InterRent Real Estate Investment Trust

Condensed Consolidated Interim Financial Statements

September 30, 2018
(unaudited)

InterRent Real Estate Investment Trust

Condensed Consolidated Interim Balance Sheets

Unaudited (Cdn $ Thousands)

	Note	**September 30, 2018**	December 31, 2017
Assets			
Investment properties	3	**$ 2,010,863**	$ 1,630,824
Investment in joint venture	5	**16,712**	11,140
Prepaids and deposits		**3,903**	2,913
Receivables and other assets	6	**16,353**	13,183
Cash		**3,066**	385
Total assets		**$ 2,050,897**	$ 1,658,445
Liabilities			
Mortgages and loans payable	7	**$ 801,587**	$ 733,414
Credit facilities	8	**-**	59,130
Class B LP unit liability	10	**40,077**	1,701
Unit-based compensation liabilities	11	**42,289**	27,017
Tenant rental deposits		**10,223**	9,400
Accounts payable and accrued liabilities	9	**30,900**	23,683
Total liabilities		**925,076**	854,345
Unitholders' equity			
Unit capital	13	**556,330**	341,528
Retained earnings		**569,491**	462,572
Total unitholders' equity		**1,125,821**	804,100
Total liabilities and unitholders' equity		**$ 2,050,897**	$ 1,658,445

Commitments and contingencies (note 23)

Subsequent events (note 24)

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

On behalf of the Trust *Ronald Leslie* Trustee *Michael McGahan* Trustee

InterRent Real Estate Investment Trust

Condensed Consolidated Interim Statements of Income
For the three and nine months ended September 30
Unaudited (Cdn $ Thousands)

		Three months ended September 30		Nine months ended September 30	
	Note	**2018**	2017	**2018**	2017
Operating Revenues					
Revenue from investment properties	14	**$ 32,149**	$ 27,800	**$ 93,224**	$ 79,294
Operating Expenses					
Property operating costs		**4,839**	4,830	**14,161**	13,621
Property taxes		**3,982**	3,881	**11,995**	10,741
Utilities		**1,766**	1,563	**7,162**	7,122
		10,587	10,274	**33,318**	31,484
Net operating income		**21,562**	17,526	**59,906**	47,810
Financing costs	15	**6,373**	5,304	**18,974**	15,788
Administrative costs		**2,679**	2,158	**7,796**	6,512
Income before other income and expenses		**12,510**	10,064	**33,136**	25,510
Other income and expenses					
Property management internalization cost	19	**-**	-	**(43,993)**	-
Fair value adjustments of investment properties	3	**75,822**	101,450	**156,071**	135,765
Other fair value losses	16	**(6,403)**	(217)	**(17,786)**	(2,113)
Interest on units classified as financial liabilities	17	**(494)**	(185)	**(1,319)**	(527)
Net income for the period		**$ 81,435**	$ 111,112	**$ 126,109**	$ 158,635

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

InterRent Real Estate Investment Trust

Condensed Consolidated Interim Statements of Unitholders' Equity
For the nine months ended September 30
Unaudited (Cdn $ Thousands)

	Trust units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings	Total Unitholders' equity
Balance, January 1, 2017	$ 254,777	$ 346,261	$ (64,487)	$ 281,774	$ 536,551
Units issued	85,691	-	-	-	85,691
Net income for the period	-	158,635	-	158,635	158,635
Distributions declared to Unitholders	-	-	(14,711)	(14,711)	(14,711)
Balance, September 30, 2017	**$ 340,468**	**$ 504,896**	**$ (79,198)**	**425,698**	**$ 766,166**
Balance, January 1, 2018	$ 341,528	$ 547,241	$ (84,669)	$ 462,572	$ 804,100
Units issued	214,802	-	-	-	214,802
Net income for the period	-	126,109	-	126,109	126,109
Distributions declared to Unitholders	-	-	(19,190)	(19,190)	(19,190)
Balance, September 30, 2018	**$ 556,330**	**$ 673,350**	**$ (103,859)**	**$ 569,491**	**$ 1,125,821**

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

InterRent Real Estate Investment Trust

Condensed Consolidated Interim Statements of Cash Flows
For the nine months ended September 30
(Cdn $ Thousands)

