

InterRent Real Estate Investment Trust

Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of InterRent Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of InterRent Real Estate Investment Trust, and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of income, changes in unitholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of InterRent Real Estate Investment Trust and its subsidiaries, as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
February 22, 2018
Toronto, Ontario

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InterRent Real Estate Investment Trust

Consolidated Balance Sheets

(Cdn \$ Thousands)

	Note	December 31, 2017	December 31, 2016
Assets			
Investment properties	4	\$ 1,630,824	\$ 1,308,907
Investment in joint venture	7	11,140	-
Prepays and deposits		2,913	1,784
Receivables and other assets	8	13,183	10,342
Cash		385	491
Total assets		\$ 1,658,445	\$ 1,321,524
Liabilities			
Mortgages and loans payable	9	\$ 733,414	\$ 638,723
Credit facilities	10	59,130	91,800
LP Class B unit liability	12	1,701	1,390
Unit-based compensation liabilities	13	27,017	18,425
Tenant rental deposits		9,400	8,304
Accounts payable and accrued liabilities	11	23,683	26,331
Total liabilities		854,345	784,973
Unitholders' equity			
Unit capital	15	341,528	254,777
Retained earnings		462,572	281,774
Total unitholders' equity		804,100	536,551
Total liabilities and unitholders' equity		\$ 1,658,445	\$ 1,321,524

Commitments and contingencies (note 24)

Subsequent events (note 25)

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

Approved on behalf of the Trust

Ronald Leslie
Trustee

Michael McGahan
Trustee

InterRent Real Estate Investment Trust

Consolidated Statements of Income

For the Years Ended December 31

(Cdn \$ Thousands)

	Note	2017	2016
Operating revenues			
Revenue from investment properties		\$ 109,004	\$ 97,466
Operating expenses			
Property operating costs		18,616	16,992
Property taxes		14,305	13,548
Utilities		9,917	10,058
Total operating expenses		42,838	40,598
Net operating income		66,166	56,868
Financing costs	16	21,730	20,797
Administrative costs		9,101	7,717
Income before other income and expenses		35,335	28,354
Other income and expenses			
Loss on disposition of assets	6	-	(977)
Fair value adjustments of investment properties	4	172,464	15,176
Other fair value losses	17	(6,100)	(3,338)
Interest on units classified as financial liabilities	18	(719)	(601)
Net income for the year		\$ 200,980	\$ 38,614

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

InterRent Real Estate Investment Trust

Consolidated Statements of Changes in Unitholders' Equity

For the Years Ended December 31

(Cdn \$ Thousands)

	Trust units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings	Total Unitholders' equity
Balance, January 1, 2016	\$ 247,043	\$ 307,647	\$ (47,788)	\$ 259,859	\$ 506,902
Units issued (note 15)	7,734	-	-	-	7,734
Net income for the year	-	38,614	-	38,614	38,614
Distributions declared to Unitholders	-	-	(16,699)	(16,699)	(16,699)
Balance, December 31, 2016	\$ 254,777	\$ 346,261	\$ (64,487)	\$ 281,774	\$ 536,551
Balance, January 1, 2017	\$ 254,777	\$ 346,261	\$ (64,487)	\$ 281,774	\$ 536,551
Units issued (note 15)	86,751	-	-	-	86,751
Net income for the year	-	200,980	-	200,980	200,980
Distributions declared to Unitholders	-	-	(20,182)	(20,182)	(20,182)
Balance, December 31, 2017	\$ 341,528	\$547,241	\$ (84,669)	\$ 462,572	\$ 804,100

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

InterRent Real Estate Investment Trust

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

	Note	2017	2016
Cash flows from (used in) operating activities			
Net income for the year		\$ 200,980	\$ 38,614
Add items not affecting cash			
Amortization		312	211
Loss on disposition of investment property	6	-	977
Fair value adjustments on investment properties	4	(172,464)	(15,176)
Other fair value losses	17	6,100	3,338
Unit-based compensation expense	13	4,313	4,047
Financing costs	16	21,730	20,797
Interest expense	16	(20,652)	(19,615)
Tenant inducements		1,190	1,582
		41,509	34,775
Net income items related to financing activities	18	46	43
Changes in non-cash operating assets and liabilities	19	1,777	(445)
		43,332	34,373
Cash flows from (used in) investing activities			
Acquisition of investment properties	5	(85,253)	(79,732)
Investment in joint venture	7	(11,140)	-
Proceeds from sale of investment properties	6	-	81,911
Additions to investment properties	4	(55,569)	(84,086)
		(151,962)	(81,907)
Cash flows from (used in) financing activities			
Mortgage and loan repayments		(209,271)	(124,759)
Mortgage advances		294,104	156,451
Financing fees		(4,783)	(2,390)
Credit facility advances (repayments)		(32,670)	31,675
Trust units issued, net of issue costs	15	77,255	958
Deferred units purchased and cancelled	13	(231)	(1,665)
Interest paid on units classified as financial liabilities	18	(46)	(43)
Distributions paid	19	(15,834)	(12,973)
		108,524	47,254
Increase/(decrease) in cash during the year		(106)	(280)
Cash at the beginning of year		491	771
		\$ 385	\$ 491

