InterRent Real Estate Investment Trust

Condensed Consolidated Interim Financial Statements

September 30, 2017
(unaudited)

InterRent Real Estate Investment Trust

Condensed Consolidated Interim Balance Sheets

Unaudited (Cdn $ Thousands)

	Note	**September 30, 2017**	December 31, 2016
Assets			
Investment properties	4	**$1,575,024**	$1,308,907
Investment in joint venture	7	**9,883**	-
Prepaids and deposits		**2,922**	1,784
Other assets	8	**13,303**	10,342
Cash		**367**	491
Total assets		**$1,601,499**	$1,321,524
Liabilities			
Mortgages and loans payable	9	**$720,105**	$638,723
Credit facilities	10	**56,300**	91,800
LP Class B unit liability	12	**1,500**	1,390
Unit-based compensation liabilities	13	**22,548**	18,425
Tenant rental deposits		**9,272**	8,304
Accounts payable and accrued liabilities	11	**25,608**	26,331
Total liabilities		**835,333**	784,973
Unitholders' equity			
Unit capital	15	**340,468**	254,777
Retained earnings		**425,698**	281,774
Total unitholders' equity		**766,166**	536,551
Total liabilities and unitholders' equity		**$1,601,499**	$1,321,524

Subsequent event (note 25)

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)

	Note	Three months ended September 30 **2017**	2016	Nine months ended September 30 **2017**	2016
Operating Revenues					
Revenue from investment properties		**$ 27,800**	$ 24,099	**$ 79,294**	$ 72,684
Operating Expenses					
Property operating costs		**4,830**	4,311	**13,621**	12,469
Property taxes		**3,881**	3,342	**10,741**	10,356
Utilities		**1,563**	1,769	**7,122**	7,498
		10,274	9,422	**31,484**	30,323
Net operating income		**17,526**	14,677	**47,810**	42,361
Financing costs	16	**5,304**	5,224	**15,788**	15,647
Administrative costs		**2,158**	1,912	**6,512**	5,840
		7,462	7,136	**22,300**	21,487
Income before other income and expenses		**10,064**	7,541	**25,510**	20,874
Other income and expenses					
Loss on disposition of assets	6	**-**	(498)	**-**	(1,162)
Fair value adjustments of investment properties	4	**101,450**	4,538	**135,765**	5,539
Other fair value gains/(losses)	17	**(217)**	483	**(2,113)**	(3,769)
Interest on units classified as financial liabilities	18	**(185)**	(159)	**(527)**	(446)
Net income for the period		**$ 111,112**	$ 11,905	**$ 158,635**	$ 21,036

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, 2016	$ 247,043	$ 307,647	$ (47,788)	$ 259,859	$ 506,902
Units issued	6,619	-	-	-	6,619
Net income for the period	-	21,036	-	21,036	21,036
Distributions declared to Unitholders	-	-	(12,395)	(12,395)	(12,395)
Balance, September 30, 2016	**$ 253,662**	**$ 328,683**	**$ (60,183)**	**$ 268,500**	**$ 522,162**
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**

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	2017	2016
Cash flows from (used in) operating activities			
Net income for the period		**$ 158,635**	$ 21,036
Add items not affecting cash			
Amortization		**236**	162
Loss on disposition of investment properties	6	**-**	1,162
Fair value adjustments on investment properties	4	**(135,765)**	(5,539)
Other fair value losses	17	**2,113**	3,769
Unit-based compensation expense	13	**3,417**	3,331
Financing costs	16	**15,788**	15,647
Interest expense	16	**(14,939)**	(14,691)
Tenant inducements		**937**	1,214
		30,422	26,091
Net income items related to financing activities	18	**34**	33
Changes in non-cash operating assets and liabilities	19	**(575)**	(257)
Cash from operating activities		**29,881**	25,867
Cash flows from (used in) investing activities			
Acquisition of investment properties	5	**(78,862)**	(79,732)
Investment in joint venture	7	**(9,883)**	-
Proceeds from sale of investment properties	6	**-**	81,916
Additions to investment properties	4	**(38,264)**	(62,057)
		(127,009)	(59,873)
Cash flows from (used in) financing activities			
Mortgage and loan repayments		**(111,411)**	(121,680)
Mortgage advances		**180,449**	156,451
Financing fees		**(2,120)**	(2,301)
Credit facility advances (repayments)		**(35,500)**	10,140
Trust units issued, net of issue costs	15	**77,241**	841
Deferred units purchased and cancelled	13	**(226)**	(260)
Interest paid on units classified as financial liabilities	18	**(34)**	(33)
Distributions paid	19	**(11,395)**	(9,607)
		97,004	33,551
Increase/(decrease) in cash during the period		**(124)**	(455)
Cash at the beginning of period		**491**	771
Cash at end of period		**$ 367**	$ 316

