# InterRent Real Estate Investment Trust

## Condensed Consolidated Financial Statements

**March 31, 2015**
**(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 | **March 31, 2015** | December 31, 2014 |
|---|---|---|---|
| **Assets** | | | |
| Investment properties | 4 | **$ 960,115** | $909,430 |
| Prepaids and deposits | | **3,306** | 2,997 |
| Other assets | 6 | **7,045** | 7,555 |
| Cash | | **227** | 666 |
| | | **$ 970,693** | $920,648 |
| **Liabilities** | | | |
| Mortgages and loans payable | 7 | **$ 456,982** | $433,924 |
| Credit facilities | 8 | **2,300** | 51,126 |
| Accounts payable and accrued liabilities | 9 | **24,350** | 23,824 |
| Tenant rental deposits | | **5,815** | 5,600 |
| LP Class B unit liability | 10 | **1,211** | 1,116 |
| Unit-based compensation liabilities | 11 | **13,072** | 11,358 |
| | | **503,730** | 526,948 |
| **Unitholders' equity** | | | |
| Unit capital | 13 | **242,066** | 168,232 |
| Retained earnings | | **224,897** | 225,468 |
| | | **466,963** | 393,700 |
| | | **$ 970,693** | $920,648 |

Subsequent event (note 21)

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 months ended March 31**
Unaudited (Cdn $ Thousands)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Operating revenues** | | | |
| Revenue from investment properties | | **$18,261** | $15,832 |
| **Operating expenses** | | | |
| Property operating costs | | **2,983** | 2,817 |
| Property taxes | | **2,545** | 2,162 |
| Utilities | | **2,967** | 2,453 |
| | | **8,495** | 7,432 |
| **Net operating income** | | **9,766** | 8,400 |
| Financing costs | 14 | **3,781** | 3,047 |
| Administrative costs | | **1,497** | 1,462 |
| | | **5,278** | 4,509 |
| **Income from operations before other income and expenses** | | **4,488** | 3,891 |
| **Other income and expenses** | | | |
| Fair value adjustments of investment properties | 4 | **274** | 127 |
| Other fair value losses | 15 | **(1,588)** | (526) |
| Interest on units classified as financial liabilities | 16 | **(113)** | (80) |
| **Net income for the period** | | **$3,061** | $3,412 |

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 three months ended March 31**
Unaudited (Cdn $ Thousands)

| | Trust units | Cumulative profit | Cumulative distributions to Unitholders | Retained earnings | Total Unitholders' equity |
|---|---|---|---|---|---|
| Balance, January 1, 2014 | $ 163,292 | $ 233,861 | $ (20,647) | $ 213,214 | $ 376,506 |
| Units issued | 693 | - | - | - | 693 |
| Net income for the period | - | 3,412 | - | 3,412 | 3,412 |
| Distributions declared to Unitholders | - | - | (2,870) | (2,870) | (2,870) |
| **Balance, March 31, 2014** | **$ 163,985** | **$ 237,273** | **$ (23,517)** | **$ 213,756** | **$ 377,741** |
| Balance, January 1, 2015 | $ 168,232 | $ 257,843 | $ (32,375) | $ 225,468 | $ 393,700 |
| Units issued | 73,834 | - | - | - | 73,834 |
| Net income for the period | - | 3,061 | - | 3,061 | 3,061 |
| Distributions declared to Unitholders | - | - | (3,632) | (3,632) | (3,632) |
| **Balance, March 31, 2015** | **$ 242,066** | **$ 260,904** | **$ (36,007)** | **$ 224,897** | **$ 466,963** |