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

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

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 consolidated financial statements were authorized for issuance by the Trustees of the Trust on February 22, 2018.

2. BASIS OF PRESENTATION

Statement of compliance

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

Basis of presentation

The Trust presents its consolidated balance sheets based on the liquidity method, whereby all assets and liabilities are presented in increasing order of liquidity.

These consolidated 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 LP Class B unit liability which are measured at fair value.

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

Basis of consolidation

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

Functional currency

The Trust and its subsidiaries functional currency is Canadian dollars.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

2. BASIS OF PRESENTATION (Continued)

Application of new IFRS requirements

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 supplemental disclosure regarding changes in liabilities arising from financing activities (note 19) to the Trust's consolidated financial statements.

Critical accounting estimates

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

Investment properties

Investment properties are re-measured to fair value at each reporting date, determined based on internal valuation models incorporating market evidence and valuations performed by third-party appraisers. When estimating the fair value of investment properties, management makes multiple estimates and assumptions that have a significant effect on the measurement of investment properties. Estimates used in determining the fair value of the investment properties include capitalization rates, inflation rates, vacancy rates, standard costs and net operating income.

Financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES

Investment properties

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

a) Income properties

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

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (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 entity and rights to the net assets are referred to as a joint venture.

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

The Trust's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost, which includes cost directly attributable to the acquisition. The carrying amount of the investment is adjusted to recognize changes in the Trust's share of net assets of the joint venture since the acquisition date less any identified impairment loss. Distributions received from a joint venture reduce the carrying amount of the investment. The consolidated statement of income reflects the Trust's share of the results of operations of the joint venture. If the Trust's share of losses of a joint venture exceeds the Trust's interest in that joint venture, the Trust discontinues recognizing its share of further losses, unless it has undertaken obligations or made payments on behalf of the joint venture.

Revenue recognition

Revenue from investment properties includes rents, parking and other sundry revenues. Most leases are for one-year terms or less; consequently, the Trust accounts for leases with its tenants as operating leases. Revenue from investment properties is recognized as revenue over the terms of the related lease agreements as they become due and collection is reasonably assured.

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

Ancillary rental income includes laundry and income earned from telephone and cable providers and is recorded as earned.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statement of income.

The Trust does not currently hold any derivative assets.

Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost, using the effective interest method, less a provision for impairment. A provision for impairment is established when there is objective evidence that collection will not be possible under the original terms of the contract. Indicators of impairment include delinquency of payment and significant financial difficulty of the holder. The carrying amount of the financial asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statement of income. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Cash, rents and other receivables, loan receivable long-term incentive plan, mortgage holdbacks and mortgages receivable are classified as loans and receivables.

Financial liabilities at FVTPL

Financial liabilities are classified as FVTPL if they are designated as such by management, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statement of income.

Management has designated the LP Class B unit liability and unit-based compensation liability as FVTPL.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other financial liabilities

Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Trust's other financial liabilities include credit facilities, accounts payable and accrued liabilities, tenant rental deposits and mortgages and loans payable.

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

Fair value measurement

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

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

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

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

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trust units

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

LP Class B unit liability

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, the LP Class B units are classified as a liability. Management has designated the LP Class B unit liability as FVTPL, and the LP Class B unit liability is re-measured to fair value at each reporting date with changes recorded in the consolidated statement of income. The distributions on the LP Class B units are recognized in the consolidated statements of income as interest expense.

Unit-based compensation

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

Provisions

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

Income taxes

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

Throughout 2016 and 2017, the Trust and its wholly owned subsidiaries satisfied certain conditions available to REITs (the "REIT Exception") under amendments to the Tax Act, intended to permit a corporate income tax rate of nil as long as the specified conditions continue to be met. Without satisfying these conditions, the Trust would have been liable for income taxes.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical judgments in applying accounting policies

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

Investment properties

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

Investment in joint venture

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

Leases

Management makes judgments in determining whether leases in which the Trust is the lessor are operating or finance leases, and determined that all of its leases are operating leases. The accounting treatment of leases as finance leases would have a significant effect on the measurement of transactions and balances in the consolidated financial statements.

