

InterRent Real Estate Investment Trust

Condensed Consolidated Financial Statements

June 30, 2016

(unaudited - See Notice to Reader)

Notice to Reader

The accompanying unaudited condensed consolidated financial statements have been prepared by the REIT's management and the REIT's independent auditors have not performed a review of these financial statements.

InterRent Real Estate Investment Trust

Condensed Consolidated Balance Sheets

Unaudited (Cdn \$ Thousands)

	Note	June 30, 2016	December 31, 2015
Assets			
Investment properties	4	\$1,255,445	\$1,201,129
Prepays and deposits		3,496	2,972
Assets held for sale	6	42,713	19,188
Other assets	7	9,839	7,596
Cash		746	771
Total assets		\$1,312,239	\$1,231,656
Liabilities			
Mortgages and loans payable	8	\$639,774	\$600,811
Credit facilities	9	86,816	60,125
LP Class B unit liability	11	1,477	1,222
Unit-based compensation liabilities	12	19,851	13,858
Tenant rental deposits		7,915	7,429
Liabilities related to assets held for sale	6	13,406	7,032
Accounts payable and accrued liabilities	10	29,791	34,277
Total liabilities		799,030	724,754
Unitholders' equity			
Unit capital	14	252,462	247,043
Retained earnings		260,747	259,859
Total unitholders' equity		513,209	506,902
Total liabilities and unitholders' equity		\$1,312,239	\$1,231,656

Subsequent event (note 23)

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

On behalf of the Trust

Jacie Levinson
Chairman

Michael McGahan
Trustee

InterRent Real Estate Investment Trust

Condensed Consolidated Statements of Income

For the three and six months ended June 30

Unaudited (Cdn \$ Thousands)

	Note	Three months ended June 30		Six months ended June 30	
		2016	2015	2016	2015
Operating Revenues					
Revenue from investment properties		\$ 24,682	\$ 20,648	\$ 48,585	\$ 38,909
Operating Expenses					
Property operating costs		4,209	3,725	8,158	6,708
Property taxes		3,537	2,859	7,014	5,404
Utilities		2,230	1,810	5,729	4,777
		9,976	8,394	20,901	16,889
Net operating income		14,706	12,254	27,684	22,020
Financing costs	15	5,346	4,128	10,424	7,909
Administrative costs		1,987	1,613	3,928	3,110
		7,333	5,741	14,352	11,019
Income from operations before other income and expenses		7,373	6,513	13,332	11,001
Other income and expenses					
Loss on disposition of assets	6	(353)	-	(664)	-
Fair value adjustments of investment properties	4	748	2,766	1,001	3,040
Other fair value gains/(losses)	16	(1,861)	490	(4,251)	(1,098)
Interest on units classified as financial liabilities	17	(158)	(125)	(287)	(238)
Net income for the period		\$ 5,749	\$ 9,644	\$ 9,131	\$ 12,705

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

InterRent Real Estate Investment Trust

Condensed Consolidated Statements of Unitholders' Equity

For the six months ended June 30

Unaudited (Cdn \$ Thousands)

	Trust units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings	Total Unitholders' equity
Balance, January 1, 2015	\$ 168,232	\$ 257,843	\$ (32,375)	\$ 225,468	\$ 393,700
Units issued	75,624	-	-	-	75,624
Net income for the period	-	12,705	-	12,705	12,705
Distributions declared to Unitholders	-	-	(7,498)	(7,498)	(7,498)
Balance, June 30, 2015	\$ 243,856	\$ 270,548	\$ (39,873)	\$ 230,675	\$ 474,531
Balance, January 1, 2016	\$ 247,043	\$ 307,647	\$ (47,788)	\$ 259,859	\$ 506,902
Units issued	5,419	-	-	-	5,419
Net income for the period	-	9,131	-	9,131	9,131
Distributions declared to Unitholders	-	-	(8,243)	(8,243)	(8,243)
Balance, June 30, 2016	\$ 252,462	\$ 316,778	\$ (56,031)	\$ 260,747	\$ 513,209

