InterRent Real Estate Investment Trust

Consolidated Financial Statements

For the Years Ended December 31, 2014 and 2013

Collins Barrow

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of
InterRent Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of InterRent Real Estate Investment Trust and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013 and the consolidated statements of income, unitholders' equity and cash flows for the years ended December 31, 2014 and December 31, 2013 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of InterRent Real Estate Investment Trust and its subsidiaries as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013, in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants
March 3, 2015

InterRent Real Estate Investment Trust

Consolidated Balance Sheets
(Cdn $ Thousands)

	Note	December 31, 2014	December 31, 2013
Assets			
Investment properties	4	**$909,430**	$766,820
Prepaids and deposits		**2,997**	2,023
Other assets	7	**7,555**	6,985
Cash		**666**	1,234
		$920,648	$777,062
Liabilities			
Mortgages and loans payable	8	**$433,924**	$368,670
Credit facilities	9	**51,126**	-
Accounts payable and accrued liabilities	10	**23,824**	18,034
Tenant rental deposits		**5,600**	4,893
LP Class B unit liability	11	**1,116**	996
Unit-based compensation liabilities	12	**11,358**	7,963
		526,948	400,556
Unitholders' equity			
Unit capital	14	**168,232**	163,292
Retained earnings		**225,468**	213,214
		393,700	376,506
		$920,648	$777,062

Subsequent event (note 23)

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

On behalf of the Trust

Jacie Levinson
Chairman

Michael McGahan
Trustee

InterRent Real Estate Investment Trust

Consolidated Statements of Income
For the Years Ended December 31
(Cdn $ Thousands)

	Note	2014	2013
Operating revenues			
Revenue from investment properties		**$65,404**	$60,506
Operating expenses			
Property operating costs		**11,518**	10,169
Property taxes		**8,867**	7,978
Utilities		**7,135**	6,318
		27,520	24,465
Net operating income		**37,884**	36,041
Financing costs	15	**12,759**	11,589
Administrative costs		**5,935**	5,323
		18,694	16,912
Income from operations before other income and expenses		**19,190**	19,129
Other income and expenses			
Loss on disposition of assets	6	**-**	(21)
Fair value adjustments of investment properties	4	**6,679**	11,854
Other fair value losses	16	**(1,495)**	(422)
Interest on units classified as financial liabilities	17	**(392)**	(281)
Net income for the year		**$23,982**	$30,259

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

InterRent Real Estate Investment Trust

Consolidated Statements of Unitholders' Equity
For the Years Ended December 31
(Cdn $ Thousands)

	Trust units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings	Total Unitholders' equity
Balance, January 1, 2013	$82,653	$203,602	$(10,331)	$193,271	$275,924
Units issued	81,381	-	-	-	81,381
Units cancelled	(742)	-	-	-	(742)
Net income for the year	-	30,259	-	30,259	30,259
Distributions declared to Unitholders	-	-	(10,316)	(10,316)	(10,316)
Balance, December 31, 2013	$163,292	$233,861	$(20,647)	$213,214	$376,506
Balance, January 1, 2014	$163,292	$233,861	$(20,647)	$213,214	$376,506
Units issued	4,940	-	-	-	4,940
Net income for the year	-	23,982	-	23,982	23,982
Distributions declared to Unitholders	-	-	(11,728)	(11,728)	(11,728)
Balance, December 31, 2014	**$168,232**	**$257,843**	**$(32,375)**	**$225,468**	**$393,700**