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, 2017 were authorized for issuance by the Trustees of the Trust on November 14, 2017.

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, 2016.

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 (except for investment properties undergoing redevelopment 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 LP Class B unit liability which are measured at fair value.

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, 2016 except for the amendments to IAS 7 which was adopted January 1, 2017 (see change in accounting policy) and the item listed below.

2. BASIS OF PRESENTATION (Continued)

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 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. 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. The consolidated statement of income reflects the Trust's share of the results of operations of the joint venture. 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.

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 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.

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, 2016 except for the judgement used by management 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.

Change in accounting policy

The Trust adopted the amendments to IAS 7 Statement of Cash Flows on January 1, 2017. The adoption of the amendments by the Trust resulted in no change to the presentation to the Trust's condensed consolidated interim financial statements.

3. FUTURE ACCOUNTING CHANGES

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The effective date for IFRS 9 is for periods beginning on or after January 1, 2018.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. The Trust intends to adopt IFRS 9 for the annual period beginning on January 1, 2018. Based on its preliminary assessment of the standard, the Trust does not expect the standard to have a material impact on the financial statements of the Trust.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Trust intends to adopt IFRS 15 for the annual period beginning on January 1, 2018. Based on its preliminary assessment of the standard, the Trust does not expect the standard to have a material impact on the financial statements of the Trust.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and supersedes IAS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract: i.e. the customer (“lessee”) and the supplier (“lessor”). From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. IFRS 16 is effective as of January 1, 2019; however, a company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15. The Trust intends to adopt IFRS 16 for the annual period beginning on January 1, 2018. Based on its preliminary assessment of the standard, the Trust does not expect the standard to have a material impact on the financial statements of the Trust.

Unaudited (Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTIES

Investment properties include income properties, redevelopment properties and development properties. Currently the Trust has only income properties.

	September 30, 2017	December 31, 2016
Balance, beginning of period	**$ 1,308,907**	$ 1,220,213
Acquisitions (note 5)	**92,635**	79,732
Property capital investments	**37,717**	75,965
Fair value adjustments	**135,765**	15,176
Dispositions	**-**	(82,179)
	$ 1,575,024	$ 1,308,907

The fair value of the income 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, 2017		**December 31, 2016**	
	Range	**Weighted average**	**Range**	**Weighted average**
Capitalization rate	4.00% - 6.75%	4.57%	4.25% - 6.75%	4.96%

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, 2017

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 69,820	$ 71,259	**$ 71,979**	$ 72,699	$ 74,138
Capitalization rate						
-0.25%	4.32%	$ 1,616,195	$ 1,649,519	$ 1,666,181	$ 1,682,842	$ 1,716,166
Cap rate used	**4.57%**	$ 1,527,782	$ 1,559,282	**$ 1,575,024**	$ 1,590,783	$ 1,622,284
+0.25%	4.82%	$ 1,448,540	$ 1,478,407	$ 1,493,340	$ 1,508,274	$ 1,538,140

As at December 31, 2016

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 62,974	$ 64,273	**$ 64,922**	$ 65,571	$ 66,870
Capitalization rate						
-0.25%	4.71%	$ 1,337,035	$ 1,364,603	$ 1,378,386	$ 1,392,170	$ 1,419,738
Cap rate used	**4.96%**	$ 1,269,644	$ 1,295,822	**$ 1,308,907**	$ 1,322,000	$ 1,348,179
+0.25%	5.21%	$ 1,208,721	$ 1,233,643	$ 1,246,104	$ 1,258,565	$ 1,283,487

Unaudited (Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTIES (Continued)