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

InterRent Real Estate Investment Trust

Condensed Consolidated Statements of Cash Flows

For the six months ended June 30

(Cdn \$ Thousands)

	Note	2016	2015
Cash flows from (used in) operating activities			
Net income for the period		\$ 9,131	\$ 12,705
Add items not affecting cash			
Amortization		106	48
Loss on disposition of investment properties	6	664	-
Fair value adjustments on investment properties	4	(1,001)	(3,040)
Other fair value losses	16	4,251	1,098
Unit-based compensation expense	12	2,705	2,201
Financing costs	15	10,424	7,909
Interest expense	15	(9,821)	(7,063)
Tenant inducements		779	469
		17,238	14,327
Net income items related to financing activities	17	22	21
Changes in non-cash operating assets and liabilities:			
Other assets		(817)	1,270
Prepays and deposits		(620)	870
Accounts payable and accrued liabilities		74	252
Tenant rental deposits		801	1,186
		16,698	17,926
Cash from operating activities			
Cash flows used in investing activities			
Acquisition of investment properties	5	(79,734)	(121,991)
Proceeds from sale of investment properties	6	39,480	-
Additions to investment properties	4	(41,029)	(33,327)
		(81,283)	(155,318)
Cash flows from (used in) financing activities			
Mortgage and loan repayments		(42,183)	(26,735)
Mortgage advances		86,100	127,469
Financing fees		(349)	(427)
Credit facility advances (repayments)		26,691	(29,856)
Trust units issued, net of issue costs	14	605	71,724
Deferred units purchased and cancelled	14	(237)	(125)
Interest paid on units classified as financial liabilities	17	(22)	(21)
Distributions paid		(6,045)	(5,303)
		64,560	136,726
Increase/(decrease) in cash during the period		(25)	(666)
Cash at the beginning of period		771	666
Cash at end of period		\$ 746	\$ -

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

InterRent Real Estate Investment Trust

Notes to Condensed Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015 and as at December 31, 2015

Unaudited (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 condensed consolidated interim financial statements for the period ended June 30, 2016 were authorized for issuance by the Trustees of the Trust on July 28, 2016.

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 interim financial statements should be read in conjunction with the Trust's consolidated financial statements for the year ended December 31, 2015.

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, 2015.

InterRent Real Estate Investment Trust

Notes to Condensed Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015 and as at December 31, 2015

Unaudited (Cdn \$ Thousands except unit amounts)

2. BASIS OF PRESENTATION (Continued)

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 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, 2015.

Change in accounting policies

The Trust adopted the amendments to IAS 1 Presentation of Financial Statements and IAS 34 Interim Financial Reporting on January 1, 2016. The adoption of the amendments in both IAS 1 and 34 by the Trust resulted in no change to the the presentation to the Trust's condensed consolidated financial statements.

InterRent Real Estate Investment Trust

Notes to Condensed Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015 and as at December 31, 2015

Unaudited (Cdn \$ Thousands except unit amounts)

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. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Trust's consolidated financial statements.

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. Management is currently assessing the impact of IFRS 15 and intends to adopt the new standard on the required effective date.

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. Management is currently assessing the impact of IFRS 16 and intends to adopt the new standard on the required effective date.

InterRent Real Estate Investment Trust

Notes to Condensed Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015 and as at December 31, 2015

Unaudited (Cdn \$ Thousands except unit amounts)

4. INVESTMENT PROPERTIES

	June 30, 2016	December 31, 2015
Composed of:		
Income properties	\$ 1,255,445	1,201,129
Redevelopment properties	-	-
	\$ 1,255,445	\$ 1,201,129

Income properties:

All investment properties other than redevelopment properties.