	Note	2018	2017
Cash flows from (used in) operating activities			
Net income for the period		**$ 126,109**	$ 158,635
Add items not affecting cash			
Property management internalization cost	19	**35,387**	-
Amortization		**331**	236
Fair value adjustments on investment properties	3	**(156,071)**	(135,765)
Other fair value losses	16	**17,786**	2,113
Unit-based compensation expense	11	**4,820**	3,417
Financing costs	15	**18,974**	15,788
Interest expense	15	**(18,097)**	(14,939)
Tenant inducements		**571**	937
		29,810	30,422
Net income items related to financing activities	17	**618**	34
Changes in non-cash operating assets and liabilities	18	**(2,362)**	(575)
Cash from operating activities		**28,066**	29,881
Cash flows from (used in investing activities			
Acquisition of investment properties	4	**(173,473)**	(78,862)
Investment in joint venture	5	**(5,572)**	(9,883)
Additions to investment properties	3	**(40,391)**	(38,264)
Cash used in investing activities		**(219,436)**	(127,009)
Cash flows from (used in) financing activities			
Mortgage and loan repayments		**(148,523)**	(111,411)
Mortgage advances		**219,264**	180,449
Financing fees		**(5,909)**	(2,120)
Credit facility advances (repayments)		**(59,130)**	(35,500)
Trust units issued, net of issue costs	13	**205,350**	77,241
Deferred units purchased and cancelled	11	**(1,166)**	(226)
Interest paid on units classified as financial liabilities	17	**(618)**	(34)
Distributions paid	18	**(15,217)**	(11,395)
Cash from financing activities		**194,051**	97,004
Increase/(decrease) in cash during the period		**2,681**	(124)
Cash at the beginning of period		**385**	491
Cash at end of period		**$ 3,066**	$ 367

The accompanying notes are an integral part of these condensed consolidated interim 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 December 29, 2010, 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 condensed consolidated interim financial statements for the period ended September 30, 2018 were authorized for issuance by the Trustees of the Trust on October 30, 2018.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB, have been omitted or condensed.

The financial statements have been presented in Canadian dollars, which is the Trust’s functional currency, rounded to the nearest thousand unless otherwise indicated.

These condensed consolidated interim financial statements should be read in conjunction with the Trust’s annual consolidated financial statements for the year ended December 31, 2017.

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.

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

i) Investment properties, which are measured at fair value;
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.

Basis of consolidation

The condensed consolidated interim 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)

Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment when applying the Trust's accounting policies. The critical accounting estimates and judgments have been set out in notes 2 and 3 to the Trust's consolidated financial statements for the year ended December 31, 2017.

Significant accounting policies

The condensed consolidated interim financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2017 except for the accounting standards implemented below.

Accounting standards implemented in 2018

The Trust adopted IFRS 9 Financial Instruments on January 1, 2018 retrospectively with no restatement of comparative periods. The adoption of the new standard by the Trust resulted in no change in measurement or the carrying amount of financial assets and liabilities however the classification of financial instruments and liabilities changed as follows:

- Cash, rents and other receivables, loan receivable long-term incentive plan, mortgage holdbacks and mortgages receivable that were classified as loans and receivables are now classified as amortized cost.
- Mortgages and loans payable, credit facilities, tenant rental deposits and accounts payable and accrued liabilities that were classified as other liabilities are now 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.

The Trust adopted IFRS 15 Revenue from Contracts with Customers on January 1, 2018 and applied the requirements of the standard retrospectively. The adoption of the new standard by the Trust resulted in no change to the pattern of revenue recognition or the measurement of revenue, however, additional note disclosure has been added to Note 14 on the disaggregation of the Trust's revenue streams.

The Trust adopted the amendments to IFRS 2 Share-based Payment on January 1, 2018. The adoption of the amendments by the Trust resulted in no change to the presentation to the Trust's condensed consolidated interim financial statements.

The Trust adopted the amendments to IAS 40 Investment Property on January 1, 2018. The adoption of the amendments by the Trust resulted in no change to the presentation to the Trust's condensed consolidated interim financial statements.

The Trust early adopted IFRS 16 Leases on January 1, 2018 and applied the requirements of the standard retrospectively. The adoption of the new standard by the Trust resulted in no change to the presentation to the Trust's condensed consolidated interim financial statements.