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 three months ended March 31**
(Cdn $ Thousands)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Cash flows from (used in) operating activities** | | | |
| Net income for the period | | **$ 3,061** | $ 3,412 |
| Add items not affecting cash | | | |
| Amortization | | **21** | 12 |
| Fair value adjustments on investment properties | 4 | **(274)** | (127) |
| Other fair value losses | 15 | **1,588** | 526 |
| Unit-based compensation expense | 11 | **1,630** | 1,673 |
| Financing costs | 14 | **3,781** | 3,047 |
| Interest expense | 14 | **(3,387)** | (2,995) |
| Tenant inducements | | **238** | 276 |
| | | **6,658** | 5,824 |
| Net income items related to financing activities | 16 | **10** | 9 |
| Changes in non-cash operating assets and liabilities: | | | |
| Other assets | | **191** | (336) |
| Prepaids and deposits | | **(309)** | 122 |
| Accounts payable and accrued liabilities | | **304** | (3,489) |
| Tenant rental deposits | | **215** | 43 |
| **Cash from operating activities** | | **7,069** | 2,173 |
| **Cash flows used in investing activities** | | | |
| Acquisition of investment properties | 5 | **(32,985)** | (9,470) |
| Additions to investment properties | 4 | **(17,426)** | (10,092) |
| | | **(50,411)** | (19,562) |
| **Cash flows from (used in) financing activities** | | | |
| Mortgage and loan repayments | | **(23,654)** | (2,326) |
| Mortgage advances | | **46,679** | 5,000 |
| Financing fees | | **(301)** | (6) |
| Credit facility advances (repayments) | | **(48,826)** | 16,080 |
| Trust units issued, net of issue costs | 13 | **71,655** | - |
| Deferred units purchased and cancelled | 13 | **(110)** | - |
| Interest paid on units classified as financial liabilities | 16 | **(10)** | (9) |
| Distributions paid | | **(2,530)** | (2,219) |
| | | **42,903** | 16,520 |
| Decrease in cash during the period | | **(439)** | (869) |
| Cash at the beginning of period | | **666** | 1,234 |
| **Cash at end of period** | | **$ 227** | $ 365 |

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

## 1. ORGANIZATIONAL INFORMATION

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

These condensed consolidated interim financial statements for the period ended March 31, 2015 were authorized for issuance by the Trustees of the Trust on May 12, 2015.

## 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, 2014.

### Basis of presentation

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, 2014.

### 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.

## 2. BASIS OF PRESENTATION (Continued)

**Critical accounting estimates and judgments in applying accounting policies**

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment when applying the Trust's accounting policies. The critical accounting estimates and judgments have been set out in notes 2 and 3 to the Trust's consolidated financial statements for the year ended December 31, 2014.

## 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, 2017, 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.

Unaudited (Cdn $ Thousands except unit amounts)

## 4. INVESTMENT PROPERTIES

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Composed of: | | |
| Income properties | **$ 876,095** | $ 836,721 |
| Redevelopment properties | **84,020** | 72,709 |
| | **$ 960,115** | $ 909,430 |

**Income properties:**

All investment properties other than redevelopment properties.

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Balance, beginning of period | **$ 836,721** | $ 719,560 |
| Acquisitions (note 5) | **32,985** | 76,008 |
| Property capital investments | **6,115** | 35,624 |
| Fair value adjustments | **274** | 6,679 |
| Transfer to redevelopment properties | **-** | (1,150) |
| Balance, end of period | **$ 876,095** | $ 836,721 |

**Redevelopment properties:**

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Balance, beginning of period | **$ 72,709** | $ 47,260 |
| Acquisition (note 5) | **-** | 2,035 |
| Transfer from income properties | **-** | 1,150 |
| Redevelopment costs | **11,311** | 22,264 |
| Balance, end of period | **$ 84,020** | $ 72,709 |

The fair value of the income properties is determined internally by the Trust. The Trust determined the fair value of each income property internally based upon the direct capitalization income approach method of valuation. The fair value was determined by applying a capitalization rate to an estimated annual net operating income (“NOI”), which incorporates allowances for vacancy, management fees, labour and repairs and maintenance for the property. In order to substantiate management’s valuation, market evidence from third party appraisers is incorporated on a continual basis. The information obtained from the appraisers provided the Trust with a summary of major assumptions and market data by city in order for the Trust to complete its internal valuations.

