent that it would not be liable for income tax under Part I of the Income Tax Act (Canada) (“Tax Act”). Accordingly, no provision for income taxes is included in the consolidated financial statements.

Throughout 2018 and 2019, the Trust and its wholly owned subsidiaries satisfied certain conditions available to REITs (the “REIT Exception”) under amendments to the Tax Act, intended to permit a corporate income tax rate of nil as long as the specified conditions continue to be met. Without satisfying these conditions, the Trust would have been liable for income taxes.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical judgments in applying accounting policies

In the preparation of these consolidated financial statements management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the consolidated financial statements.

Investment properties

Management makes judgments in determining the extent and frequency of independent appraisals and establishing an internal valuation model to measure fair value of investment properties. With respect to properties under development, management makes judgments to determine the reliability of fair value of investment properties undergoing development and the related costs included in the property value as well as identifying the point at which substantial completion of the property occurs. The Trust also undertakes capital improvements and upgrades and management applies judgement in determining the costs to be capitalized to investment properties.

Investment in joint venture

Management makes judgments to determine whether a joint arrangement should be classified as a joint venture and in determining whether there is any objective evidence of impairment and if so, estimating the amount of loss.

Property asset acquisitions

Management is required to apply judgment as to whether or not transactions should be accounted for as an asset acquisition or business combination. IFRS 3 Business Combinations is only applicable if it is considered that a business has been acquired. When an acquisition does not represent a business as defined under IFRS 3, the Trust classifies the transaction as an asset acquisition. All of the Trust's property acquisitions as well as the property management internalization have been accounted for as asset acquisitions.

Income tax

Deferred income taxes are not recognized in the consolidated financial statements on the basis that the Trust can deduct distributions paid such that its liability for income taxes is substantially reduced or eliminated for the year. In applying this accounting policy, management has made the judgment that Trust intends to continue to distribute its taxable income and continue to qualify as a real estate investment trust for the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify whether a transaction meets the definition of a business combination. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after January 1, 2020 with earlier application permitted. There will be no impact on transition since the amendments are effective for business combinations for which the acquisition date is on or after the transition date.

(Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTIES

Investment properties include income properties, properties under development and land held for development.

	December 31, 2019	December 31, 2018
Income properties	**$ 2,713,669**	$ 2,021,874
Properties under development	**34,673**	**-**
Land held for development	**-**	55,177
	$ 2,748,342	$ 2,077,051

Income properties:

	December 31, 2019	December 31, 2018
Balance, beginning of period	**$ 2,021,874**	$ 1,630,824
Acquisitions (note 5)	**297,436**	129,671
Property capital investments	**76,208**	65,728
Fair value adjustments	**353,160**	195,651
Dispositions (note 6)	**(35,009)**	-
	$ 2,713,669	$ 2,021,874

Properties under development:
Properties that are undergoing a significant amount of development work to prepare the property for use as income properties.

	December 31, 2019	December 31, 2018
Balance, beginning of period	**$ -**	$ -
Acquisitions (note 5)	**22,285**	-
Transfer from land held for development	**10,481**	-
Property capital investments	**1,907**	-
	$ 34,673	$ -

Land held for development:

	December 31, 2019	December 31, 2018
Balance, beginning of period	**$ 55,177**	$ -
Acquisitions (note 5)	**-**	54,540
Property capital investments	**2,116**	637
Transfer to properties under development	**(10,481)**	-
Disposition (note 6)	**(46,812)**	-
	$ -	$ 55,177

The fair value of the income properties at December 31, 2019 and 2018 was determined internally by the Trust. The fair value methodology of the Trust's income properties is considered a level 3 valuation as significant unobservable inputs are required to determine fair value.

The Trust determined the fair value of each income property internally based upon the direct capitalization income approach method of valuation. The fair value was determined by applying a capitalization rate to forecasted stabilized net operating income ("SNOI"), which incorporates turnover estimates, market rent adjustments, allowances for vacancy, management fees, labour and repairs and maintenance for the property. The valuation technique was updated in 2019 to incorporate turnover and market rate estimates. These inputs were not used in the prior year determination of fair value. In order to substantiate management's valuation, the Trust engaged a leading independent national real estate appraisal firm to provide appraisals for substantially all

(Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTIES (Continued)

of the portfolio at December 31, 2019 (2018 – 32% of the portfolio representing 2,741 suites and the land held for development were appraised by external appraisal firms). These external appraisals provided the Trust with a summary of the major assumptions and market data by city in order for the Trust to complete its internal valuations.