Unaudited (Cdn $ Thousands except unit amounts)

3. INVESTMENT PROPERTIES

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

	September 30, 2018	December 31, 2017
Balance, beginning of period	**$ 1,630,824**	$ 1,308,907
Acquisitions (note 4)	**176,091**	99,026
Property capital investments	**47,877**	50,427
Fair value adjustments	**156,071**	172,464
	$ 2,010,863	$ 1,630,824

	September 30, 2018	December 31, 2017
Income properties	**$ 1,956,323**	$ 1,630,824
Land held for development	**54,540**	-
	$ 2,010,863	$ 1,630,824

The fair value of the investment properties is determined internally by the Trust. The fair value methodology of the Trust's investment properties is considered a level 3 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 an estimated annual net operating income ("NOI"), which incorporates allowances for vacancy, management fees, labour and repairs and maintenance for the property. In order to substantiate management's valuation, market evidence from third party appraisers is incorporated on a continual basis. The information obtained from the appraisers provided the Trust with a summary of 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:

	September 30, 2018		**December 31, 2017**	
	Range	**Weighted average**	**Range**	**Weighted average**
Capitalization rate	3.75% - 6.75%	4.41%	3.88% - 6.75%	4.55%

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

As at September 30, 2018

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 83,686	$ 85,411	**$ 86,274**	$ 87,137	$ 88,862
Capitalization rate						
-0.25%	4.16%	$ 2,011,677	$ 2,053,155	$ 2,073,894	$ 2,094,633	$ 2,136,111
Cap rate used	**4.41%**	$ 1,897,637	$ 1,936,763	**$ 1,956,323**	$ 1,975,890	$ 2,015,016
+0.25%	4.66%	$ 1,795,832	$ 1,832,860	$ 1,851,373	$ 1,869,887	$ 1,906,915

Unaudited (Cdn $ Thousands except unit amounts)

3. INVESTMENT PROPERTIES (Continued)

As at December 31, 2017

Net operating income		-3% $ 71,976	-1% $ 73,460	As estimated **$ 74,202**	+1% $ 74,944	+3% $ 76,428
Capitalization rate						
-0.25%	4.30%	$ 1,673,859	$ 1,708,372	$ 1,725,628	$ 1,742,884	$ 1,777,397
Cap rate used	**4.55%**	$ 1,581,889	$ 1,614,505	**$ 1,630,824**	$ 1,647,121	$ 1,679,738
+0.25%	4.80%	$ 1,499,499	$ 1,530,416	$ 1,545,875	$ 1,561,334	$ 1,592,251

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

Cash outflow used for additions to investment properties for the nine month ended:

	September 30, 2018	September 30, 2017
Property capital investments	**$ (47,877)**	$ (37,717)
Changes in non-cash investing accounts payable and accrued liabilities	**7,486**	(547)
	$ (40,391)	$ (38,264)

4. INVESTMENT PROPERTY ACQUISITIONS

During the nine months ended September 30, 2018, the Trust completed the following investment property acquisitions, which has contributed to the operating results effective from the acquisition date:

Acquisition Date	**Suite Count**	**Total Acquisition Costs**	**Mortgage Funding**	**Interest Rate**	**Maturity Date**
January 10, 2018	48	$ 5,425	$ 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)]	44,060	-	-%	n/a
September 25, 2018	138	29,361	-	-%	n/a
September 25, 2018	77	16,115	-	-%	n/a
	575	**$ 176,091**	**$ 47,118**		

[(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.

During the nine months ended September 30, 2017, the Trust completed the following income property acquisition, which has contributed to the operating results effective from the acquisition date:

Acquisition Date	**Suite Count**	**Total Acquisition Costs**	**Mortgage Funding**	**Interest Rate**	**Maturity Date**
March 6, 2017	224	$ 25,477	$ 17,085	3.165% & 2.24%	September 1, 2023 & June 1, 2022
August 28, 2017	74	$ 11,811	$ 3,341	3.11%	March 1, 2022
September 14, 2017	249	$ 55,347	$ 35,000	BA +1.70%	September 14, 2020
	547	**$ 92,635**	**$ 55,426**		

Unaudited (Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTY ACQUISITIONS (Continued)

Cash outflow used for investment property acquisitions:

	September 30, 2018	September 30, 2017
Total acquisition costs	**$ (176,091)**	$ (92,635)
Fair value adjustment of assumed debt	**-**	372
Assumed debt	**2,618**	13,401
	$ (173,473)	$ (78,862)

5. INVESTMENT IN JOINT VENTURE

The Trust owns a 33.3% interest in a limited partnership joint venture (TIP Albert Limited Partnership) developing one investment property located in Ottawa Canada.