	June 30, 2016	December 31, 2015
Balance, beginning of period	\$ 1,220,213	\$ 836,721
Acquisitions (note 5)	79,734	197,893
Property capital investments	36,746	57,345
Fair value adjustments	1,001	10,471
Transfer from redevelopment properties	-	117,783
Dispositions	(39,740)	-
	\$ 1,297,954	\$ 1,220,213
Reclassification to assets held for sale (note 6)	(42,509)	(19,084)
Balance, end of period	\$ 1,255,445	\$ 1,201,129

Redevelopment properties:

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

	June 30, 2016	December 31, 2015
Balance, beginning of year	\$ -	\$ 72,709
Redevelopment costs	-	30,070
Fair value adjustments	-	16,586
Transfer to income properties	-	(117,783)
Disposition (note 6)	-	(1,582)
Balance, end of period	\$ -	\$ -

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.

InterRent Real Estate Investment Trust

Notes to Condensed Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015 and as at December 31, 2015

Unaudited (Cdn \$ Thousands except unit amounts)

4. INVESTMENT PROPERTIES (Continued)

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

	June 30, 2016		December 31, 2015	
	Range	Weighted average	Range	Weighted average
Capitalization rate	4.25% - 6.75%	5.04%	4.25% - 6.75%	5.15%

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 June 30, 2016

Net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 63,454	\$ 64,763	\$ 65,417	\$ 66,071	\$ 67,380
Capitalization rate						
-0.25%	4.79%	\$ 1,324,728	\$ 1,352,042	\$ 1,365,699	\$ 1,379,356	\$ 1,406,670
Cap rate used	5.04%	\$ 1,259,018	\$ 1,284,977	\$ 1,297,954	\$ 1,310,936	\$ 1,336,895
+0.25%	5.29%	\$ 1,199,518	\$ 1,224,250	\$ 1,236,616	\$ 1,248,982	\$ 1,273,715

As at December 31, 2015

Net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 60,956	\$ 62,213	\$ 62,841	\$ 63,469	\$ 64,726
Capitalization rate						
-0.25%	4.90%	\$ 1,243,995	\$ 1,269,645	\$ 1,282,469	\$ 1,295,294	\$ 1,320,943
Cap rate used	5.15%	\$ 1,183,607	\$ 1,208,011	\$ 1,220,213	\$ 1,232,416	\$ 1,256,820
+0.25%	5.40%	\$ 1,128,811	\$ 1,152,085	\$ 1,163,722	\$ 1,175,359	\$ 1,198,634

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

	June 30, 2016	June 30, 2015
Property capital investments	\$ (36,746)	\$ (17,491)
Redevelopment costs	-	(20,647)
Changes in non-cash investing accounts payable and accrued liabilities	(4,283)	4,811
	\$ (41,029)	\$ (33,327)

InterRent Real Estate Investment Trust

Notes to Condensed Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015 and as at December 31, 2015

Unaudited (Cdn \$ Thousands except unit amounts)

5. INVESTMENT PROPERTY ACQUISITIONS

During the six months ended June 30, 2016, the Trust completed the following income property acquisitions, which has contributed to the operating results effective from the acquisition date:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
March 9, 2016	127	\$ 22,240	\$ 16,100	prime	April 1, 2017
May 4, 2016	418	\$ 57,494	-	-	n/a
	545	\$ 79,734	\$ 16,100		

During the six months ended June 30, 2015, the Trust completed the following acquisitions:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
March 11, 2015	280	\$ 33,015	\$ 24,300	1.94%	March 15, 2016
April 7, 2015	393	59,416	41,000	Prime - 0.50%	August 1, 2016
April 30, 2015	286	28,070	20,750	2.5% and 2.7%	May 1, 2016 and May 1, 2017
May 14, 2015	-	1,490	-	-%	n/a
	959	\$ 121,991	\$ 86,050		

The acquisition on May 14, 2015 was a parcel of land for future development potential.

6. ASSETS HELD FOR SALE

As at June 30, 2016, the Trust classified eight investment properties (519 suites) as assets held for sale as a result of the Trust initiating an active program to dispose of these properties (December 31, 2015 – four properties and 155 suites). The following table sets forth the assets and liabilities associated with these properties.