Property acquisitions

When investment properties are acquired, management is required to apply judgment as to whether or not the transaction should be accounted for as an asset acquisition or business combination. All of the Trust's property acquisitions have been accounted for as asset acquisitions. Accounting treatment of property acquisitions as business combinations could result in significant differences in the measurement of balances and transactions.

Income tax

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

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 has assessed the impact of IFRS 9 and does not expect a material impact on its consolidated financial statements upon adoption. The Trust intends to adopt the new standard on the required effective date.

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 has assessed the impact of IFRS 15 and has determined the pattern of revenue recognition will remain unchanged upon the adoption of the standard. The Trust intends to adopt the new standard on the required effective date.

IFRS 2 Share-based Payment

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Trust intends to adopt the amendments to IFRS 2 for the annual period beginning on January 1, 2018. The Trust does not expect any impact to its consolidated financial statements as the amendments are in line with the Trust's current policy.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 early adopt IFRS 16 for the annual period beginning on January 1, 2018. Based on its assessment of the standard, the Trust does not expect the standard to have a material impact on the financial statements of the Trust.

IAS 40 Investment Property

On December 8, 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment requires an asset to be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The Trust will adopt these amendments and clarifications in its financial statements for the annual period beginning on January 1, 2018.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(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.

	December 31, 2017	December 31, 2016
Balance, beginning of period	\$ 1,308,907	\$ 1,220,213
Acquisitions (note 5)	99,026	79,732
Property capital investments	50,427	75,965
Fair value adjustments	172,464	15,176
Dispositions	-	(82,179)
	\$ 1,630,824	\$ 1,308,907

The fair value of the income properties at December 31, 2017 and 2016 was determined internally by the Trust. The fair value methodology of the Trust's investment properties is considered a level 3 valuation as significant unobservable inputs are required to determine fair value. The Trust determined the fair value of each income property internally based upon the direct capitalization income approach method of valuation. The fair value was determined by applying a capitalization rate to stabilized 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, approximately 32% of the portfolio, representing 2,562 suites, was appraised by external valuation professionals throughout the year (2016 – 30% of the portfolio representing 2,034 suites). These external appraisals provided the Trust with a summary of the major assumptions and market data by city in order for the Trust to complete its internal valuations.

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

	December 31, 2017		December 31, 2016	
	Range	Weighted average	Range	Weighted average
Capitalization rate	3.88% - 6.75%	4.55%	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 Rate could significantly alter the fair value of the investment properties. The tables below summarize the impact of changes in both NOI and Cap Rate on the Trust's fair value of the income properties:

As at December 31, 2017

Net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 71,976	\$ 73,460	\$ 74,202	\$ 74,944	\$ 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

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

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

4. INVESTMENT PROPERTIES (Continued)

Cash outflow used for additions to investment properties:

	December 31, 2017	December 31, 2016
Property capital investments	\$ (50,427)	\$ (75,965)
Changes in non-cash investing accounts payable and accrued liabilities	(5,142)	(8,121)
	\$ (55,569)	\$ (84,086)

5. INVESTMENT PROPERTY ACQUISITIONS

During the year ended December 31, 2017, the Trust completed the following investment property acquisitions, which have contributed to the operating results effective from the acquisition date:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
March 6, 2017	224	\$ 25,477	\$ 17,085	3.165% & 2.24%	September 1, 2023 & June 1, 2022
August 28, 2017	74	\$ 11,819	\$ 3,341	3.11%	March 1, 2022
September 14, 2017	249	\$ 55,382	\$ 35,000	BA +1.70%	September 14, 2020
December 1, 2017	55	\$ 6,348	-	-%	n/a
	602	\$ 99,026	\$ 55,426		

During the year ended December 31, 2016, the Trust completed the following investment property acquisitions:

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:

	December 31, 2017	December 31, 2016
Total acquisition costs	\$ (99,026)	\$ (79,732)
Fair value adjustment of assumed debt	372	-
Assumed debt	13,401	-
	\$ (85,253)	\$ (79,732)

InterRent Real Estate Investment Trust

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(Cdn \$ Thousands except unit amounts)

6. INVESTMENT PROPERTY DISPOSITIONS

No investment properties were disposed of during the year ended December 31, 2017.