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

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | **Range** | **Weighted average** | **Range** | **Weighted average** |
| **Capitalization rate** | 4.50% - 6.63% | 5.40% | 4.50% - 6.63% | 5.40% |

Unaudited (Cdn $ Thousands except unit amounts)

## 4. INVESTMENT PROPERTIES (Continued)

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 March 31, 2015**

| **Net operating income** | | -3% | -1% | As estimated | +1% | +3% |
|---|---|---|---|---|---|---|
| | | $ 45,890 | $ 46,836 | **$ 47,309** | $ 47,782 | $ 48,728 |
| **Capitalization rate** | | | | | | |
| -0.25% | 5.15% | $ 891,063 | $ 909,435 | $ 918,621 | $ 927,808 | $ 946,180 |
| Cap rate used | **5.40%** | $ 849,810 | $ 867,332 | **$ 876,095** | $ 884,854 | $ 902,375 |
| +0.25% | 5.65% | $ 812,208 | $ 828,954 | $ 837,327 | $ 845,701 | $ 862,447 |

As at December 31, 2014

| **Net operating income** | | -3% | -1% | As estimated | +1% | +3% |
|---|---|---|---|---|---|---|
| | | $ 43,827 | $ 44,731 | **$ 45,183** | $ 45,635 | $ 46,538 |
| **Capitalization rate** | | | | | | |
| -0.25% | 5.15% | $ 851,018 | $ 868,565 | $ 877,338 | $ 886,112 | $ 903,659 |
| Cap rate used | **5.40%** | $ 811,619 | $ 828,354 | **$ 836,721** | $ 845,088 | $ 861,823 |
| +0.25% | 5.65% | $ 775,707 | $ 791,701 | $ 799,698 | $ 807,695 | $ 823,689 |

The redevelopment property acquired May 14, 2013 is valued at acquisition cost plus redevelopment costs. The direct capitalization income approach method of valuation is not a reliable measure as the property is undergoing a significant amount of work which will effect multiple components of the estimated NOI as well as the Cap Rate. The Trust expects the fair value of the property to be reliably determinable when redevelopment is complete, and will measure that investment property under redevelopment at cost until either its fair value becomes reliably determinable or redevelopment is completed (whichever is earlier). The land acquired in February 2014 is valued at cost.

Unaudited (Cdn $ Thousands except unit amounts)

## 5. INVESTMENT PROPERTY ACQUISITIONS

During the three months ended March 31, 2015, the Trust completed the following income property acquisition, which has contributed to the operating results effective from the acquisition date:

| Acquisition Date | Suite Count | Total Acquisition Costs | Mortgage Funding | Interest Rate | Maturity Date |
|---|---|---|---|---|---|
| March 11, 2015 | 280 | $ 32,985 | $ 24,300 | 1.94% | March 15, 2016 |
| | 280 | $ 32,985 | $ 24,300 | | |

During the three months ended March 31, 2014, the Trust completed the following acquisitions:

| Acquisition Date | Suite Count | Total Acquisition Costs | Mortgage Funding | Interest Rate | Maturity Date |
|---|---|---|---|---|---|
| February 14, 2014 | - | $ 2,035 | $ - | -% | n/a |
| February 25, 2014 | 54 | 7,435 | 5,000 | 2.57% | March 15, 2015 |
| | 54 | $ 9,470 | $ 5,000 | | |

The acquisition on February 14, 2014 was a parcel of land which was used as a parking lot for the property that is being redeveloped.