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

InterRent Real Estate Investment Trust

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

	Note	2014	2013
Cash flows from (used in) operating activities			
Net income for the year		**$23,982**	$30,259
Add items not affecting cash			
Amortization		**70**	44
Loss on disposition of assets	6	**-**	21
Fair value adjustments of investment properties	4	**(6,679)**	(11,854)
Other fair value losses	16	**1,495**	422
Unit-based compensation expense	12	**3,320**	2,535
Financing costs	15	**12,759**	11,589
Interest expense	15	**(12,721)**	(11,194)
Tenant inducements		**1,124**	638
		23,350	22,460
Net income items related to financing activities	17	**38**	35
Changes in non-cash operating assets and liabilities:			
Other assets		**(1,099)**	(1,482)
Prepaids and deposits		**(974)**	351
Accounts payable and accrued liabilities		**5,681**	7,324
Tenant rental deposits		**707**	805
Cash from operating activities		**27,703**	29,493
Cash flows used in investing activities			
Acquisition of investment properties	5	**(78,043)**	(107,419)
Additions to investment properties	4	**(57,888)**	(48,386)
		(135,931)	(155,805)
Cash flows from (used in) financing activities			
Mortgage and loan repayments		**(80,156)**	(126,077)
Mortgage advances		**147,110**	192,329
Financing fees		**(1,851)**	(2,796)
Credit facility advances (repayments)		**51,126**	(5,110)
Trust units issued, net of issue costs		**440**	77,691
Trust units cancelled		**-**	(742)
Deferred units purchased and cancelled		**(123)**	(36)
Interest paid on units classified as financial liabilities	17	**(38)**	(35)
Distributions paid		**(8,848)**	(8,113)
		107,660	127,111
Increase (decrease) in cash during the year		**(568)**	799
Cash at the beginning of year		**1,234**	435
Cash at end of year		**$666**	$1,234

The accompanying notes are an integral part of these 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 consolidated financial statements were authorized for issuance by the Trustees of the Trust on March 3, 2015.

2. BASIS OF PRESENTATION

Statement of compliance

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

Basis of presentation

These consolidated 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.

Basis of consolidation

The consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. Subsidiaries are consolidated from the date control commences until control ceases.

Functional currency

The Trust and its subsidiaries functional currency is Canadian dollars.

2. BASIS OF PRESENTATION (Continued)

Critical accounting estimates

The preparation of these consolidated financial statements requires management to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements.

Investment properties

Investment properties (except for investment properties undergoing redevelopment where fair value is not reliably determinable) are re-measured to fair value at each reporting date, determined based on internal valuation models incorporating market evidence and valuations performed by third-party appraisers. When estimating the fair value of investment properties, management makes multiple estimates and assumptions that have a significant effect on the measurement of investment properties. Estimates used in determining the fair value of the investment properties include capitalization rates, inflation rates, vacancy rates, standard costs and net operating income.

Financial liabilities

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

Assets held for sale

Assets held for sale are measured at the lower of carrying value and fair value less costs to sell except for investment properties which are measured at fair value at each reporting period. To determine fair value less costs to sell, management must make estimates regarding the expected outcome of a sale of the assets.

3. SIGNIFICANT ACCOUNTING POLICIES

Investment properties

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

a) Income properties

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Investment properties under redevelopment

Properties under redevelopment include properties that will undergo activities that will take a substantial period of time and effort to complete in order to prepare the property for its intended use to earn rental income. The cost of redevelopment properties includes the cost of acquiring the property and direct redevelopment costs, realty taxes and borrowing costs directly attributable to the redevelopment. Capitalization of costs continue until all activities necessary to prepare the property for its intended use as a rental property are substantially complete.

Under the requirements of IAS 40, an investment property under redevelopment is measured at fair value at each reporting date, with the recognition of gains or losses in the consolidated statement of income. If the fair value of an investment property under redevelopment is not reliably determinable, but the Trust expects the fair value of the property to be reliably determinable when redevelopment is complete, it measures that investment property under redevelopment at cost until either its fair value becomes reliably determinable or redevelopment is completed (whichever is earlier).

Assets held for sale

Investment properties and related assets are reclassified to assets held for sale when it is expected that their carrying amounts will be recovered principally through a sale transaction rather than continuing use, the property is available for immediate sale, and a sale is highly probable. The Trust presents assets classified as held for sale and their associated liabilities separately from other assets and liabilities beginning from the period in which they were first classified as 'for sale'. Assets held for sale are measured at the lower of carrying value and fair value less costs to sell except for investment properties which are measured at fair value at each reporting period.

Revenue recognition

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

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

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

The gain or loss from the sale of an investment property is recognized when title passes to the purchaser (control is transferred) upon closing at which time all or substantially all of the funds are receivable, or have been received, and the conditions of the sale have been completed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

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

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

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

The Trust's financial assets classified as FVTPL include cash. The Trust does not currently hold any derivative assets.