During the year ended December 31, 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	Net Proceeds	Mortgage(s) Discharged
January 11, 2016	44	\$ 8,675	\$ 8,418	\$ -
March 29, 2016	36	3,708	3,482	2,257
March 29, 2016	35	3,448	3,258	2,180
March 29, 2016	40	3,944	3,672	2,485
May 27, 2016	40	4,126	3,932	2,548
May 27, 2016	18	1,856	1,775	858
May 27, 2016	32	3,360	3,220	1,644
May 27, 2016	24	2,476	2,355	1,370
May 27, 2016	40	4,326	4,120	2,441
May 27, 2016	24	2,533	2,427	1,260
May 27, 2016	24	2,533	2,408	1,260
July 5, 2016	63	5,200	5,108	-
July 5, 2016	70	4,800	4,711	1,747
July 5, 2016	60	3,275	3,139	2,037
July 5, 2016	94	6,700	6,583	-
July 5, 2016	59	4,125	4,052	2,282
July 5, 2016	69	8,000	7,694	3,781
July 18, 2016	58	6,400	6,051	1,785
July 18, 2016	46	5,075	4,797	1,165
Total	876	\$ 84,560	\$ 81,202	\$ 31,100

A loss of \$977 was recognized for the year ended December 31, 2016 in connection with these property dispositions. The loss represents the difference between the net proceeds (sale price less closing costs) and the carrying value of the properties at the date of disposition.

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

	December 31, 2017	December 31, 2016
Proceeds	\$ -	\$ 81,202
Vendor take-back mortgage issued	-	(300)
Non-cash closing costs	-	1,009
	\$ -	\$ 81,911

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7. 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:

	December 31, 2017	December 31, 2016
Balance, beginning of period	\$ -	\$ -
Additions	10,867	-
Share of net income	-	-
Distributions	-	-
	\$ 10,867	\$ -
Transaction costs	\$ 273	-
Carrying value of the investment in joint venture	\$ 11,140	\$ -

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

	December 31, 2017	December 31, 2016
Current assets	\$ 1,237	\$ -
Non-current assets	49,780	-
Current liabilities	(2,916)	-
Non-current liabilities	(15,500)	-
Net assets	\$ 32,601	-
Trust's share (33.3%)	\$ 10,867	\$ -

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

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Notes to Consolidated Financial Statements

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8. RECEIVABLES AND OTHER ASSETS

	December 31, 2017	December 31, 2016
Current:		
Rents and other receivables, net of allowance for uncollectable amounts	\$ 1,177	\$ 2,105
Tenant inducements ⁽²⁾	494	738
Mortgage receivable ⁽¹⁾	-	308
	\$ 1,671	\$ 3,151
Non-current:		
Automobiles, software, equipment and furniture and fixtures, net of accumulated amortization of \$539 (2016 - \$462)	\$ 1,280	\$ 1,243
Deferred finance fees on credit facilities, net of accumulated amortization of \$1,160 (2016 - \$951)	351	286
Loan receivable long-term incentive plan (note 14)	9,881	5,662
	\$ 11,512	\$ 7,191
	\$ 13,183	\$ 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 2.81% (December 31, 2016 – 2.69%).

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	\$ 212,226
2019	18,528
2020	92,875
2021	34,530
2022	67,849
Thereafter	320,354
	746,361
Less: Deferred finance costs and mortgage premiums	12,947
	\$ 733,414

InterRent Real Estate Investment Trust

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10. CREDIT FACILITIES

	December 31, 2017	December 31, 2016
Demand credit facility ⁽ⁱ⁾	\$ -	\$ -
Term credit facility ⁽ⁱⁱ⁾	-	23,450
Term credit facility ⁽ⁱⁱⁱ⁾	4,130	14,850
Term credit facility ^(iv)	55,000	53,500
	\$ 59,130	\$ 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 year ended December 31, 2017 was 3.40% (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 year ended December 31, 2017 was 3.60% (2016 – 3.43%).
- (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 year ended December 31, 2017 was 3.60% (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 year ended December 31, 2017 was 2.83% (2016 – 2.73%).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2017	December 31, 2016
Accounts payable	\$ 5,371	\$ 7,473
Accrued liabilities	15,327	16,206
Accrued distributions	1,892	1,464
Mortgage interest payable	1,093	1,188
	\$ 23,683	\$ 26,331

InterRent Real Estate Investment Trust

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(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 – December 31, 2017	186,250

The LP Class B Units represented an aggregate fair value of \$1,701 at December 31, 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:

	December 31, 2017	December 31, 2016
Unit-based liabilities, beginning of period	\$ 18,425	\$ 13,858
Compensation expense – deferred unit plan	3,530	3,413
Compensation expense – unit option plan	110	76
DRIP ⁽¹⁾ expense – deferred unit plan	673	558
DUP units converted, cancelled and forfeited	(966)	(2,300)
Unit options exercised and expired	(544)	(350)
Loss on fair value of liability (note 17)	5,789	3,170
Unit-based liabilities, end of period	\$ 27,017	\$ 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.