## 6. OTHER ASSETS

| | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Mortgage holdbacks | **$ 2** | $ 2 |
| Rents and other receivables, net of allowance for uncollectable amounts | **1,011** | 1,271 |
| Automobile, software, equipment and furniture and fixtures, net of accumulated amortization of $301 (2014 - $280) | **265** | 269 |
| Deferred finance fees on line of credit, net of accumulated amortization of $526 (2014 - $465) | **237** | 291 |
| Mortgages receivable (1) | **1,927** | 1,927 |
| Tenant inducements (2) | **461** | 524 |
| Loan receivable long-term incentive plan (note 12) | **3,142** | 3,271 |
| | **$ 7,045** | $ 7,555 |

(1) At March 31, 2015, the balance is comprised of three mortgages with maturity dates ranging from 4 to 28 months at interest rates from 2% to 3.5%. All mortgages are secured by the related property and a general security agreement. At December 31, 2014 the balance is comprised of three mortgages with maturity dates ranging from 7 to 31 months at interest rates from 2% to 3.5%.

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

Unaudited (Cdn $ Thousands except unit amounts)

## 7. MORTGAGES AND LOANS PAYABLE

Mortgages and vendor take-back loans are secured by the investment properties and bear interest at a weighted average interest rate of 2.98% (December 31, 2014 – 3.13%).

The mortgages and vendor take-back loans mature at various dates between the years 2015 and 2025.

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

| | |
|---|---|
| 2015 | $ 224,260 |
| 2016 | 42,111 |
| 2017 | 30,694 |
| 2018 | 5,845 |
| 2019 | 12,827 |
| Thereafter | 147,301 |
| | 463,038 |
| Less: Deferred finance costs and mortgage premiums | 6,056 |
| | **$ 456,982** |

## 8. CREDIT FACILITIES

| | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Demand credit facility (i) | **$ -** | $ - |
| Term credit facility (ii) | **-** | 9,176 |
| Term credit facility (iii) | **2,300** | 14,950 |
| Term credit facility (iv) | **-** | 27,000 |
| | **$ 2,300** | $ 51,126 |

(i) The Trust has a $500 (2014 - $500) demand credit facility with a Canadian chartered bank secured by a general security agreement and a second collateral mortgage on one (2014 – one) of the Trust's properties. The weighted average interest rate on amounts drawn during the three months ended March 31, 2015 was 3.40% (2014 – 4.00%).

(ii) The Trust has a $17,500 (2014 - $17,500) term credit facility, maturing in 2016, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on ten (2014 – 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 three months ended March 31, 2015 was 3.65% (2014 – 3.75%).

(iii) The Trust has a $15,000 (2014 - $15,000) term credit facility, maturing in 2015, with a Canadian chartered bank secured by a general security agreement, first mortgage on one (2014 – one) of the Trust's properties and second collateral mortgages on seven (2014 – seven) 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 three months ended March 31, 2015 was 3.65% (2014 – 3.75%).

(iv) The Trust has a $27,000 (2014 - $27,000) term credit facility, maturing in 2016, with a Canadian chartered bank secured by a general security agreement, first mortgages on three of the Trust's properties (2014 – three) and second collateral mortgages on eight (2014 – eight) 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 three months ended March 31, 2015 was 3.20% (2014 – 3.28%).

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Accounts payable | **$ 4,026** | $ 4,521 |
| Accrued liabilities | **18,040** | 17,203 |
| Accrued distributions | **1,289** | 1,067 |
| Mortgage interest payable | **995** | 1,033 |
| | **$ 24,350** | $ 23,824 |

Unaudited (Cdn $ Thousands except unit amounts)

## 10. 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, 2013** | **186,250** |
| Units issued | - |
| **Balance - December 31, 2014** | **186,250** |
| Units issued | - |
| **Balance – March 31, 2015** | **186,250** |

The LP Class B Units represented an aggregate fair value of $1,211 at March 31, 2015 ($1,116 – December 31, 2014). 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.