The Trust accounts for its joint venture interest using the equity method. The joint venture was established to develop, construct, lease, operate and manage an investment property.

The Trust is contingently liable for certain obligations of the joint venture, up to the Trust's 33.3% interest. All of the net assets of the joint venture are available for the purpose of satisfying such obligations and guarantees.

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

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

	September 30, 2018	December 31, 2017
Balance, beginning of period	**$ 10,867**	$ -
Additions	**5,572**	10,867
Share of net income	**-**	-
Distributions	**-**	-
	$ 16,439	$ 10,867
Transaction costs	**$ 273**	$ 273
Carrying value of the investment in joint venture	**$ 16,712**	$ 11,140

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

	September 30, 2018	December 31, 2017
Current assets	**$ 395**	$ 1,237
Non-current assets	**65,255**	49,780
Current liabilities	**(833)**	(2,916)
Non-current liabilities	**(15,500)**	(15,500)
Net assets	**$ 49,317**	32,601
Trust's share (33.3%)	**$ 16,439**	$ 10,867

The joint venture had no operating results during the reporting periods.

Unaudited (Cdn $ Thousands except unit amounts)

6. RECEIVABLES AND OTHER ASSETS

	September 30, 2018	December 31, 2017
Current:		
Rents and other receivables, net of allowance for uncollectable amounts	**$ 1,595**	$ 1,177
Tenant inducements [1]	**357**	494
	$ 1,952	$ 1,671
Non-current:		
Automobiles, software, equipment, furniture and fixtures, net of accumulated amortization of $1,214 (2017 - $883)	**$ 1,640**	$ 1,280
Deferred finance fees on credit facilities, net of accumulated amortization of $1,324 (2017 - $1,160)	**197**	351
Loan receivable long-term incentive plan (note 12)	**12,564**	9,881
	$ 14,401	$ 11,512
	$ 16,353	$ 13,183

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

7. MORTGAGES AND LOANS PAYABLE

Mortgages and vendor take-back loans are secured by the investment properties and bear interest at a weighted average interest rate of 2.97% (December 31, 2017 – 2.81%).

The mortgages and vendor take-back loans mature at various dates between the years 2018 and 2028.

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

2018	$ 41,751
2019	52,242
2020	96,573
2021	52,951
2022	71,897
Thereafter	504,306
	819,720
Less: Deferred finance costs and mortgage premiums	18,133
	$ 801,587

Unaudited (Cdn $ Thousands except unit amounts)

8. CREDIT FACILITIES

	September 30, 2018	December 31, 2017
Demand credit facility (i)	**$ -**	$ -
Term credit facility (ii)	**-**	-
Term credit facility (iii)	**-**	4,130
Term credit facility (iv)	**-**	55,000
	$ -	$ 59,130

(i) The Trust has a $500 (2017 - $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 the period ended September 30, 2018 was 4.01% (2017 – 3.40%).

(ii) The Trust has a $35,000 (2017 - $35,000) term credit facility, maturing in 2019, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on ten (2017 – 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 period ended September 30, 2018 was 4.21% (2017 – 3.60%).

(iii) The Trust has a $25,000 (2017 - $25,000) term credit facility, maturing in 2018, with a Canadian chartered bank secured by a general security agreement, first mortgage on two (2017 – two) of the Trust's properties and second collateral mortgages on two (2017 – 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 period ended September 30, 2018 was 4.21% (2017 – 3.60%).