Loans and receivables

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

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

Financial liabilities at FVTPL

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other financial liabilities

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

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

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

Fair value measurement

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

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

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data
- Level 3: Valuation techniques for which any significant input is not based on observable market data

Trust units

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

LP Class B unit liability

The LP Class B units are exchangeable on demand for trust units, which in turn are redeemable into cash at the option of the holder. As such, the LP Class B units are classified as a liability. Management has designated the trust unit liability as FVTPL, and the LP Class B unit liability is re-measured to fair value at each reporting date with changes recorded in the consolidated statement of income.

Unit-based compensation

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

Provisions

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

Income taxes

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

Throughout 2013 and 2014, the Trust and its wholly owned subsidiaries satisfied certain conditions available to REITs (the “REIT Exception”) under amendments to the Tax Act, intended to permit a corporate income tax rate of nil as long as the specified conditions continue to be met. Without satisfying these conditions, the Trust would have been liable for income taxes.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn $ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical judgments in applying accounting policies

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

Investment properties

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

Leases

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

Property acquisitions

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

Income tax

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

Assets held for sale

Investment properties are reclassified to assets held for sale when it is expected that their carrying amounts will be recovered principally through a sale transaction rather than continuing use, the property is available for immediate sale, and a sale is highly probable. Application of this accounting policy requires management to make judgments regarding the likelihood assets will be sold.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Interpretation Adopted

IFRS Interpretation Committee ("IFRIC") 21Levies

IFRIC 21 was issued by the IASB in May 2013 and provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014 and is applied retrospectively. IFRIC 21 clarifies that an entity recognizes a levy liability when the activity that triggers payment occurs, as identified by the relevant legislation. It also clarifies that a levy liability is accrued ratably over a reporting period only if the activity that triggers payment occurs over such period, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached.

The adoption of IFRIC 21 has no impact to the Trust's current and prior period consolidated balance sheets and statements of earnings as at and for the years ended December 31, 2014 and 2013.

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.

(Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTIES

	December 31, 2014	December 31, 2013
Composed of:		
Income properties	**$ 836,721**	$ 719,560
Redevelopment properties	**72,709**	47,260
	$ 909,430	$ 766,820

Income properties:
All investment properties other than redevelopment properties.

	December 31, 2014	December 31, 2013
Balance, beginning of period	**$ 719,560**	$ 551,021
Acquisitions (note 5)	**76,008**	115,800
Property capital investments	**35,624**	40,906
Fair value adjustments	**6,679**	11,854
Transfer to redevelopment properties	**(1,150)**	-
Dispositions (note 6)	**-**	(21)
Balance, end of period	**$ 836,721**	$ 719,560

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

	December 31, 2014	December 31, 2013
Balance, beginning of period	**$ 47,260**	$ -
Acquisition (note 5)	**2,035**	39,780
Transfer from income properties	**1,150**	-
Redevelopment costs	**22,264**	7,480
Balance, end of period	**$ 72,709**	$ 47,260

The fair value of the income properties at December 31, 2014 and 2013 was 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 stabilized net operating income ("NOI"), which incorporates allowances for vacancy, management fees, labour and repairs and maintenance for the property. In order to substantiate management's valuation, approximately 44% of the portfolio, representing 2,735 suites, was appraised by external valuation professionals throughout the year (2013 – 46% of the portfolio representing 2,583 suites). These external appraisals provided the Trust with a summary of the major assumptions and market data by city in order for the Trust to complete its internal valuations.

(Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTIES (Continued)

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

	December 31, 2014		December 31, 2013	
	Range	**Weighted average**	**Range**	**Weighted average**
Capitalization rate	4.50% - 6.63%	5.40%	4.75% - 6.75%	5.50%

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 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

As at December 31, 2013

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 38,389	$ 39,180	**$ 39,576**	$ 39,972	$ 40,763
Capitalization rate						
-0.25%	5.25%	$ 731,214	$ 746,290	$ 753,829	$ 761,367	$ 776,443
Cap rate used	**5.50%**	$ 697,977	$ 712,368	**$ 719,560**	$ 726,759	$ 741,151
+0.25%	5.75%	$ 667,630	$ 681,395	$ 688,278	$ 695,161	$ 708,927

The Trust has decided to redevelop a property damaged by fire in February 2014 and has reclassified the fair value of the property, from income properties to redevelopment properties.