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

	September 30, 2017	September 30, 2016
Property capital investments	**$ (37,717)**	$ (61,053)
Changes in non-cash investing accounts payable and accrued liabilities	**(547)**	(1,004)
	$ (38,264)	$ (62,057)

5. INVESTMENT PROPERTY ACQUISITIONS

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**		

During the nine months ended September 30, 2016, the Trust completed the following acquisition:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
March 9, 2016	127	$ 22,239	$ 16,100	prime	April 1, 2017
May 4, 2016	418	$ 57,493	-	-	n/a
	545	**$ 79,732**	**$ 16,100**		

Cash outflow used for investment property acquisitions:

	September 30, 2017	September 30, 2016
Total acquisition costs	**$ (92,635)**	$ (79,732)
Fair value adjustment of assumed debt	**372**	-
Assumed debt	**13,401**	-
	$ (78,862)	$ (79,732)

Unaudited (Cdn $ Thousands except unit amounts)

6. INVESTMENT PROPERTY DISPOSITIONS

No investment properties were disposed of during the nine month period ended September 30, 2017.

During the nine months ended September 30, 2016, 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	Proceeds	Mortgage(s) Repaid
January 11, 2016	44	$ 8,675	$ 8,419	$ -
March 29, 2016	36	3,708	3,481	2,257
March 29, 2016	35	3,448	3,258	2,180
March 29, 2016	40	3,944	3,671	2,485
May 27, 2016	40	4,126	3,931	2,548
May 27, 2016	18	1,856	1,775	858
May 27, 2016	32	3,360	3,223	1,644
May 27, 2016	24	2,476	2,355	1,370
May 27, 2016	40	4,326	4,119	2,441
May 27, 2016	24	2,533	2,424	1,260
May 27, 2016	24	2,533	2,420	1,260
July 5, 2016	63	5,200	5,109	-
July 5, 2016	70	4,800	4,714	1,747
July 5, 2016	60	3,275	3,142	2,037
July 5, 2016	94	6,700	6,584	-
July 5, 2016	59	4,125	4,052	2,282
July 5, 2016	69	8,000	7,695	3,781
July 18, 2016	58	6,400	6,044	1,785
July 18, 2016	46	5,075	4,791	1,165
Total	**876**	**$ 84,560**	**$ 81,207**	**$ 31,100**

A loss of $1,162 was recognized in the nine months ended September 30, 2016 in connection with these property dispositions. The loss represents the difference between the net proceeds (sale price less closing costs) and the value of the properties at the date of disposition.

Cash inflow received from sale of investment properties for the nine month ended:

	September 30, 2017	September 30, 2016
Proceeds	**$ -**	$ 81,207
Vendor take-back mortgage issued	**-**	(300)
Non-cash closing costs	**-**	1,009
	$ -	$ 81,916

Unaudited (Cdn $ Thousands except unit amounts)

7. INVESTMENT IN JOINT VENTURE

The Trust owns a 33.3% interest in a limited partnership joint venture developing one investment property.

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 and 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, 2017	December 31, 2016
Balance, beginning of period	**$ -**	$ -
Additions	**9,610**	-
Share of net income	**-**	-
Distributions	**-**	-
	$ 9,610	$ -
Transaction costs	**$ 273**	-
Carrying value of the investment in joint venture	**$ 9,883**	$ -

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

	September 30, 2017	December 31, 2016
Current assets	**$ 691**	$ -
Non-current assets	**44,190**	-
Current liabilities	**(551)**	-
Non-current liabilities	**(15,500)**	-
Net assets	**$ 28,830**	-
Trust's share (33.3%)	**$ 9,610**	$ -

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

Unaudited (Cdn $ Thousands except unit amounts)

8. RECEIVABLES AND OTHER ASSETS

	September 30, 2017	December 31, 2016
Current:		
Rents and other receivables, net of allowance for uncollectable amounts	**$ 1,198**	$ 2,105
Tenant inducements [(2)]	**587**	738
Mortgage receivable [(1)]	**-**	308
	$ 1,785	$ 3,151
Non-current:		
Automobiles, software, equipment and furniture and fixtures, net of accumulated amortization of $554 (2016 - $462)	**$ 1,230**	$ 1,243
Deferred finance fees on credit facilities, net of accumulated amortization of $1,109 (2016 - $951)	**384**	286
Loan receivable long-term incentive plan (note 14)	**9,904**	5,662
	$ 11,518	$ 7,191
	$ 13,303	$ 10,342

(1) At December 31, 2016, the balance is comprised of one mortgage with a maturity date of 7 months at an interest rate of 2%. The mortgage is secured by the related property and a general security agreement.