	June 30, 2016	December 31, 2015
Properties	8	4
Suites	519	155
Investment properties (note 4)	\$ 42,509	\$ 19,084
Prepays and deposits	121	25
Other assets (note 7)	83	79
Assets held for sale	\$ 42,713	\$ 19,188
Mortgages and loans payable	\$ 12,424	\$ 6,654
Accounts payable and accrued liabilities (note 10)	504	215
Tenant rental deposits	478	163
Liabilities related to assets held for sale	\$ 13,406	\$ 7,032

InterRent Real Estate Investment Trust

Notes to Condensed Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015 and as at December 31, 2015

Unaudited (Cdn \$ Thousands except unit amounts)

6. ASSETS HELD FOR SALE (Continued)

During the six months ended June 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	\$ 8,420	-
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	3,932	2,548
May 27, 2016	18	1,856	1,776	858
May 27, 2016	32	3,360	3,221	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	2,423	1,260
May 27, 2016	24	2,533	2,419	1,260
Total	357	\$ 40,985	\$ 39,076	\$ 18,303

No investment properties were disposed of during the six month period ended June 30, 2015.

A loss of \$664 was recognized in the six months ended June 30, 2016 (2015 - \$nil) 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 six month ended:

	June 30, 2016	June 30, 2015
Proceeds	\$ 39,076	\$ -
Vendor take-back mortgage issued	(300)	-
Non-cash closing costs	704	-
	\$ 39,480	\$ -

InterRent Real Estate Investment Trust

Notes to Condensed Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015 and as at December 31, 2015

Unaudited (Cdn \$ Thousands except unit amounts)

7. OTHER ASSETS

	June 30, 2016	December 31, 2015
Current:		
Rents and other receivables, net of allowance for uncollectable amounts	\$ 1,691	\$ 1,701
Tenant inducements ⁽²⁾	834	852
	\$ 2,525	\$ 2,553
Reclassification to assets held for sale (note 6)	(83)	(79)
	\$ 2,442	\$ 2,474
Non-current:		
Automobiles, software, equipment and furniture and fixtures, net of accumulated amortization of \$430 (2015 - \$380)	\$ 883	\$ 948
Deferred finance fees on credit facilities, net of accumulated amortization of \$857 (2015 - \$716)	214	305
Mortgages receivable ⁽¹⁾	608	308
Loan receivable long-term incentive plan (note 13)	5,692	3,561
	\$ 7,397	\$ 5,122
	\$ 9,839	\$ 7,596

⁽¹⁾ At June 30, 2016, the balance is comprised of two mortgages with maturity dates of 13 and 15 months at interest rates of 2% and 3.5% respectively. At December 31, 2015 the balance is comprised of one mortgage with a maturity date of 19 months at an interest rate of 2%. Mortgages are 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.

InterRent Real Estate Investment Trust

Notes to Condensed Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015 and as at December 31, 2015

Unaudited (Cdn \$ Thousands except unit amounts)

8. 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 2.72% (December 31, 2015 – 2.74%).

The mortgages and vendor take-back loans mature at various dates between the years 2016 and 2025.

Excluding mortgages on the nine properties included in assets held for sale (see note 6), the aggregate future minimum principal payments, including maturities, are as follows:

2016	\$ 150,643
2017	178,845
2018	77,928
2019	11,540
2020	43,091
Thereafter	185,664
	647,711
Less: Deferred finance costs and mortgage premiums	7,937
	\$ 639,774

9. CREDIT FACILITIES

	June 30, 2016	December 31, 2015
Demand credit facility ⁽ⁱ⁾	\$ -	\$ -
Term credit facility ⁽ⁱⁱ⁾	14,350	17,325
Term credit facility ⁽ⁱⁱⁱ⁾	20,690	15,800
Term credit facility ^(iv)	51,776	27,000
	\$ 86,816	\$ 60,125

(i) The Trust has a \$500 (2015 - \$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 period ended June 30, 2016 was 3.20% (2015 – 3.29%).

(ii) The Trust has a \$17,500 (2015 - \$17,500) term credit facility, maturing in 2016, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on twelve (2015 – twelve) 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 June 30, 2016 was 3.45% (2015 – 3.54%).