The capitalization rate assumptions for the income properties are included in the following table:

	December 31, 2019		December 31, 2018	
	Range	**Weighted average**	**Range**	**Weighted average**
Capitalization rate	3.25% - 6.00%	4.24%	3.50% - 6.75%	4.38%

The direct capitalization income approach method of valuation requires that SNOI be divided by a capitalization rate ("Cap Rate") to determine a fair value. As such, changes in both SNOI and Cap Rate could significantly alter the fair value of the investment properties. The tables below summarize the impact of changes in both SNOI and Cap Rate on the Trust's fair value of the income properties:

As at December 31, 2019

Forecasted stabilized net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 111,608	$ 113,909	**$ 115,060**	$ 116,211	$ 118,512
Capitalization rate						
-0.25%	3.99%	$ 2,797,198	$ 2,854,872	$ 2,883,709	$ 2,912,546	$ 2,970,221
Cap rate used	**4.24%**	$ 2,632,269	$ 2,686,542	**$ 2,713,669**	$ 2,740,816	$ 2,795,090
+0.25%	4.49%	$ 2,485,706	$ 2,536,958	$ 2,562,584	$ 2,588,209	$ 2,639,461

As at December 31, 2018

Forecasted stabilized operating income		-3%	-1%	As estimated	+1%	+3%
		$ 85,901	$ 87,672	**$ 88,558**	$ 89,444	$ 91,215
Capitalization rate						
-0.25%	4.13%	$ 2,079,934	$ 2,122,819	$ 2,144,262	$ 2,165,704	$ 2,208,589
Cap rate used	**4.38%**	$ 1,961,216	$ 2,001,653	**$ 2,021,874**	$ 2,042,091	$ 2,082,528
+0.25%	4.63%	$ 1,855,319	$ 1,893,573	$ 1,912,700	$ 1,931,827	$ 1,970,081

Land held for development is measured initially at cost, including transaction costs and subsequently measured at fair value.

The two properties under development are valued at acquisition cost plus development costs. The direct capitalization income approach method of valuation is not a reliable measure as the properties are undergoing a significant amount of work which will affect multiple components of the estimated net operating income as well as the Cap Rate. The Trust expects the fair value of the properties to be reliably determinable when development is substantially complete, and will measure both investment properties under development at cost until either its fair value becomes reliably determinable or development is completed (whichever is earlier).

Cash outflow used for additions to investment properties:

	December 31, 2019	December 31, 2018
Property capital investments	**$ (80,231)**	$ (66,365)
Changes in non-cash investing accounts payable and accrued liabilities	**(929)**	4,281
	$ (81,160)	$ (62,084)

(Cdn $ Thousands except unit amounts)

5. INVESTMENT PROPERTY ACQUISITIONS

During the year ended December 31, 2019, the Trust completed the following investment property acquisitions, which have contributed to the operating results effective from the acquisition date:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
February 12, 2019	30	$ 8,553	$ 4,608	3.210%	March 1, 2028
February 12, 2019	104	20,171	7,131	3.839%	February 15, 2024
February 12, 2019	33	7,921	2,509	2.760%	November 15, 2022
February 12, 2019	45	12,385	6,541	3.100%	February 15, 2028
February 12, 2019	41	11,980	6,166	3.000%	February 15, 2028
April 3, 2019	74	11,721	-	-%	n/a
April 24, 2019	-[1]	22,285	-	-%	n/a
June 26, 2019	121[2]	39,431	22,000	3.250%	September 30, 2021
July 12, 2019	251	65,584	20,157	2.640%	June 1, 2027
July 12, 2019	293[3]	72,678	15,747	3.960%	February 1, 2024
August 15, 2019	118[4]	23,624	10,379	2.990%	June 1, 2023
October 1, 2019	54	11,174	8,250	2.840%	November 12, 2020
October 31, 2019	17	4,174	-	-%	n/a
October 31, 2019	33	8,040	-	-%	n/a
	1,214	**$ 319,721**	**$ 103,488**		

(1) Vacated office building to be developed into residential suites.
(2) Includes 31,533 sq ft of leasable commercial space.
(3) Includes 7,159 sq ft of leasable commercial space.
(4) Includes 6,295 sq ft of leasable commercial space.

During the year ended December 31, 2018, the Trust completed the following investment property acquisitions:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
January 10, 2018	48	$ 5,444	$ 2,618	2.882%	May 15, 2025
February 28, 2018	172	21,994	14,500	BA + 1.70%	March 1, 2021
March 27, 2018	72[1]	37,143	23,000	3.974%	March 27, 2028
March 27, 2018	6[2]	11,252	-	-%	n/a
June 18, 2018	62	10,741	7,000	3.20%	September 15, 2019
September 19, 2018	n/a[3]	44,061	-	-%	n/a
September 25, 2018	138	29,368	-	-%	n/a
September 25, 2018	77	16,122	-	-%	n/a
October 22, 2018	63	8,086	2,015	2.55%	December 1, 2019
	638	**$ 184,211**	**$ 49,133**		

(1) Includes 8,489 sq ft of leasable commercial space.
(2) Includes a parcel of land (0.70 acres) which may be used for future development.
(3) Represents a parcel of land (6.3 acres) which may be used for future development.

Cash outflow used for investment property acquisitions:

	December 31, 2019	December 31, 2018
Total acquisition costs	**$ (319,721)**	$ (184,211)
Fair value adjustment of assumed debt	**1,900**	-
Assumed debt	**73,238**	4,633
	$ (244,583)	$ (179,578)

(Cdn $ Thousands except unit amounts)

6. INVESTMENT PROPERTY DISPOSITIONS

During the year ended December 31, 2019, the Trust completed the following investment property dispositions. These dispositions do not meet the definition of discontinued operations under IFRS.