(2) Comprised of straight-line rent. This amount is excluded from the determination of the fair value of the investment properties.

9. 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 2.83% (December 31, 2016 – 2.69%).

The mortgages and vendor take-back loans mature at various dates between the years 2017 and 2027.

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

2017	$ 76,377
2018	163,384
2019	82,856
2020	89,820
2021	31,389
Thereafter	286,484
	730,310
Less: Deferred finance costs and mortgage premiums	10,205
	$ 720,105

Unaudited (Cdn $ Thousands except unit amounts)

10. CREDIT FACILITIES

	September 30, 2017	December 31, 2016
Demand credit facility (i)	**$ -**	$ -
Term credit facility (ii)	**-**	23,450
Term credit facility (iii)	**1,800**	14,850
Term credit facility (iv)	**54,500**	53,500
	$ 56,300	$ 91,800

(i) The Trust has a $500 (2016 - $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, 2017 was 3.30% (2016 – 3.20%).

(ii) The Trust has a $35,000 (2016 - $25,000) term credit facility, maturing in 2019, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on ten (2016 – 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, 2017 was 3.50% (2016 – 3.45%).

(iii) The Trust has a $25,000 (2016 - $25,000) term credit facility, maturing in 2018, with a Canadian chartered bank secured by a general security agreement, first mortgage on two (2016 – one) of the Trust's properties and second collateral mortgages on two (2016 – nine) 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, 2017 was 3.50% (2016 – 3.40%).

(iv) The Trust has a $60,000 (2016 - $60,000) term credit facility, maturing in 2020, with a Canadian chartered bank secured by a general security agreement, first mortgages on two (2016 – one) of the Trust's properties and second collateral mortgages on five (2016 – 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, 2017 was 2.77% (2016 – 2.86%).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2017	December 31, 2016
Accounts payable	**$ 6,362**	$ 7,473
Accrued liabilities	**16,367**	16,206
Accrued distributions	**1,700**	1,464
Mortgage interest payable	**1,179**	1,188
	$ 25,608	$ 26,331

Unaudited (Cdn $ Thousands except unit amounts)

12. LP CLASS B UNIT LIABILITY

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

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

Number of Units	
Balance – December 31, 2015	**186,250**
Units issued	-
Balance - December 31, 2016	**186,250**
Units issued	-
Balance – September 30, 2017	**186,250**

The LP Class B Units represented an aggregate fair value of $1,500 at September 30, 2017 (December 31, 2016 - $1,390). 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 LP Class B 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.

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:

	September 30, 2017	December 31, 2016
Unit-based liabilities, beginning of period	**$ 18,425**	$ 13,858
Compensation expense – deferred unit plan	**2,883**	3,413
Compensation expense – unit option plan	**44**	76
DRIP[1] expense – deferred unit plan	**490**	558
DUP units converted, cancelled and forfeited	**(758)**	(2,300)
Unit options exercised and expired	**(539)**	(350)
Loss on fair value of liability (note 17)	**2,003**	3,170
Unit-based liabilities, end of period	**$ 22,548**	$ 18,425

[1] Distribution reinvestment plan

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 10% of the issued and outstanding Trust Units.

Unaudited (Cdn $ Thousands except unit amounts)

13. UNIT-BASED COMPENSATION LIABILITIES (Continued)

(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, 2015	**2,089,317**
Units issued under deferred unit plan	543,806
Reinvested distributions on deferred units	76,949
Deferred units exercised into Trust Units (note 14)	(84,440)
Deferred units purchased and cancelled	(217,971)
Deferred units cancelled	(2,696)
Balance - December 31, 2016	**2,404,965**
Units issued under deferred unit plan	461,924
Reinvested distributions on deferred units	65,926
Deferred units exercised into Trust Units (note 14)	(67,350)
Deferred units purchased and cancelled	(27,026)
Deferred units cancelled	(3,662)
Balance – September 30, 2017	**2,834,777**

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.