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. It is expected that the work will be completed in the first half of 2015. 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.

(Cdn $ Thousands except unit amounts)

5. INVESTMENT PROPERTY ACQUISITIONS

During the year ended December 31, 2014, the Trust completed the following investment property acquisitions, which have contributed to the operating results effective from the acquisition date:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
February 14, 2014	-	$ 2,035	$ -	-%	n/a
February 25, 2014	54	7,435	5,000	2.57%	March 15, 2015
June 10, 2014	23	1,978	1,410	2.79%	July 1, 2015
July 28, 2014	334	25,115	17,000	2.75%	August 15, 2015
December 1, 2014	232	41,023	31,000	2.65%	December 1, 2015
December 3, 2014	2	457	-	-%	n/a
	645	$ 78,043	$ 54,410		

The acquisition on February 14, 2014 was a parcel of land which was used as a parking lot for one of the properties that are now being redeveloped.

During the year ended December 31, 2013, the Trust completed the following income property acquisitions:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
January 28, 2013	174	$ 20,501	$ 14,323	4.04% and 0%	June 1, 2021 and January 28, 2017
March 20, 2013	87	11,812	7,462	2.96%	September 1, 2023
March 25, 2013	64	6,198	4,068	2.52%	May 15, 2014
April 4, 2013	118	16,136	11,737	2.65%	May 1, 2014
April 15, 2013	127	24,798	17,944	2.65%	June 1, 2014
April 18, 2013	327	36,355	13,453	5.09%	February 1, 2015
	897	$ 115,800	$ 68,987		

During the year ended December 31, 2013, the Trust completed the following redevelopment property acquisition:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
May 14, 2013	444	$ 39,780	$ 19,452	1.93%	December 15, 2013

Cash outflow used for investment property acquisitions:

	2014	2013
Total acquisition costs	**$ (78,043)**	$ (155,580)
Fair value adjustment of assumed debt	**-**	1,634
Assumed debt	**-**	46,527
	$ (78,043)	$ (107,419)

(Cdn $ Thousands except unit amounts)

6. INVESTMENT PROPERTY DISPOSITIONS

No investment properties were disposed of during the years ended December 31, 2014 and 2013.

7. OTHER ASSETS

	December 31, 2014	December 31, 2013
Mortgage holdbacks	**$ 2**	$ 12
Rents and other receivables, net of allowance for uncollectable amounts	**1,271**	1,171
Automobiles, software, equipment and furniture and fixtures, net of accumulated amortization of $280 (2013 - $210)	**269**	139
Deferred finance fees on lines of credit, net of accumulated amortization of $465 (2013 - $241)	**291**	178
Mortgages receivable [1]	**1,927**	1,995
Tenant inducements [2]	**524**	671
Loan receivable long-term incentive plan (note 13)	**3,271**	2,819
	$ 7,555	$ 6,985

(1) 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%. All mortgages are secured by the related property and a general security agreement. At December 31, 2013 the balance is comprised of four mortgages with maturity dates ranging from 1 to 43 months at interest rates from 2% to 8%.

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

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 3.13% (December 31, 2013 – 3.31%).

The mortgages and vendor take-back loans mature at various dates between the years 2015 and 2024.

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

2015	$ 237,093
2016	12,960
2017	30,524
2018	5,671
2019	12,649
Thereafter	141,122
	440,019
Less: Deferred finance costs and mortgage premiums	6,095
	$ 433,924

(Cdn $ Thousands except unit amounts)

9. CREDIT FACILITIES

	December 31, 2014	December 31, 2013
Demand credit facility (i)	**$ -**	$ -
Term credit facility (ii)	**9,176**	-
Term credit facility (iii)	**14,950**	-
Term credit facility (iv)	**27,000**	-
	$ 51,126	$ -

(i) The Trust has a $500 (2013 - $500) demand credit facility with a Canadian chartered bank secured by a general security agreement and a second collateral mortgage on one (2013 – one) of the Trust's properties. The weighted average interest rate on amounts drawn during the year ended December 31, 2014 was 4.00% (2013 – 4.00%).