Disposition Date	Suite Count	Sale Price	Net Proceeds	Mortgage(s) Discharged
January 17, 2019	28	$ 2,949	$ 2,835	$ 1,031
January 17, 2019	17	1,585	1,519	-
January 17, 2019	12	1,000	940	-
January 17, 2019	18	1,519	1,455	-
January 17, 2019	70	7,215	7,097	-
January 17, 2019	85	9,015	8,878	-
January 17, 2019	68	6,736	6,541	2,725
January 17, 2019	22	2,090	1,993	880
January 17, 2019	29	3,191	3,076	1,190
May 30, 2019	-	46,812	46,812	-
Total	**349**	**$ 82,112**	**$ 81,146**	**$ 5,826**

A loss of $675 was recognized for the year ended December 31, 2019 in connection with these property dispositions. The loss represents the difference between the net proceeds (sale price less closing costs) and the carrying value of the properties at the date of disposition.

No investment properties were disposed of during the year ended December 31, 2018.

Cash inflow received from sale of investment properties:

	December 31, 2019	December 31, 2018
Proceeds	**$ 81,146**	$ -
Non-cash closing costs	**176**	-
Investment in joint venture	**(5,688)**	-
	$ 75,634	$ -

(Cdn $ Thousands except unit amounts)

7. INVESTMENT IN JOINT VENTURES

The Trust accounts for its joint venture interests using the equity method. The following table details the Trust's ownership interest in its equity accounted investments:

Equity Investee	Location	Principal Activity	December 31, 2019	December 31, 2018
TIP Albert Limited Partnership	Ottawa	Develop, own and operate investment property	33.3%	33.3%
Fairview Limited Partnership	Burlington	Develop, own and operate investment property	25.0%	-

During the year ended December 31, 2019, through a series of transactions, the Trust acquired a 25.0% interest in Fairview Limited Partnership, a joint venture, for $5,688.

The Trust is contingently liable for certain obligations of the joint ventures, up to the Trust's interest. All of the net assets of the joint ventures are available for the purpose of satisfying such obligations and guarantees.

The Trust is responsible to fund its total investment in the joint ventures for the development of the investment property.

The following table shows the changes in the carrying value of the investment in joint ventures:

	December 31, 2019	December 31, 2018
Balance, beginning of period	**$ 17,064**	$ 10,867
Additions	**7,605**	6,197
Share of net income	**24**	-
Distributions	**-**	-
	$ 24,693	$ 17,064
Total transaction costs	**$ 507**	$ 273
Carrying value of the investment in joint venture	**$ 25,200**	$ 17,337

The following tables shows the summarized financial information of the Trust's joint venture:

	December 31, 2019	December 31, 2018
Current assets	**$ 765**	$ 486
Non-current assets	**138,935**	66,854
Current liabilities	**(1,141)**	(648)
Non-current liabilities	**(57,750)**	(15,500)
Net assets	**$ 80,809**	$ 51,192
Trust's share	**$ 24,693**	$ 17,064

	December 31, 2019	December 31, 2018
Revenue	**$ 128**	$ -
Expenses	**32**	-
Net income	**$ 96**	$ -
Trust's share	**$ 24**	$ -

(Cdn $ Thousands except unit amounts)

8. RECEIVABLES AND OTHER ASSETS

	December 31, 2019	December 31, 2018
Current:		
Rents and other receivables, net of allowance for uncollectable amounts	**$ 1,528**	$ 1,940
Tenant inducements [1]	**467**	380
	$ 1,995	$ 2,320
Non-current:		
Automobiles, software, equipment and furniture and fixtures, net of accumulated amortization of $1,802 (2018 - $1,342)	**$ 1,680**	$ 1,653
Deferred finance fees on credit facilities, net of accumulated amortization of $1,606 (2018 - $1,378)	**239**	245
Loan receivable long-term incentive plan (note 14)	**11,418**	12,529
	$ 13,337	$ 14,427
	$ 15,332	$ 16,747

[1] Comprised of straight-line rent. This amount is excluded from the determination of the fair value of the investment properties.

9. MORTGAGES PAYABLE

Mortgages are secured by the investment properties and bear interest at a weighted average interest rate of 3.02% (December 31, 2018 – 3.04%).

The mortgages mature at various dates between the years 2020 and 2028.

The aggregate future minimum principal payments, including maturities, are as follows:

2020	$ 179,137
2021	76,927
2022	71,011
2023	81,264
2024	69,733
Thereafter	418,937
	897,009
Less: Deferred finance costs and mortgage premiums	(15,500)
	$ 881,509

(Cdn $ Thousands except unit amounts)

10. CREDIT FACILITIES

	December 31, 2019	December 31, 2018
Demand credit facility (i)	**$ -**	$ -
Term credit facility (ii)	**20,435**	-
Term credit facility (iii)	**6,430**	23,550
Term credit facility (iv)	**-**	-
	$ 26,865	$ 23,550

(i) The Trust has a $500 (2018 - $500) demand credit facility with a Canadian chartered bank secured by a general security agreement. The weighted average interest rate on amounts drawn during the year ended December 31, 2019 was 4.45% (2018 – 4.10%).