(iv) The Trust has a $60,000 (2017 - $60,000) term credit facility, maturing in 2020, with a Canadian chartered bank secured by a general security agreement, first mortgages on two (2017 – two) of the Trust's properties and second collateral mortgages on five (2017 – 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 period ended September 30, 2018 was 3.36% (2017 – 2.83%).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2018	December 31, 2017
Accounts payable	**$ 5,133**	$ 5,371
Accrued liabilities	**21,785**	15,327
Accrued distributions	**2,458**	1,892
Mortgage interest payable	**1,524**	1,093
	$ 30,900	$ 23,683

Unaudited (Cdn $ Thousands except unit amounts)

10. 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, 2016	**186,250**
Units issued	-
Balance - December 31, 2017	**186,250**
Units issued	3,224,516
Balance – September 30, 2018	**3,410,766**

The aggregate fair value of the Class B LP Units is $40,077 at September 30, 2018 (December 31, 2017 - $1,701). 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 19).

11. 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:

	September 30, 2018	December 31, 2017
Unit-based liabilities, beginning of period	**$ 27,017**	$ 18,425
Compensation expense – deferred unit plan	**3,950**	3,530
Property management internalization cost (DUP)	**4,751**	-
Compensation expense – unit option plan	**169**	110
DRIP[1] expense – deferred unit plan	**701**	673
DUP units converted, cancelled and forfeited	**(2,776)**	(966)
Unit options exercised and expired	**(1,297)**	(544)
Loss on fair value of liability (note 16)	**9,774**	5,789
Unit-based liabilities, end of period	**$ 42,289**	$ 27,017

(1) Distribution reinvestment plan

Unaudited (Cdn $ Thousands except unit amounts)

11. 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 12) is 10% 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, 2016	**2,404,965**
Units issued under deferred unit plan	517,380
Reinvested distributions on deferred units	87,553
Deferred units exercised into Trust Units (note 13)	(89,303)
Deferred units purchased and cancelled	(27,026)
Deferred units cancelled	(4,946)
Balance - December 31, 2017	**2,888,623**
Units issued under deferred unit plan	1,236,641
Reinvested distributions on deferred units	74,699
Deferred units exercised into Trust Units (note 13)	(148,873)
Deferred units purchased and cancelled	(118,317)
Deferred units cancelled	(19,258)
Balance – September 30, 2018	**3,913,515**

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 $37,589 at September 30, 2018 (December 31, 2017 - $23,647). 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 19).

Unaudited (Cdn $ Thousands except unit amounts)

11. 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 nine months ended September 30 are as follows:

	2018		2017	
	Number of units	**Weighted average exercise price**	**Number of units**	**Weighted average exercise price**
Balance, beginning of period	1,345,850	$ 5.96	1,180,175	$ 5.18
Granted	-	$ -	330,000	$ 7.67
Exercised	(316,765)	$ 5.38	(160,875)	$ 3.80
Expired	(10,000)	$ 7.67	(1,000)	$ 5.81
Balance, end of period	**1,019,085**	**$ 6.12**	**1,348,300**	**$ 5.95**

Options outstanding at September 30, 2018:

Exercise price	**Number of units**	**Remaining life in years**	**Number of units exercisable**
$ 2.13	56,000	2.73	56,000
$ 5.50	60,325	3.93	60,325
$ 5.65	308,510	4.71	308,510
$ 5.81	278,000	6.22	278,000
$ 7.67	316,250	8.83	156,250
	1,019,085		**859,085**

Total compensation expense for the nine months was $169 (2017 - $44). 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 nine months ended September 30, 2018 was $9.92.

Unaudited (Cdn $ Thousands except unit amounts)

11. UNIT-BASED COMPENSATION LIABILITIES (Continued)

The unit options represented an aggregate fair value of $4,700 at September 30, 2018 (December 31, 2017 - $3,370). 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:

	September 30, 2018	December 31, 2017
Market price of Unit	$ 11.75	$ 9.13
Expected option life	2.5 years	2.7 years
Risk-free interest rate	2.24%	1.73%
Expected volatility (based on historical)	17%	18%
Expected distribution yield	5.0%	5.0%

12. 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 11) is 10% 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 6) 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%	806
June 29, 2012	50,000	3.35%	174
September 11, 2012	100,000	3.35%	480
June 27, 2013	175,000	3.85%	878
December 16, 2014	100,000	3.27%	529
June 9, 2015	75,000	3.44%	443
June 30, 2016	285,000	2.82%	2,093
July 28, 2017	565,000	3.09%	4,096
March 5, 2018	335,000	3.30%	3,065
	1,950,000		$ 12,564