## 11. UNIT-BASED COMPENSATION LIABILITIES

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

| | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Unit-based liabilities, beginning of period | **$ 11,358** | $ 7,963 |
| Compensation expense – deferred unit plan | **1,411** | 2,357 |
| Compensation expense – unit option plan | **116** | 608 |
| DRIP[(1)] expense – deferred unit plan | **103** | 355 |
| DUP units converted, cancelled and forfeited | **(1,128)** | (708) |
| Unit options exercised and expired | **(281)** | (592) |
| Loss on fair value of liability (note 15) | **1,493** | 1,375 |
| Unit-based liabilities, end of period | **$ 13,072** | $ 11,358 |

[(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.

Unaudited (Cdn $ Thousands except unit amounts)

## 11. UNIT-BASED COMPENSATION LIABILITIES (Continued)

### (i) DEFERRED UNIT PLAN

The deferred unit plan allows the Trust to issue a maximum number of Trust Units equal to 6.0% of the Trust's issued and outstanding Trust Units (decreased from 7.5% by unitholder approval on June 14, 2013). The 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). The deferred unit plan must be reapproved by the unitholders every three years. The deferred unit plan was approved on June 14, 2013 for another three years.

A summary of Deferred Unit activity is presented below:

| **Number of Units** | |
|---|---|
| **Balance - December 31, 2013** | **1,418,874** |
| Units issued under deferred unit plan | 535,811 |
| Reinvested distributions on deferred units | 64,744 |
| Deferred units exercised into Trust Units | (105,343) |
| Deferred units purchased and cancelled | (18,569) |
| Deferred units cancelled | (4,837) |
| | |
| **Balance - December 31, 2014** | **1,890,680** |
| Units issued under deferred unit plan | 369,418 |
| Reinvested distributions on deferred units | 16,988 |
| Deferred units exercised into Trust Units (note 13) | (166,348) |
| Deferred units purchased and cancelled | (17,217) |
| Deferred units cancelled | (1,469) |
| **Balance – March 31, 2015** | **2,092,052** |

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 March 31, 2015, the 974,390 deferred units, which represent the vested portion, have an intrinsic value of $6,334 (December 31, 2014 – 878,944 deferred units had an intrinsic value of $5,265).

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.

Unaudited (Cdn $ Thousands except unit amounts)

## 11. UNIT-BASED COMPENSATION LIABILITIES (Continued)

### (ii) UNIT OPTIONS

The Trust has an incentive unit option plan (the "Plan"). The Plan provides for options to be granted to the benefit of employees, Trustees and certain other third parties. The maximum number of Trust Units allocated to and made available to be issued under the Plan shall not exceed 2,000,000. As at March 31, 2015, 399,920 options have been granted and exercised, 1,439,580 options have been granted and remain outstanding and 160,500 options remain available for grant. 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 three months ended March 31 are as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Number of units** | **Weighted average exercise price** | **Number of units** | **Weighted average exercise price** |
| Balance, beginning of period | 1,546,000 | $ 4.97 | 1,273,000 | $ 4.23 |
| Exercised | (100,920) | 3.09 | - | - |
| Expired | (5,500) | 5.66 | - | - |
| **Balance, end of period** | **1,439,580** | **$ 5.10** | **1,273,000** | **$ 4.23** |

Options outstanding at March 31, 2015:

| **Exercise price** | **Number of units** | **Remaining life in years** | **Number of units exercisable** |
|---|---|---|---|
| $ 2.13 | 239,080 | 6.23 | 239,080 |
| $ 5.50 | 132,500 | 7.44 | 132,500 |
| $ 5.65 | 590,000 | 8.21 | 357,500 |
| $ 5.34 | 7,500 | 8.63 | 3,750 |
| $ 5.81 | 470,500 | 9.72 | 150,000 |
| | **1,439,580** | | **882,830** |

Total compensation expense for the three months was $116 (2014 - $174). Compensation cost was determined based on an estimate of the fair value using the Black-Scholes option pricing model at date of grant.

The weighted average market price of options exercised in the three months ended March 31, 2015 was $6.22.