(ii) The Trust has a $55,000 (2018 - $35,000) term credit facility, maturing in 2022, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on ten (2018 – ten) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. The weighted average interest rate on amounts drawn during the year ended December 31, 2019 was 4.47% (2018 – 4.30%).

(iii) The Trust has a $25,000 (2018 - $25,000) term credit facility, maturing in 2021, with a Canadian chartered bank secured by a general security agreement, first mortgage on one (2018 – one) of the Trust's properties and second collateral mortgages on two (2018 – two) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. The weighted average interest rate on amounts drawn during the year ended December 31, 2019 was 4.60% (2018 – 4.30%).

(iv) The Trust has a $60,000 (2018 - $60,000) term credit facility, maturing in June 2020, with a Canadian chartered bank secured by a general security agreement, first mortgages on two (2018 – two) of the Trust's properties and second collateral mortgages on five (2018 – five) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread for prime advances and banker's acceptances. The weighted average interest rate on amounts drawn during the year ended December 31, 2019 was 3.83% (2018 – 3.44%).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2019	December 31, 2018
Accounts payable	**$ 7,219**	$ 7,218
Accrued liabilities	**18,328**	17,196
Accrued distributions	**3,226**	2,645
Mortgage interest payable	**1,636**	1,512
	$ 30,409	$ 28,571

(Cdn $ Thousands except unit amounts)

12. CLASS B LP UNIT LIABILITY

The Class B LP units are non-transferable, except under certain circumstances, but are exchangeable, on a one-for-one basis, into Trust Units at any time at the option of the holder. Prior to such exchange, distributions will be made on the exchangeable units in an amount equivalent to the distributions which would have been made had the units of Trust been issued.

The Class B LP units are exchangeable on demand for Trust Units, which in turn are redeemable into cash at the option of the holder. As such, Class B LP units are classified as a financial liability.

A summary of Class B LP Unit activity is presented below:

Number of Units	
Balance – December 31, 2017	**186,250**
Units issued	3,224,516
Balance - December 31, 2018	**3,410,766**
Units issued	-
Balance – December 31, 2019	**3,410,766**

The Class B LP Units represented an aggregate fair value of $53,345 at December 31, 2019 (December 31, 2018 - $44,511). The fair value represents the closing price of the Trust Units on the TSX on the reporting date, or the first trading date after the reporting date. Each Class B LP Unit is accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of Unitholders. There is no value assigned to the Special Voting Units. The gains or losses that resulted from changes in the fair value were recorded in the consolidated statement of income.

On February 15, 2018, 3,224,516 Class B LP units were issued at a value of $30,364 as partial consideration for the internalization of the property manager function (note 21).

13. UNIT-BASED COMPENSATION LIABILITIES

Unit-based compensation liabilities are comprised of awards issued under the deferred unit plan (“DUP”) and the unit option plan as follows:

	December 31, 2019	December 31, 2018
Unit-based liabilities, beginning of period	**$ 48,392**	$ 27,017
Compensation expense – deferred unit plan	**5,360**	4,643
Property management internalization cost (DUP)	**-**	4,751
Compensation expense – unit option plan	**51**	191
DRIP(1) expense – deferred unit plan	**1,205**	971
DUP units converted, cancelled and forfeited	**(2,296)**	(2,803)
Unit options exercised and expired	**(1,110)**	(1,343)
Loss on fair value of liability (note 18)	**14,468**	14,965
Unit-based liabilities, end of period	**$ 66,070**	$ 48,392

(1) Distribution reinvestment plan

(Cdn $ Thousands except unit amounts)

13. UNIT-BASED COMPENSATION LIABILITIES (Continued)

Unit options and deferred units are settled with the issuance of Trust Units. However, due to the fact that Trust Units are redeemable, awards of unit options and deferred units are considered to be cash-settled. As such, the fair value of unit options and deferred units are recognized as a financial liability and re-measured at each reporting date, with changes recognized in the statement of income.

The maximum number of Trust Units issuable under the Trust's equity incentive compensation plans, which includes the DUP and unit options, as well as the long-term incentive plan (note 14) is 7% of the issued and outstanding Trust Units.

(i) DEFERRED UNIT PLAN

The deferred unit plan entitles trustees, officers and employees, at the participant's option, to elect to receive deferred units (elected portion) in consideration for trustee fees or bonus compensation under the employee incentive plan, as the case may be. The Trust matches the elected portion of the deferred units received. The matched portion of the deferred units vest 50% on the third anniversary and 25% on each of the fourth and fifth anniversaries, subject to provisions for earlier vesting in certain events. The deferred units earn additional deferred units for the distributions that would otherwise have been paid on the deferred units (i.e. had they instead been issued as Trust Units on the date of grant).