Unaudited (Cdn $ Thousands except unit amounts)

13. 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, 2016	**72,108,536**	**$ 254,777**
Issued from prospectus	10,425,000	80,064
Unit issue costs	-	(3,661)
Units Issued under long-term incentive plan	590,000	4,525
Units Issued under the deferred unit plan	89,303	734
Units Issued under distribution reinvestment plan	515,353	3,920
Units Issued from options exercised	163,325	1,169
Balance – December 31, 2017	**83,891,517**	**$ 341,528**
Issued from prospectuses	20,803,500	212,853
Unit issue costs	-	(9,369)
Units Issued under long-term incentive plan	335,000	3,226
Units Issued under the deferred unit plan (note 11(i))	148,794	1,610
Units Issued under distribution reinvestment plan	347,465	3,480
Units Issued from options exercised (note 11(ii))	316,765	3,002
Balance – September 30, 2018	**105,843,041**	**$ 556,330**

On August 9, 2018 the Trust completed a bought deal prospectus whereby it issued 10,798,500 Trust Units for cash proceeds of $115,004 and incurred $5,043 in issue cost.

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

On March 15, 2017 the Trust completed a bought deal prospectus whereby it issued 10,425,000 Trust Units for cash proceeds of $80,064 and incurred $3,661 in issue cost.

13. 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.

(a) 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.

Unaudited (Cdn $ Thousands except unit amounts)

14. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	**2018**	2017
Rental revenue	**$ 30,318**	$ 26,339	**$ 87,869**	$ 75,100
Other revenue[1]	**1,831**	1,461	**5,355**	4,194
	$ 32,149	$ 27,800	**$ 93,224**	$ 79,294

[1] Consists of revenues from ancillary sources such as parking and laundry.

15. FINANCING COSTS

	Three months ended September 30		Nine months ended September 30	
	2018	2017	**2018**	2017
Mortgages and loans payable	**$ 6,094**	$ 4,781	**$ 17,438**	$ 13,737
Credit facilities	**223**	360	**1,137**	1,357
Interest income	**(297)**	(58)	**(478)**	(155)
Interest expense	**6,020**	5,083	**18,097**	14,939
Amortization of deferred finance costs on mortgages	**348**	220	**863**	830
Amortization of deferred finance costs on credit facilities	**55**	51	**164**	158
Amortization of fair value on assumed debt	**(50)**	(50)	**(150)**	(139)
	$ 6,373	$ 5,304	**$ 18,974**	$ 15,788

16. OTHER FAIR VALUE GAINS/(LOSSES)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	**2018**	2017
Class B LP unit liability	**$ (2,558)**	$ 7	**$ (8,012)**	$ (110)
Unit-based compensation liability (deferred unit plan)	**(3,149)**	(123)	**(7,316)**	(1,382)
Unit-based compensation liability (option plan)	**(696)**	(101)	**(2,458)**	(621)
	$ (6,403)	$ (217)	**$ (17,786)**	$ (2,113)

17. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	Three months ended September 30		Nine months ended September 30	
	2018	2017	**2018**	2017
Class B LP unit liability	**$ 230**	$ 12	**$ 618**	$ 34
Unit-based compensation liability (deferred unit plan)	**264**	173	**701**	493
	$ 494	$ 185	**$ 1,319**	$ 527

Unaudited (Cdn $ Thousands except unit amounts)

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2018	2017
Receivables and other assets	**$ (934)**	$ 7
Prepaid and deposits	**(990)**	(1,138)
Accounts payable and accrued liabilities	**(761)**	(412)
Tenant rental deposits	**323**	968
	$ (2,362)	$ (575)

(b) Net cash distributions to unitholders

	2018	2017
Distributions declared to unitholders	**$ 19,190**	$ 14,711
Add: Distributions payable at beginning of period	**1,888**	1,460
Less: Distributions payable at end of period	**(2,381)**	(1,697)
Less: Distributions to participants in the DRIP	**(3,480)**	(3,079)
	$ 15,217	$ 11,395