InterRent Real Estate Investment Trust

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(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	517,380
Reinvested distributions on deferred units	87,552
Deferred units exercised into Trust Units (note 14)	(89,303)
Deferred units purchased and cancelled	(27,026)
Deferred units cancelled	(4,946)
Balance - December 31, 2017	2,888,623

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 December 31, 2017, the 1,334,488 deferred units, which represent the vested portion, have an intrinsic value of \$12,184 (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.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

13. UNIT-BASED COMPENSATION LIABILITIES (Continued)

Options granted, exercised and expired during the years ended December 31 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 (note 14)	(163,325)	\$ 3.83	(169,005)	\$ 5.00
Expired	(1,000)	\$ 5.81	(1,500)	\$ 5.81
Balance, end of period	1,345,850	\$ 5.96	1,180,175	\$ 5.18

Options outstanding at December 31, 2017:

Exercise price	Number of units	Remaining life in years	Number of units exercisable
\$ 2.13	84,000	3.48	84,000
\$ 5.50	95,575	4.68	95,575
\$ 5.65	486,650	5.45	486,650
\$ 5.81	349,625	6.96	349,625
\$ 7.67	330,000	9.58	-
	1,345,850		1,015,850

Total compensation expense for the year was \$66 (2016 - \$76). 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 year ended December 31, 2017 was \$7.81 (2016 - \$7.69).

The fair value of unit options is re-valued at each reporting period based on an estimate of the fair value using the Black-Scholes option pricing model using the following weighted average valuation assumptions:

	December 31, 2017	December 31, 2016
Market price of Unit	\$ 9.13	\$ 7.46
Expected option life	2.7 years	2.7 years
Risk-free interest rate	1.73%	0.85%
Expected volatility (based on historical)	18%	18%
Expected distribution yield	5.0%	5.0%

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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%	\$ 5
March 8, 2012	250,000	3.57%	834
June 29, 2012	50,000	3.35%	180
September 11, 2012	100,000	3.35%	487
June 27, 2013	187,500	3.85%	951
December 16, 2014	100,000	3.27%	536
June 9, 2015	75,000	3.44%	447
June 30, 2016	290,000	2.82%	2,144
July 28, 2017	590,000	3.09%	4,297
	1,657,500		\$ 9,881

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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))	89,303	734
Units Issued under distribution reinvestment plan	515,353	3,920
Units Issued from options exercised (note 13(ii))	163,325	1,169
Balance – December 31, 2017	83,891,517	\$ 341,528

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 costs.

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.

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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

	2017	2016
Mortgages and loans payable	\$ 19,014	\$ 17,711
Credit facilities	1,877	2,079
Interest income	(239)	(175)
Interest expense	20,652	19,615
Amortization of deferred finance costs on mortgages	1,058	1,085
Amortization of deferred finance costs on credit facilities	209	234
Amortization of fair value on assumed debt	(189)	(137)
	\$ 21,730	\$ 20,797

17. OTHER FAIR VALUE GAINS/(LOSSES)

	2017	2016
LP Class B unit liability	\$ (311)	\$ (168)
Unit-based compensation liability (deferred unit plan)	(4,113)	(2,522)
Unit-based compensation liability (option plan)	(1,676)	(648)
	\$ (6,100)	\$ (3,338)

18. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	2017	2016
LP Class B unit liability	\$ 46	\$ 43
Unit-based compensation liability (deferred unit plan)	673	558
	\$ 719	\$ 601

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19. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2017	2016
Receivables and other assets	\$ (253)	\$ (2,239)
Prepaid and deposits	(1,129)	1,213
Accounts payable and accrued liabilities	2,063	(131)
Tenant rental deposits	1,096	712
	\$ 1,777	\$ (445)