A summary of Deferred Unit activity is presented below:

Number of Units	
Balance - December 31, 2017	**2,888,623**
Units issued under deferred unit plan	1,247,608
Reinvested distributions on deferred units	96,955
Deferred units exercised into Trust Units (note 15)	(148,794)
Deferred units purchased and cancelled	(118,396)
Deferred units cancelled	(23,085)
Balance - December 31, 2018	**3,942,911**
Units issued under deferred unit plan	376,081
Reinvested distributions on deferred units	85,135
Deferred units exercised into Trust Units (note 15)	(76,697)
Deferred units purchased and cancelled	(75,871)
Deferred units cancelled	(22,635)
Balance – December 31, 2019	**4,228,924**

The fair value of each unit granted is determined based on the weighted average observable closing market price of the REIT's Trust Units for the ten trading days preceding the date of grant.

The aggregate fair value of vested deferred units was $58,834 at December 31, 2019 (December 31, 2018 - $42,594). The fair value of the vested deferred units represents the closing price of the Trust Units on the TSX on the reporting date, or the first trading date after the reporting date, representing the fair value of the redemption price.

On February 15, 2018, 663,277 deferred units were issued as retention bonuses and included in the consideration for the internalization of the property manager function (note 21).

(Cdn $ Thousands except unit amounts)

13. UNIT-BASED COMPENSATION LIABILITIES (Continued)

(ii) UNIT OPTIONS

The Trust has a unit option plan and provides for options to be granted to the benefit of employees, Trustees and certain other third parties. The exercise price of options granted under the unit option plan will be determined by the Trustees, but will be at least equal to the volume weighted average trading price of the Trust Units for the five trading days immediately prior to the date the option was granted. The term of any option granted shall not exceed 10 years or such other maximum permitted time period under applicable regulations. At the time of granting options, the Board of Trustees determines the time, or times, when an option or part of an option shall be exercisable. The Trust will not provide financial assistance to any optionee in connection with the exercise of options.

Options granted, exercised and expired during the years ended December 31 are as follows:

	2019		2018	
	Number of units	**Weighted average exercise price**	**Number of units**	**Weighted average exercise price**
Balance, beginning of period	1,006,585	$ 6.11	1,345,850	$ 5.96
Exercised (note 15)	(152,445)	$ 6.12	(329,265)	$ 5.44
Expired	-	$ -	(10,000)	$ 7.67
Balance, end of period	**854,140**	**$ 6.11**	**1,006,585**	**$ 6.11**

Options outstanding at December 31, 2019:

Exercise price	Number of units	Remaining life in years	Number of units exercisable
$ 2.13	50,000	1.48	50,000
$ 5.50	55,000	2.68	55,000
$ 5.65	255,220	3.45	255,220
$ 5.81	227,675	4.96	227,675
$ 7.67	266,245	7.58	266,245
	854,140		**854,140**

Total compensation expense for the year was $51 (2018 - $191). Compensation cost was determined based on an estimate of the fair value using the Black-Scholes option pricing model at date of grant using the following weighted average assumptions for the 2017 grant: market price of unit $7.86, expected option life 6 years, risk-free interest rate 1.67%, expected volatility, based on historical, 25% and expected distribution yield 5.0%.

The weighted average market price of options exercised in the year ended December 31, 2019 was $14.64 (2018 - $10.00).

(Cdn $ Thousands except unit amounts)

13. UNIT-BASED COMPENSATION LIABILITIES (Continued)

The unit options represented an aggregate fair value of $7,236 at December 31, 2019 (December 31, 2018 - $5,798). The fair value of unit options is re-valued at each reporting period based on an estimate of the fair value using the Black-Scholes option pricing model using the following weighted average valuation assumptions:

	December 31, 2019	December 31, 2018
Market price of Unit	$ 15.64	$ 13.05
Expected option life	1.7 years	2.3 years
Risk-free interest rate	1.67%	1.88%
Expected volatility (based on historical)	17%	17%
Expected distribution yield	5.0%	5.0%

14. LONG-TERM INCENTIVE PLAN

The Board of Trustees may award long-term incentive plan (“LTIP”) units to certain officers and key employees, collectively the "Participants". The maximum number of Trust Units issuable under the Trust’s equity incentive compensation plans, which includes the long-term incentive plan, as well as the DUP and unit option plan (note 13) is 7% of the issued and outstanding Trust Units. The Participants can subscribe for Trust Units at a purchase price equal to the weighted average trading price of the Trust Units for the five trading days prior to issuance. The purchase price is payable in instalments, with an initial instalment of 5% paid when the Trust Units are issued. The balance represented by a loan receivable (note 8) is due over a term not exceeding ten years. Participants are required to pay interest at a ten-year fixed rate based on the Trust's fixed borrowing rate for long-term mortgage financing and are required to apply cash distributions received on these units toward the payment of interest and the remaining instalments. Participants may pre-pay any remaining instalments at their discretion. The Trust has recourse on the loans receivable and has reasonable assurance that the Trust will collect the full amount of the loan receivable. The loans receivable are secured by the units as well as the distributions on the units. If a Participant fails to pay interest and/or principal, the Trust can enforce repayment which may include the election to reacquire or sell the units in satisfaction of the outstanding amounts.