(c) Interest paid

	2018	2017
Interest expense	**$ 18,097**	$ 14,939
Add: Mortgage interest payable at beginning of period	**1,093**	1,188
Less: Mortgage interest payable at end of period	**(1,524)**	(1,179)
Add: Interest income received	**478**	155
	$ 18,144	$ 15,103

Reconciliation of liabilities arising from financing activities

	Mortgages and loans payable	Credit Facilities
Balance, beginning of period	$ 746,361	$ 59,130
Mortgage advances	219,264	-
Assumed mortgages	2,618	-
Repayment of mortgages	(148,523)	-
Repayment of credit facilities	-	(59,130)
Balance, end of period	$ 819,720	$ -

19. RELATED PARTY TRANSACTIONS

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

(i) Accounts Payable (net of amounts receivable)

As at September 30, 2018, $61 (December 31, 2017 - $1,074) was included in accounts payable and accrued liabilities, net of amounts receivable, which are due to companies that are controlled by an officer of the Trust. The amounts were non-interest bearing and due on demand.

(ii) Services

During the nine months ended September 30, 2018, the Trust incurred $1,014 (2017 - $5,710) in property, asset and project management services and shared legal services from companies controlled by an officer of the Trust. Of the services received approximately $207 (2017 - $1,857) has been capitalized to the investment properties and the remaining amounts are included in operating and administrative costs.

(iii) 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 limited partnership 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.

In the period 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.

20. 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.

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 September 30, 2018, the debt to gross book value ratio is 39.1% (December 31, 2017 – 47.8%).

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 nine month period ended September 30, 2018 and the year ended December 31, 2017.

21. 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, loan receivable long-term incentive plan, mortgage holdbacks and mortgages receivable.

The amounts disclosed as rents and other receivables and loan receivable long-term incentive plan in the consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Trust's management based on prior experience and their assessment of the current economic environment. The Trust establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of rents and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and an overall loss component established based on historical trends. At September 30, 2018, the Trust had past due rents and other receivables of $2,510 (December 31, 2017 - $1,886), net of an allowance for doubtful accounts of $915 (December 31, 2017 - $709) which adequately reflects the Trust's credit risk.

Unaudited (Cdn $ Thousands except unit amounts)

21. FINANCIAL RISK MANAGEMENT (Continued)

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 20 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.

As at September 30, 2018, the Trust had credit facilities as described in note 8.

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 September 30, 2018 are as follows:

Year	Mortgages and loans payable	Mortgage and loan interest [1]	Credit facilities	Accounts payable and accrued liabilities	Total
2018	$41,751	$4,823	$-	$30,900	$77,474
2019	52,242	18,904	-	-	71,146
2020	96,573	18,439	-	-	115,012
2021	52,951	17,197	-	-	70,148
2022	71,897	15,891	-	-	87,788
Thereafter	504,306	66,238	-	-	570,544
	$819,720	**$141,492**	**$-**	**$30,900**	**$992,112**

(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 September 30, 2018, approximately 13% (December 31, 2017 – 28%) of the Trust's mortgage debt is at variable interest rates and the Trust's credit facilities also bear interest at variable rates. If there was a 100 basis point change in the interest rate, cash flows would have changed by approximately $1,143 for the nine months ended September 30, 2018 (2017 - $1,787).

Unaudited (Cdn $ Thousands except unit amounts)

22. 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 and loans 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 and loans 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 and loans payable, and credit facilities, which are measured at a fair value level 2, is approximately $811,544 (December 31, 2017 - $805,119) excluding any deferred financing costs.

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

September 30, 2018	Level 1	Level 2	Level 3
Assets			
Investment properties	-	-	$2,010,863
Liabilities			
Unit-based compensation liability	-	$42,289	-
Class B LP unit liability	-	40,077	-

December 31, 2017	Level 1	Level 2	Level 3
Assets			
Investment properties	-	-	$1,630,824
Liabilities			
Unit-based compensation liability	-	$27,017	-
Class B LP unit liability	-	1,701	-

23. COMMITMENTS AND CONTINGENCIES

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.

24. SUBSEQUENT EVENTS

The Trust purchased one property with 63 suites that closed on October 22, 2018 for a purchase price of approximately $7,875.

On October 30, 2018, the Board of Trustees approved an 7.4% increase to the monthly per unit distributions. The increase will be effective for the November 2018 distribution that is to be paid in December 2018.