As of September 30, 2017, the 1,280,027 deferred units, which represent the vested portion, have an intrinsic value of $10,304 (December 31, 2016 – 1,104,596 deferred units had an intrinsic value of $8,240).

The fair value of such vested 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.

(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.

Unaudited (Cdn $ Thousands except unit amounts)

13. UNIT-BASED COMPENSATION LIABILITIES (Continued)

Options granted, exercised and expired during the nine months ended September 30 are as follows:

	2017		2016	
	Number of units	**Weighted average exercise price**	**Number of units**	**Weighted average exercise price**
Balance, beginning of period	1,180,175	$ 5.18	1,350,680	$ 5.16
Granted	330,000	$ 7.67	-	-
Exercised	(160,875)	$ 3.80	(145,505)	$ 5.00
Expired	(1,000)	$ 5.81	(1,500)	$ 5.81
Balance, end of period	**1,348,300**	**$ 5.95**	**1,203,675**	**$ 5.18**

Options outstanding at September 30, 2017:

Exercise price	**Number of units**	**Remaining life in years**	**Number of units exercisable**
$ 2.13	84,000	3.73	84,000
$ 5.50	95,575	4.93	95,575
$ 5.65	489,100	5.71	489,100
$ 5.81	349,625	7,72	349,625
$ 7.67	330,000	9.83	-
	1,348,300		**1,018,300**

Total compensation expense for the nine months was $44 (2016 - $62). 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% (for the 2014 grant: market price of unit $5.72, expected option life 5 years, risk-free interest rate 1.34%, expected volatility, based on historical, 34% and expected distribution yield 5.0%).

The weighted average market price of options exercised in the nine months ended September 30, 2017 was $7.79.

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, 2017	**December 31, 2016**
Market price of Unit	$ 8.05	$ 7.46
Expected option life	3.0 years	2.7 years
Risk-free interest rate	1.66%	0.85%
Expected volatility (based on historical)	18%	18%
Expected distribution yield	5.0%	5.0%

Unaudited (Cdn $ Thousands except unit amounts)

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 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 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
May 10, 2010	15,000	5.00%	$ 6
March 8, 2012	250,000	3.57%	842
June 29, 2012	50,000	3.35%	182
September 11, 2012	100,000	3.35%	490
June 27, 2013	187,500	3.85%	953
December 16, 2014	100,000	3.27%	538
June 9, 2015	75,000	3.44%	448
June 30, 2016	290,000	2.82%	2,147
July 28, 2017	590,000	3.09%	4,298
	1,657,500		$ 9,904

Unaudited (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, 2015	**71,045,483**	**$ 247,043**
Units Issued under long-term incentive plan	290,000	2,271
Units Issued under the deferred unit plan (note 13(i))	84,440	635
Units Issued under distribution reinvestment plan	519,608	3,634
Units Issued from options exercised (note 13(ii))	169,005	1,194
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 (note 13(i))	67,350	533
Units Issued under distribution reinvestment plan	413,314	3,079
Units Issued from options exercised (note 13(ii))	160,875	1,151
Balance – September 30, 2017	**83,765,075**	**$ 340,468**

On February 19, 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.

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.

Unaudited (Cdn $ Thousands except unit amounts)

15. TRUST UNITS (Continued)

(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 LP Class B 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 LP Class B 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.

16. FINANCING COSTS

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
Mortgages and loans payable	**$ 4,781**	$ 4,399	**$ 13,737**	$ 13,372
Credit facilities	**360**	523	**1,357**	1,443
Interest income	**(58)**	(51)	**(155)**	(124)
Interest expense	**5,083**	4,871	**14,939**	14,691
Amortization of deferred finance costs on mortgages	**220**	345	**830**	876
Amortization of deferred finance costs on credit facilities	**51**	42	**158**	183
Amortization of fair value on assumed debt	**(50)**	(34)	**(139)**	(103)
	$ 5,304	$ 5,224	**$ 15,788**	$ 15,647