Date of award	Number of units	Interest rate	Loan receivable
March 8, 2012	250,000	3.57%	$ 752
June 29, 2012	50,000	3.35%	164
September 11, 2012	100,000	3.35%	463
June 27, 2013	175,000	3.85%	857
December 16, 2014	100,000	3.27%	514
June 9, 2015	75,000	3.44%	435
June 30, 2016	285,000	2.82%	2,064
July 28, 2017	465,000	3.09%	3,333
March 5, 2018	310,000	3.30%	2,836
	1,810,000		$ 11,418

(Cdn $ Thousands except unit amounts)

15. TRUST UNITS

As a result of the redeemable feature of the Trust Units, the Trust Units are defined as a financial liability; however, for the purposes of financial statement classification and presentation, the Trust Units are presented as equity instruments in accordance with IAS 32, Financial Instruments.

	Trust Units	Amount
Balance – December 31, 2017	**83,891,517**	**$ 341,528**
Issued from prospectuses	20,803,500	212,853
Unit issue costs	-	(9,358)
Units redeemed and cancelled	(510)	(5)
Units Issued under long-term incentive plan	335,000	3,226
Units Issued under the deferred unit plan (note 13(i))	148,794	1,610
Units Issued under distribution reinvestment plan	524,451	5,627
Units Issued from options exercised (note 13(ii))	329,265	3,134
Balance – December 31, 2018	**106,032,017**	**$ 558,615**
Issued from prospectuses	14,375,000	201,250
Unit issue costs	-	(8,559)
Units Issued under the deferred unit plan (note 13(i))	76,697	1,045
Units Issued under distribution reinvestment plan	842,562	11,888
Units Issued from options exercised (note 13(ii))	152,445	2,043
Balance – December 31, 2019	**121,478,721**	**$ 766,282**

On July 9, 2019 the Trust completed a bought deal prospectus offering whereby it issued 14,375,000 Trust Units for cash proceeds of $201,250 and incurred $8,559 in issue cost.

On August 9, 2018 the Trust completed a bought deal prospectus offering whereby it issued 10,798,500 Trust Units for cash proceeds of $115,004 and incurred $5,032 in issue cost.

On March 28, 2018 the Trust completed a bought deal prospectus offering whereby it issued 10,005,000 Trust Units for cash proceeds of $97,849 and incurred $4,326 in issue cost.

15. TRUST UNITS (Continued)

Declaration of Trust

The Declaration of Trust authorizes the Trust to issue an unlimited number of units for consideration and on terms and conditions established by the Trustees without the approval of any unitholders. The interests in the Trust are represented by two classes of units: a class described and designated as "Trust Units" and a class described and designated as "Special Voting Units". The beneficial interests of the two classes of units are as follows:

(a) Trust Units

Trust Units represent an undivided beneficial interest in the Trust and in distributions made by the Trust. The Trust Units are freely transferable, subject to applicable securities regulatory requirements. Each Trust Unit entitles the holder to one vote at all meetings of unitholders. Except as set out under the redemption rights below, the Trust Units have no conversion, retraction, redemption or pre-emptive rights.

Trust Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt by the Trust of a written redemption notice and other documents that may be required, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per Trust Unit equal to the lesser of:

i) 90% of the "market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading during the twenty-day period ending on the trading day prior to the day on which the Trust Units were surrendered to Trust for redemption; and

ii) 100% of the "closing market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading on the redemption notice date.

(b) Special Voting Units

The Declaration of Trust provides for the issuance of an unlimited number of Special Voting Units that will be used to provide voting rights to holders of Class B LP units or other securities that are, directly or indirectly, exchangeable for Trust Units.

Each Special Voting Unit entitles the holder to the number of votes at any meeting of unitholders, which is equal to the number of Trust Units that may be obtained upon surrender of the Class B LP unit to which the Special Voting Unit relates. The Special Voting Units do not entitle or give any rights to the holders to receive distributions or any amount upon liquidation, dissolution or winding-up of Trust. There is no value assigned to the Special Voting Units.

(Cdn $ Thousands except unit amounts)

16. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

	2019	2018
Lease revenue [1]	$ 141,890	$ 124,310
Non-lease revenue [2]	3,412	2,976
	$ 145,302	$ 127,286

[1] Consists of lease revenue from residential, parking and commercial tenants

[2] Consists of revenue from non-lease items such as laundry, commercial common area maintenance and ancillary services

17. FINANCING COSTS

	2019	2018
Mortgages and loans payable	$ 25,750	$ 23,585
Credit facilities	1,695	1,414
Interest income	(490)	(606)
Interest capitalized	(1,403)	-
Interest expense	25,552	24,393
Amortization of deferred finance costs on mortgages	915	1,154
Amortization of deferred finance costs on credit facilities	228	218
Amortization of fair value on assumed debt	(422)	(200)
	$ 26,273	$ 25,565

18. OTHER FAIR VALUE LOSSES

	2019	2018
Class B LP unit liability	$ (8,834)	$ (12,446)
Unit-based compensation liability (deferred unit plan)	(11,971)	(11,386)
Unit-based compensation liability (option plan)	(2,497)	(3,579)
	$ (23,302)	$ (27,411)

19. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	2019	2018
Class B LP unit liability	$ 1,000	$ 860
Unit-based compensation liability (deferred unit plan)	1,205	971
	$ 2,205	$ 1,831

(Cdn $ Thousands except unit amounts)

20. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Net change in non-cash operating assets and liabilities

		2019		2018
Receivables and other assets	$	**274**	$	(1,567)
Prepaid and deposits		**4,105**		(3,421)
Accounts payable and accrued liabilities		**1,943**		(65)
Tenant rental deposits		**1,113**		709
	$	**7,435**	$	(4,344)

(b) Net cash distributions to unitholders

		2019		2018
Distributions declared to unitholders	$	**33,408**	$	26,696
Add: Distributions payable at beginning of year		**2,563**		1,888
Less: Distributions payable at end of year		**(3,138)**		(2,563)
Less: Distributions to participants in the DRIP		**(11,888)**		(5,627)
	$	**20,945**	$	20,394

(c) Interest paid

		2019		2018
Interest expense	$	**25,552**	$	24,393
Add: Mortgage interest payable at beginning of year		**1,512**		1,093
Less: Mortgage interest payable at end of year		**(1,636)**		(1,512)
Add: Interest capitalized		**1,403**		-
Add: Interest income received		**490**		606
	$	**27,321**	$	24,580

(d) Reconciliation of liabilities arising from financing activities

Mortgages payable		2019		2018
Balance, beginning of year	$	**817,512**	$	746,361
Mortgage advances		**30,250**		219,264
Assumed mortgages		**73,238**		4,633
Repayment of mortgages		**(23,991)**		(152,746)
Balance, end of year	$	**897,009**	$	817,512

Credit Facilities		2019		2018
Balance, beginning of year	$	**23,550**	$	59,130
Advances of credit facilities		**3,315**		-
Repayment of credit facilities		**-**		(35,580)
Balance, end of year	$	**26,865**	$	23,550

(Cdn $ Thousands except unit amounts)

21. RELATED PARTY TRANSACTIONS

The transactions with related parties are incurred in the normal course of business. Related party transactions have been listed below.

(i) Services

There were no related party transactions during the year ended December 31, 2019.

During the year ended December 31, 2018, the Trust incurred $992 in property, asset and project management services and shared legal services (prior to property management internalization) from companies controlled by an officer of the Trust. Of the services received approximately $182 has been capitalized to the investment properties and the remaining amounts are included in operating and administrative costs.

(ii) Property management internalization

On February 15, 2018, the REIT entered into an agreement with CLV Group Inc. (the “Property Manager”) to internalize the REIT’s property management function. Upon closing of the transaction, a subsidiary of the REIT acquired the Property Manager’s REIT-related property management business for a total consideration of $37,955 to the Property Manager (3,224,516 Class B LP units (exchangeable on a one-for-one basis) at a value of approximately $9.42 per unit, or $30,364 and $7,591 in cash) and $3,098 in deferred units as retention bonuses to employees being transferred to InterRent (to be matched and vest over a period of up to 5 years in accordance with the Deferred Unit Plan). The total consideration, including all future vesting of deferred units, is approximately $44,151. The REIT also incurred approximately $2,048 in transaction related costs.

During the year ended December 31, 2018, the REIT recorded $43,993 in property management internalization costs. The remaining $2,100 relating to the future vesting of the matched portion of the retention bonuses to employees will be expensed over the next 5 years as administrative costs. There was no activity during the year ended December 31, 2019.

(iii) Key management remuneration

Key management consists of the Trustees and executive management team of the Trust. Compensation paid or payable is provided in the following table.

	2019	2018
Salaries and other short-term employee benefits	**$ 1,962**	$ 1,382
Deferred unit plan	**2,338**	2,447[1]
	$ 4,300	$ 3,829

[1] Excludes retention bonuses issued as part of the property management internalization

Loans outstanding from key management for indebtedness relating to the LTIP at December 31, 2019 were $11,041 (December 31, 2018 - $12,149). Deferred unit plan includes accrued compensation for key management at December 31, 2019 for $2,005 (December 31, 2018 - $2,145).

22. CAPITAL RISK MANAGEMENT

The Trust's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its unitholders. The Trust defines capital that it manages as the aggregate of its unitholders' equity, which is comprised of issued capital and retained earnings, Class B LP units and deferred unit capital and options recorded as unit-based compensation liabilities.

The Trust manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Trust's working capital requirements. In order to maintain or adjust its capital structure, the Trust, upon approval from its Board of Trustees, may issue or repay long-term debt, issue units, repurchase units through a normal course issuer bid, pay distributions or undertake other activities as deemed appropriate under the specific circumstances. The Board of Trustees reviews and approves any material transactions out of the ordinary course of business, including approval of all acquisitions of investment properties, as well as capital and operating budgets. There have been no changes to the Trust's capital risk management policies for the years ended December 31, 2019 and 2018.

The Trust monitors capital using a debt to gross book value ratio, as defined in the Declaration of Trust which requires the Trust to maintain a debt-to-gross book value ratio below 75%. As at December 31, 2019, the debt-to-gross book value ratio is 32.5% (December 31, 2018 – 38.9%).

In addition, the Trust is subject to financial covenants in its mortgages payable and credit facilities such as minimum tangible net worth, interest coverage, debt service coverage and leverage ratio (similar to debt to gross book value as calculated in the Declaration of Trust). The Trust was in compliance with all financial covenants throughout the years ended December 31, 2019 and 2018.