Unaudited (Cdn $ Thousands except unit amounts)

## 11. 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:

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Market price of Unit | $ 6.50 | $ 5.99 |
| Expected option life | 3.3 years | 3.5 years |
| Risk-free interest rate | 0.60% | 1.17% |
| Expected volatility (based on historical) | 26% | 29% |
| Expected distribution yield | 5.0% | 5.0% |

The intrinsic value of the exercisable options at March 31, 2015 is $1,589 (December 31, 2014 - $1,406).

## 12. LONG-TERM INCENTIVE PLAN

The Board of Trustees may award long-term incentive plan ("LTIP") units to certain officers and key employees, collectively the "Participants" up to a maximum of 1,000,000 units. As at March 31, 2015, 122,500 LTIP units are available to be issued. The Participants can subscribe for Trust Units at a purchase price equal to the weighted average trading price of the Trust Units for the five trading days prior to issuance. The purchase price is payable in instalments, with an initial instalment of 5% paid when the Trust Units are issued. The balance represented by a loan receivable (note 6) is due over a term not exceeding ten years. Participants are required to pay interest at a ten-year fixed rate based on the Trust's fixed borrowing rate for long-term mortgage financing and are required to apply cash distributions received on these units toward the payment of interest and the remaining instalments. Participants may pre-pay any remaining instalments at their discretion. The Trust has recourse on the loans receivable and has reasonable assurance that the Trust will collect the full amount of the loan receivable. The loans receivable are secured by the units as well as the distributions on the units. If a Participant fails to pay interest and/or principal, the Trust can enforce repayment which may include the election to reacquire or sell the units in satisfaction of the outstanding amounts.

| Date of award | Number of units | Interest rate | Loan receivable |
|---|---|---|---|
| May 10, 2010 | 15,000 | 5.00% | $ 14 |
| March 8, 2012 | 250,000 | 3.57% | 908 |
| June 29, 2012 | 50,000 | 3.35% | 194 |
| September 11, 2012 | 100,000 | 3.35% | 506 |
| June 27, 2013 | 187,500 | 3.85% | 969 |
| December 16, 2014 | 100,000 | 3.27% | 551 |
| | 702,500 | | $ 3,142 |

Unaudited (Cdn $ Thousands except unit amounts)

## 13. TRUST UNITS

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

| | Trust Units | Amount |
|---|---|---|
| **Balance – December 31, 2013** | **57,204,747** | **$ 163,292** |
| Units Issued under long-term incentive plan | 100,000 | 581 |
| Units Issued under the deferred unit plan | 105,343 | 584 |
| Units Issued under distribution reinvestment plan | 511,535 | 2,772 |
| Units Issued from options exercised | 193,000 | 1,003 |
| **Balance – December 31, 2014** | **58,114,625** | **$ 168,232** |
| Issued from prospectus | 11,719,000 | 75,002 |
| Unit issue costs | - | (3,658) |
| Units Issued under the deferred unit plan (note 11(i)) | 166,349 | 1,018 |
| Units Issued under distribution reinvestment plan | 147,040 | 880 |
| Units Issued from options exercised (note 11(ii)) | 100,920 | 592 |
| **Balance – March 31, 2015** | **70,247,934** | **$ 242,066** |

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 $3,658 in issue cost.

## 13. TRUST UNITS (Continued)

### Declaration of Trust

The Declaration of Trust authorizes the Trust to issue an unlimited number of units for 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.