(b) Net cash distributions to unitholders

	2017	2016
Distributions declared to unitholders	\$ 20,182	\$ 16,699
Add: Distributions payable at beginning of period	1,460	1,368
Less: Distributions payable at end of period	(1,888)	(1,460)
Less: Distributions to participants in the DRIP	(3,920)	(3,634)
	\$ 15,834	\$ 12,973

(c) Interest paid

	2017	2016
Interest expense	\$ 20,652	\$ 19,615
Add: Mortgage interest payable at beginning of period	1,188	1,025
Less: Mortgage interest payable at end of period	(1,093)	(1,188)
Add: Interest income received	239	175
	\$ 20,986	\$ 19,627

(d) Reconciliation of liabilities arising from financing activities

	Mortgages and loans payable	Credit Facilities
Balance, beginning of year	\$ 648,127	\$ 91,800
Mortgage advances	294,104	-
Assumed mortgages	13,401	-
Repayment of mortgages	(209,271)	-
Repayment of credit facilities	-	(32,670)
Balance, end of year	\$ 746,361	\$ 59,130

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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 December 31, 2017, \$1,074 (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 year ended December 31, 2017, the Trust incurred \$7,858 (2016 - \$8,873) 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 \$2,445 (2016 - \$3,792) has been capitalized to the investment properties and the remaining amounts are included in operating and administrative costs.

(iii) Key management remuneration

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

	2017	2016
Salaries and other short-term employee benefits	\$ 1,169	\$ 1,008
Deferred unit plan	2,390	1,799
Gain on fair value of unit-based compensation liabilities	6,341	4,039
	\$ 9,900	\$ 6,846

Loans outstanding from key management for indebtedness relating to the LTIP at December 31, 2017 were \$9,498 (December 31, 2016 - \$5,587). Deferred unit plan includes accrued compensation for key management at December 31, 2017 for \$2,090 (December 31, 2016 - \$1,548).

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. There have been no changes to the Trust's capital risk management policies for the years ended December 31, 2017 and 2016.

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21. CAPITAL RISK MANAGEMENT (Continued)

The Trust monitors capital using a debt to gross book value ratio, as defined in the Declaration of Trust which requires the Trust to maintain a debt-to-gross book value ratio below 75%. As at December 31, 2017, the debt-to-gross book value ratio is 47.8% (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 years ended December 31, 2017 and 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.

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 December 31, 2017, the Trust had past due rents and other receivables of \$1,886 (December 31, 2016 - \$2,808), net of an allowance for doubtful accounts of \$709 (December 31, 2016 - \$703) which adequately reflects the Trust's credit risk.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

22. 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 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. In addition, liquidity and capital availability risks are mitigated by diversifying the Trust's sources of funding, maintaining a staggered debt maturity profile and actively monitoring market conditions.

As at December 31, 2017 and 2016, 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 December 31, 2017 are as follows:

Year	Mortgages and loans payable	Mortgage and loan interest ⁽¹⁾	Credit facilities	Accounts payable and accrued liabilities	Total
2018	\$ 212,226	\$ 17,722	\$ 4,130	\$ 23,683	\$ 257,761
2019	18,527	13,582	-	-	32,109
2020	92,875	12,567	55,000	-	160,442
2021	34,530	11,243	-	-	45,773
2022	67,849	10,087	-	-	77,936
Thereafter	320,354	25,423	-	-	345,777
	\$ 746,361	\$ 90,624	\$ 59,130	\$ 23,683	\$ 919,798

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

d) Market Risk

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

At December 31, 2017, approximately 28% (December 31, 2016 – 29%) of the Trust's mortgage debt is at variable interest rates and the Trust's credit facilities bear interest at variable rates. If there was a 100 basis point change in the interest rate, cash flows would have changed by approximately \$2,304 for the year ended December 31, 2017 (2016 - \$1,607).

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

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 \$805,119 (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:

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

InterRent Real Estate Investment Trust

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24. COMMITMENTS AND CONTINGENCIES

The Trust is committed to purchase a property (172 suites) in February 2018 for a purchase price of approximately \$21,500.

As at December 31, 2017, the Trust has approximately \$3,100 of commitments relating to the TIP Albert Limited Partnership joint venture.

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 EVENTS

The Trust purchased one property with 48 suites that closed on January 10, 2018 for a purchase price of approximately \$5,250.

The REIT entered into an agreement with CLV Group Inc. (the "Property Manager") to internalize the REIT's property management function effective February 15, 2018. Upon closing of the transaction, a subsidiary of the REIT will acquire 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 initial consideration payable on closing is approximately \$42,000. The total consideration, including all future vesting of deferred units, is approximately \$44,200.