23. FINANCIAL RISK MANAGEMENT

a) Overview

The Trust is exposed to credit risk, liquidity risk and market risk. The Trust's primary risk management objective is to protect earnings and cash flow and, ultimately, unitholders value. Risk management strategies, as discussed below, are designed and implemented to ensure the Trust's risks and the related exposures are consistent with its business objectives and risk tolerance.

b) Credit Risk

The Trust's credit risk is attributable to its rents and other receivables and loan receivable long-term incentive plan.

Credit risk arises from the possibility that: (i) tenants may experience financial difficulty and be unable to fulfil their lease commitments; and (ii) a party defaults on the repayment of their debt causing a financial loss to the Trust.

For its rents receivable, the Trust conducts credit assessments for all prospective tenants and, where permitted, obtains a security deposit to assist in potential recoveries. The Trust monitors its collection process on a monthly basis and all receivables from past tenants and tenant receivables over 30 days are provided for in allowances for doubtful accounts.

Credit risk relating to other receivables and loan receivable long-term incentive plan is mitigated through recourse against such parties and/or the underlying security. These receivables are considered to have low credit risk.

(Cdn $ Thousands except unit amounts)

23. FINANCIAL RISK MANAGEMENT (Continued)

At December 31, 2019, the Trust had past due rents and other receivables of $2,674 (December 31, 2018 - $2,922), net of an allowance for doubtful accounts of $1,147 (December 31, 2018 - $982) which adequately reflects the Trust's credit risk.

c) Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The Trust manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 22 to the consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities (excluding derivative and other financial instruments reported as liabilities at fair value) when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust's reputation. In addition, liquidity and capital availability risks are mitigated by diversifying the Trust's sources of funding, maintaining a staggered debt maturity profile and actively monitoring market conditions.

As at December 31, 2019 and 2018, the Trust had credit facilities as described in note 10.

The Trust continues to refinance the outstanding debts as they mature. Given the Trust's available credit and its available liquid resources from both financial assets and on-going operations, management assesses the Trust's liquidity risk to be low.

The undiscounted contractual maturities and repayment obligations of the Trust's financial liabilities, excluding unit-based compensation liabilities and Class B LP unit liability as their redemption time is uncertain, as at December 31, 2019 are as follows:

Year	Mortgages and loans payable	Mortgage and loan interest (1)	Credit facilities	Accounts payable and accrued liabilities	Total
2020	$179,137	$ 24,720	$ -	$ 30,409	$ 234,266
2021	76,927	19,922	6,430	-	103,279
2022	71,011	17,927	20,435	-	109,373
2023	81,264	15,409	-	-	96,673
2024	69,733	13,074	-	-	82,807
Thereafter	418,937	43,150	-	-	462,087
	$897,009	**$ 134,202**	**$ 26,865**	**$ 30,409**	**$ 1,088,485**

(1) Based on current in-place interest rates for the remaining term to maturity.

d) Market Risk

Market risk includes the risk that changes in interest rates will affect the Trust's cash flows or the fair value of its financial instruments.

At December 31, 2019, approximately 12% (December 31, 2018 – 13%) of the Trust's mortgage debt is at variable interest rates and the Trust's credit facilities bear interest at variable rates. If there was a 100 basis point change in the interest rate, cash flows would have changed by approximately $1,354 for the year ended December 31, 2019 (2018 - $1,510).

(Cdn $ Thousands except unit amounts)

24. FAIR VALUE MEASUREMENT

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

Financial instruments are defined as a contractual right to receive or deliver cash or another financial asset. The fair values of the Trust's financial instruments, except for mortgages payable, approximate their recorded values due to their short-term nature and/or the credit terms of those instruments.

The fair value of the mortgages payable has been determined by discounting the cash flows using current market rates of similar instruments. These estimates are subjective in nature and therefore cannot be determined with precision. The fair value of mortgages payable, and credit facilities, which are measured at a fair value level 2, is approximately $931,624 (December 31, 2018 - $832,626) excluding any deferred financing costs.

The following table presents the fair values by category of the Trust's assets and liabilities:

December 31, 2019	**Level 1**	**Level 2**	**Level 3**
Assets			
Investment properties	-	-	$ 2,748,342
Liabilities			
Unit-based compensation liability	-	$ 66,070	-
Class B LP unit liability	-	53,345	-

December 31, 2018	**Level 1**	**Level 2**	**Level 3**
Assets			
Investment properties	-	-	$ 2,077,051
Liabilities			
Unit-based compensation liability	-	$ 48,392	-
Class B LP unit liability	-	44,511	-

25. COMMITMENTS AND CONTINGENCIES

The Trust is committed to purchase a property (4 suites) which is contiguous to our development site at Richmond Churchill and will become part of the land assembly in March 2020 for a purchase price of approximately $1,350.

In the ordinary course of business activities, the Trust may be contingently liable for litigation and claims with tenants, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

26. SUBSEQUENT EVENTS

The Trust purchased a property (57 suites) that closed on February 27, 2020 for a purchase price of approximately $18,150.