(iii) The Trust has a \$25,000 (2015 - \$25,000) term credit facility, maturing in 2018, with a Canadian chartered bank secured by a general security agreement, first mortgage on one (2015 – one) of the Trust's properties and second collateral mortgages on nine (2015 – 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 June 30, 2016 was 3.40% (2015 – 3.54%).

(iv) The Trust has a \$60,000 (2015 - \$27,000) term credit facility, maturing in 2017, with a Canadian chartered bank secured by a general security agreement, first mortgages on one (2015 – three) of the Trust's properties and second collateral mortgages on five (2015 – six) 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 June 30, 2016 was 2.86% (2015 – 3.04%).

InterRent Real Estate Investment Trust

Notes to Condensed Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015 and as at December 31, 2015

Unaudited (Cdn \$ Thousands except unit amounts)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2016	December 31, 2015
Accounts payable	\$ 7,102	\$ 7,632
Accrued liabilities	20,598	24,464
Accrued distributions	1,386	1,371
Mortgage interest payable	1,209	1,025
	\$ 30,295	\$ 34,492
Reclassification to liabilities related to assets held for sale (note 6)	(504)	(215)
	\$ 29,791	\$ 34,277

11. 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, 2014	186,250
Units issued	-
Balance - December 31, 2015	186,250
Units issued	-
Balance – June 30, 2016	186,250

The LP Class B Units represented an aggregate fair value of \$1,477 at June 30, 2016 (December 31, 2015 - \$1,222). 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.

12. 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:

	June 30, 2016	December 31, 2015
Unit-based liabilities, beginning of period	\$ 13,858	\$ 11,358
Compensation expense – deferred unit plan	2,399	2,474
Compensation expense – unit option plan	41	326
DRIP ⁽¹⁾ expense – deferred unit plan	265	447
DUP units converted, cancelled and forfeited	(563)	(1,827)
Unit options exercised and expired	(145)	(446)
Loss on fair value of liability (note 16)	3,996	1,526
Unit-based liabilities, end of period	\$ 19,851	\$ 13,858

⁽¹⁾ Distribution reinvestment plan

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Notes to Condensed Consolidated Financial Statements

For the six months ended June 30, 2016 and 2015 and as at December 31, 2015

Unaudited (Cdn \$ Thousands except unit amounts)

12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

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

The maximum number of Trust Units issuable under the Trust's equity incentive compensation plans, which includes the DUP and unit options, as well as the long-term incentive plan (note 13) is 10% of the issued and outstanding Trust Units.

(i) DEFERRED UNIT PLAN

The deferred unit plan entitles trustees, officers and employees, at the participant's option, to elect to receive deferred units (elected portion) in consideration for trustee fees or bonus compensation under the management 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, 2014	1,890,680
Units issued under deferred unit plan	426,496
Reinvested distributions on deferred units	71,595
Deferred units exercised into Trust Units	(275,829)
Deferred units purchased and cancelled	(17,217)
Deferred units cancelled	(6,408)
Balance - December 31, 2015	2,089,317
Units issued under deferred unit plan	501,327
Reinvested distributions on deferred units	38,022
Deferred units exercised into Trust Units (note 14)	(46,789)
Deferred units purchased and cancelled	(32,711)
Deferred units cancelled	(615)
Balance - June 30, 2016	2,548,551

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 June 30, 2016, the 1,184,270 deferred units, which represent the vested portion, have an intrinsic value of \$9,391 (December 31, 2015 – 947,986 deferred units had an intrinsic value of \$6,219).

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.

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12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

(ii) UNIT OPTIONS

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

Options granted, exercised and expired during the six months ended June 30 are as follows:

	2016		2015	
	Number of units	Weighted average exercise price	Number of units	Weighted average exercise price
Balance, beginning of period	1,350,680	\$ 5.16	1,546,000	\$ 4.97
Exercised	(93,005)	\$ 5.29	(122,920)	\$ 2.91
Expired	(1,500)	\$ 5.81	(5,500)	\$ 5.66
Balance, end of period	1,256,175	\$ 5.15	1,417,580	\$ 5.15

Options outstanding at June 30, 2016:

Exercise price	Number of units	Remaining life in years	Number of units exercisable
\$ 2.13	193,000	4.98	193,000
\$ 5.50	96,575	6.19	96,575
\$ 5.65	550,600	6.96	550,600
\$ 5.34	500	7.38	500
\$ 5.81	415,500	8.47	270,250
	1,256,175		1,110,925

Total compensation expense for the six months was \$41 (2015 - \$214). 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 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 six months ended June 30, 2016 was \$7.44.