Unaudited (Cdn $ Thousands except unit amounts)

## 14. FINANCING COSTS

| | 2015 | 2014 |
|---|---|---|
| Mortgages and loans payable | **$ 3,388** | $ 3,062 |
| Credit facilities | **323** | 108 |
| Interest income | **(48)** | (55) |
| Interest capitalized to redevelopment properties | **(276)** | (120) |
| Interest expense | **3,387** | 2,995 |
| Amortization of deferred finance costs on mortgages | **420** | 179 |
| Amortization of deferred finance costs on credit facilities | **60** | 45 |
| Amortization of fair value on assumed debt | **(86)** | (172) |
| | **$ 3,781** | $ 3,047 |

## 15. OTHER FAIR VALUE LOSSES

| | 2015 | 2014 |
|---|---|---|
| LP Class B unit liability | **$ (95)** | $ (54) |
| Unit-based compensation liability (deferred unit plan) | **(1,357)** | (429) |
| Unit-based compensation liability (option plan) | **(136)** | (43) |
| | **$ (1,588)** | $ (526) |

## 16. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

| | 2015 | 2014 |
|---|---|---|
| LP Class B unit liability | **$ 10** | $ 9 |
| Unit-based compensation liability (deferred unit plan) | **103** | 71 |
| | **$ 113** | $ 80 |

## 17. RELATED PARTY TRANSACTIONS

The transactions with related parties are incurred in the normal course of business and are measured at amounts believed to represent fair value. 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 March 31, 2015, $1,125 (December 31, 2014 - $1,032) 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 three months ended March 31, 2015, the Trust incurred $1,741 (2014 - $1,395) 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 $778 (2014 - $513) has been capitalized to the investment properties and the remaining amounts are included in operating and administrative costs.

## 18. 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 March 31, 2015, the debt to gross book value ratio is 47.3% (December 31, 2014 – 52.7%).

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 period ended March 31, 2015 and the year ended December 31, 2014.

## 19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### 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

Credit risk represents the financial loss that the Trust would experience if a tenant failed to meet its obligations in accordance with the terms and conditions of the lease. 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 March 31, 2015, the Trust had past due rents and other receivables of $1,801 (December 31, 2014 - $2,293), net of an allowance for doubtful accounts of $790 (December 31, 2014 - $1,022) which adequately reflects the Trust's credit risk.

## 19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

The Trust believes that the concentration of credit risk of accounts receivable is limited due to its broad tenant base, dispersed across varying geographic locations.

The Trust has established various internal controls, such as credit checks and security deposits, designed to mitigate credit risk. While the Trust's credit controls and processes have been effective in mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective or that the Trust's current credit loss experience will improve.

The amounts shown in the consolidated balance sheets as mortgage holdbacks relate primarily to amounts that will be released upon the completion of repairs to certain buildings. Mortgages receivable represent vendor take back loans on the sale of buildings and are secured by the building. Management believes there is minimal credit risk due to the nature of these amounts receivable and the underlying collateral.

### 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 18 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 March 31, 2015, the Trust had credit facilities as described in note 8.

Note 7 reflects the contractual maturities for mortgage and loans payable of the Trust at March 31, 2015, excluding interest payments. 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.

### d) Fair Value

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, at March 31, 2015 is approximately $467,940 (December 31, 2014 - $490,307).

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.

Unaudited (Cdn $ Thousands except unit amounts)

## 19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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

| March 31, 2015 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 227 | $ - | $ - |
| Income properties | - | - | 876,095 |
| Redevelopment property | - | - | 1,837 |
| **Liabilities** | | | |
| Unit-based compensation liabilities | - | 13,072 | - |
| LP Class B unit liability | - | 1,211 | - |

| December 31, 2014 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 666 | $ - | $ - |
| Income properties | - | - | 836,721 |
| Redevelopment property | - | - | 1,663 |
| **Liabilities** | | | |
| Unit-based compensation liabilities | - | 11,358 | - |
| LP Class B unit liability | - | 1,116 | - |

### e) 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 March 31, 2015, approximately 2% (December 31, 2014 – 0%) 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 $80 for the three months ended March 31, 2015 (2014 - $25).

## 20. 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.

## 21. SUBSEQUENT EVENT

The Trust purchased the following two properties: 393 suites that closed April 7, 2015; and, 286 suites that closed on April 30, 2015.