17. OTHER FAIR VALUE GAINS/(LOSSES)

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
LP Class B unit liability	**$ 7**	$ 30	**$ (110)**	$ (225)
Unit-based compensation liability (deferred unit plan)	**(123)**	298	**(1,382)**	(2,675)
Unit-based compensation liability (option plan)	**(101)**	155	**(621)**	(869)
	$ (217)	$ 483	**$ (2,113)**	$ (3,769)

Unaudited (Cdn $ Thousands except unit amounts)

18. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
LP Class B unit liability	**$ 12**	$ 11	**$ 34**	$ 33
Unit-based compensation liability (deferred unit plan)	**173**	148	**493**	413
	$ 185	$ 159	**$ 527**	$ 446

19. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2017	2016
Receivables and other assets	**$ 7**	$ (1,365)
Prepaid and deposits	**(1,138)**	243
Accounts payable and accrued liabilities	**(412)**	251
Tenant rental deposits	**968**	614
	$ (575)	$ (257)

(b) Net cash distributions to unitholders

	2017	2016
Distributions declared to unitholders	**$ 14,711**	$ 12,395
Add: Distributions payable at beginning of period	**1,460**	1,369
Less: Distributions payable at end of period	**(1,697)**	(1,386)
Less: Distributions to participants in the DRIP	**(3,079)**	(2,771)
	$ 11,395	$ 9,607

(c) Interest paid

	2017	2016
Interest expense	**$ 14,939**	$ 14,691
Add: Mortgage interest payable at beginning of period	**1,188**	1,025
Less: Mortgage interest payable at end of period	**(1,179)**	(1,203)
Add: Interest income received	**155**	124
	$ 15,103	$ 14,637

20. 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, 2017, $993 (December 31, 2016 - $1,129) 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, 2017, the Trust incurred $5,710 (2016 - $6,566) 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 $1,857 (2016 - $2,849) has been capitalized to the investment properties and the remaining amounts are included in operating and administrative costs.

21. 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, LP Class B 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, 2017, the debt to gross book value ratio is 48.5% (December 31, 2016 – 55.3%).

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, 2017 and the year ended December 31, 2016.

22. 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.

Unaudited (Cdn $ Thousands except unit amounts)

22. FINANCIAL RISK MANAGEMENT (Continued)

a) 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, 2017, the Trust had past due rents and other receivables of $1,917 (December 31, 2016 - $2,808), net of an allowance for doubtful accounts of $719 (December 31, 2016 - $703) 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 21 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, 2017, 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 LP Class B unit liability as their redemption time is uncertain, as at September 30, 2017 are as follows:

Year	Mortgages and loans payable	Mortgage and loan interest (1)	Credit facilities	Accounts payable and accrued liabilities	Total
2017	$76,377	$4,663	$-	$25,608	$106,648
2018	163,384	13,612	1,800	-	178,796
2019	82,856	10,818	-	-	93,674
2020	89,820	9,506	54,500	-	153,826
2021	31,389	8,245	-	-	39,634
Thereafter	286,484	22,683	-	-	309,167
	$730,310	**$69,527**	**$56,300**	**$25,608**	**$881,745**

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

Unaudited (Cdn $ Thousands except unit amounts)

22. FINANCIAL RISK MANAGEMENT (Continued)

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, 2017, approximately 40% (December 31, 2016 – 29%) 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 $1,787 for the nine months ended September 30, 2017 (2016 - $1,148).

23. 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 $786,283 (December 31, 2016 - $744,909) excluding any deferred financing costs.

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

September 30, 2017	**Level 1**	**Level 2**	**Level 3**
Assets			
Investment properties	-	-	$1,575,024
Liabilities			
Unit-based compensation liability	-	$22,548	-
LP Class B unit liability	-	1,500	-

December 31, 2016	**Level 1**	**Level 2**	**Level 3**
Assets			
Investment properties	-	-	$1,308,907
Liabilities			
Unit-based compensation liability	-	$18,425	-
LP Class B unit liability	-	1,390	-

24. 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.

25. SUBSEQUENT EVENT

On November 14, 2017, the Board of Trustees approved an 11.1% increase to the monthly per unit distributions. The increase will be effective for the November distribution that is to be paid in December 2017.