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12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

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:

	June 30, 2016	December 31, 2015
Market price of Unit	7.93	\$ 6.56
Expected option life	3.1 years	2.6 years
Risk-free interest rate	0.54%	0.53%
Expected volatility (based on historical)	19%	20%
Expected distribution yield	5.0%	5.0%

The intrinsic value of the exercisable options at June 30, 2016 is \$3,184 (December 31, 2015 - \$1,800).

13. 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 12) 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 7) 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%	\$ 10
March 8, 2012	250,000	3.57%	878
June 29, 2012	50,000	3.35%	189
September 11, 2012	100,000	3.35%	499
June 27, 2013	187,500	3.85%	963
December 16, 2014	100,000	3.27%	545
June 9, 2015	75,000	3.44%	451
June 30, 2016	290,000	2.82%	2,157
	1,067,500		\$ 5,692

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14. 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, 2014	58,114,625	\$ 168,232
Issued from prospectus	11,719,000	75,002
Unit issue costs	-	(3,660)
Units Issued under long-term incentive plan	75,000	476
Units Issued under the deferred unit plan (note 12(i))	275,829	1,699
Units Issued under distribution reinvestment plan	704,209	4,352
Units Issued from options exercised (note 12(ii))	156,820	942
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 11(i))	46,789	326
Units Issued under distribution reinvestment plan	321,380	2,185
Units Issued from options exercised (note 11(ii))	93,005	637
Balance – June 30, 2016	71,796,657	\$ 252,462

On February 19, 2015 the Trust completed a bought deal prospectus whereby it issued 11,719,000 Trust Units for cash proceeds of \$75,002 and incurred \$3,660 in issue cost.

On August 27, 2015, the TSX approved the Trust's normal course issuer bid ("Bid") for a portion of its Trust Units. Under the Bid, the Trust may acquire up to a maximum of 5,669,710 of its Trust Units, or approximately 10% of its public float of 56,698,359 Trust Units as of August 24, 2015, for cancellation over a 12 month period commencing on September 1, 2015 until the earlier of August 31, 2016 or the date on which the Trust has purchased the maximum number of Trust Units permitted under the Bid. The number of Trust Units that can be purchased pursuant to the Bid is subject to a current daily maximum of 14,913 Trust Units (being 25% of the average daily trading volume for the six months ended July 31, 2015), except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Purchases will be made at market prices through the facilities of the TSX.

For the six month period ended June 30, 2016, the Trust did not purchase any Trust Units under the Bid.

InterRent Real Estate Investment Trust

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14. TRUST UNITS (Continued)

Declaration of Trust

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

(a) Trust Units

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

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

- i) 90% of the "market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading during the twenty-day period ending on the trading day prior to the day on which the Trust Units were surrendered to Trust for redemption; and
- ii) 100% of the "closing market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading on the redemption notice date.

(b) Special Voting Units

The Declaration of Trust provides for the issuance of an unlimited number of Special Voting Units that will be used to provide voting rights to holders of 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.

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15. FINANCING COSTS

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Mortgages and loans payable	\$ 4,581	\$ 3,765	\$ 8,973	\$ 7,153
Credit facilities	511	260	921	583
Interest income	(40)	(54)	(73)	(102)
Interest capitalized to redevelopment property	-	(295)	-	(571)
Interest expense	5,052	3,676	9,821	7,063
Amortization of deferred finance costs on mortgages	261	425	531	845
Amortization of deferred finance costs on credit facilities	67	60	141	120
Amortization of fair value on assumed debt	(34)	(33)	(69)	(119)
	\$ 5,346	\$ 4,128	\$ 10,424	\$ 7,909

16. OTHER FAIR VALUE GAINS/(LOSSES)

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
LP Class B unit liability	\$ (110)	\$ 34	\$ (255)	\$ (61)
Unit-based compensation liability (deferred unit plan)	(1,347)	269	(2,972)	(1,088)
Unit-based compensation liability (option plan)	(404)	187	(1,024)	51
	\$ (1,861)	\$ 490	\$ (4,251)	\$ (1,098)

17. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
LP Class B unit liability	\$ 11	\$ 11	\$ 22	\$ 21
Unit-based compensation liability (deferred unit plan)	147	114	265	217
	\$ 158	\$ 125	\$ 287	\$ 238

18. RELATED PARTY TRANSACTIONS

The transactions with related parties are incurred in the normal course of business. Related party transactions have been listed below, unless they have been disclosed elsewhere in the financial statements.

(i) Accounts Payable (net of amounts receivable)

As at June 30, 2016, \$1,438 (December 31, 2015 - \$1,933) 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 six months ended June 30, 2016, the Trust incurred \$4,224 (2015 - \$3,857) in property, asset and project management services, shared legal services and brokerage services from companies controlled by an officer of the Trust. Of the services received approximately \$1,747 (2015 - \$1,830) has been capitalized to the investment properties and the remaining amounts are included in operating and administrative costs.

InterRent Real Estate Investment Trust

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19. 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 June 30, 2016, the debt to gross book value ratio is 56.3% (December 31, 2015 – 54.2%).

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 six month period ended June 30, 2016 and the year ended December 31, 2015.

20. 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 June 30, 2016, the Trust had past due rents and other receivables of \$2,348 (December 31, 2015 - \$2,338), net of an allowance for doubtful accounts of \$657 (December 31, 2015 - \$637) which adequately reflects the Trust's credit risk.

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20. 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 19 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 June 30, 2016, the Trust had credit facilities as described in note 9.

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 contractual maturities and repayment obligations of the Trust's financial liabilities as at June 30, 2016 are as follows:

Year	Mortgages and loans payable	Mortgage and loan interest ⁽¹⁾	Credit facilities	Tenant rental deposits	Accounts payable and accrued liabilities	Liabilities related to assets held for sale	Total
2016	\$150,643	\$7,989	\$14,350	\$7,915	\$29,791	\$13,406	\$224,094
2017	178,845	11,320	51,776	-	-	-	241,941
2018	77,928	7,393	20,690	-	-	-	106,011
2019	11,540	6,814	-	-	-	-	18,354
2020	43,091	6,072	-	-	-	-	49,163
Thereafter	185,664	16,697	-	-	-	-	202,361
	\$647,711	\$56,285	\$86,816	\$7,915	\$29,791	\$13,406	\$841,924

⁽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 June 30, 2016, approximately 38% (December 31, 2015 – 26%) of the Trust's mortgage debt is at variable interest rates and the Trust's credit facilities bear interest at variable rates. If there was a 100 basis point change in the interest rate, cash flows would have changed by approximately \$1,025 for the six months ended June 30, 2016 (2015 - \$265).

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21. 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, excluding assets held for sale, and credit facilities, which are measured at a fair value level 2, is approximately \$743,104 (December 31, 2015 - \$676,792) excluding any deferred financing costs.

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

June 30, 2016	Level 1	Level 2	Level 3
Assets			
Investment properties	-	-	\$1,255,445
Liabilities			
Unit-based compensation liability	-	\$19,851	-
LP Class B unit liability	-	1,477	-
December 31, 2015			
Assets			
Investment properties	-	-	\$1,201,129
Liabilities			
Unit-based compensation liability	-	\$13,858	-
LP Class B unit liability	-	1,222	-

22. 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.

23. SUBSEQUENT EVENT

The Trust sold six properties (415 suites) on July 5, 2016 for a selling price of approximately \$32,100 and sold two properties (104 suites) on July 18, 2016 for a selling price of approximately \$11,475.