(ii) The Trust has a $17,500 (2013 - $10,000) term credit facility, maturing in 2016, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on ten (2013 – eight) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. The weighted average interest rate on amounts drawn during the year ended December 31, 2014 was 3.75% (2013 – 3.75%).

(iii) The Trust has a $15,000 (2013 - $12,500) term credit facility, maturing in 2015, with a Canadian chartered bank secured by a general security agreement, first mortgage on one of the Trust's properties and second collateral mortgages on seven (2013 – eight) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. The weighted average interest rate on amounts drawn during the year ended December 31, 2014 was 3.75% (2013 – 3.75%).

(iv) The Trust has a $27,000 (2013 - $nil) 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 and second collateral mortgages on 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 year ended December 31, 2014 was 3.28%.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2014	December 31, 2013
Accounts payable	**$ 4,521**	$ 4,706
Accrued liabilities	**17,203**	11,549
Accrued distributions	**1,067**	959
Mortgage interest payable	**1,033**	820
	$ 23,824	$ 18,034

(Cdn $ Thousands except unit amounts)

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, 2012	**186,250**
Units issued	-
Balance - December 31, 2013	**186,250**
Units issued	-
Balance – December 31, 2014	**186,250**

The LP Class B Units represented an aggregate fair value of $1,116 at December 31, 2014 (December 31, 2013 - $996). 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:

	December 31, 2014	December 31, 2013
Unit-based liabilities, beginning of period	**$ 7,963**	$ 5,948
Compensation expense – deferred unit plan	**2,357**	1,528
Compensation expense – unit option plan	**608**	761
DRIP[1] expense – deferred unit plan	**355**	246
DUP units converted, cancelled and forfeited	**(708)**	(551)
Unit options exercised and expired	**(592)**	(369)
Loss on fair value of liability (note 16)	**1,375**	400
Unit-based liabilities, end of period	**$ 11,358**	$ 7,963

(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 consolidated statement of income.

(Cdn $ Thousands except unit amounts)

12. 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, 2012	**1,141,306**
Units issued under deferred unit plan	329,885
Reinvested distributions on deferred units	45,033
Deferred units exercised into Trust Units	(87,546)
Deferred units purchased and cancelled	(5,459)
Deferred units cancelled	(4,345)
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 (note 14)	(105,343)
Deferred units purchased and cancelled	(18,569)
Deferred units cancelled	(4,837)
Balance – December 31, 2014	**1,890,680**

The fair value of each unit granted is determined based on the weighted average observable closing market price of the REIT's Trust Units for the ten trading days preceding the date of grant.

As of December 31, 2014, the 878,944 deferred units, which represent the vested portion, have an intrinsic value of $5,265 (December 31, 2013 – 659,716 deferred units had an intrinsic value of $3,529).

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.

(Cdn $ Thousands except unit amounts)

12. 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 December 31, 2014, 299,000 options have been granted and exercised, 1,546,000 options have been granted and remain outstanding and 155,000 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 year ended December 31 are as follows:

	2014		**2013**	
	Number of units	**Weighted average exercise price**	**Number of units**	**Weighted average exercise price**
Balance, beginning of period	1,273,000	$ 4.23	759,150	$ 2.84
Granted	471,000	$ 5.81	642,500	$ 5.65
Exercised (note 14)	(193,000)	$ 2.13	(113,650)	$ 2.13
Expired	(5,000)	$ 5.50	(15,000)	$ 5.65
Balance, end of period	**1,546,000**	**$ 4.97**	**1,273,000**	**$ 4.23**

Options outstanding at December 31, 2014:

Exercise price	**Number of units**	**Remaining life in years**	**Number of units exercisable**
$ 2.13	312,500	6.48	312,500
$ 5.50	135,000	7.68	135,000
$ 5.65	620,000	8.46	385,000
$ 5.34	7,500	8.87	3,750
$ 5.81	471,000	9.97	150,000
	1,546,000		**986,250**

Fair value of unit options granted for the year ended December 31, 2014 amounted to $487 of which $155 was recognized immediately, due to immediate vesting, and $332 is being recognized over the two year vesting period starting December (2013 – $1,118 of which $262 was recognized immediately, due to immediate vesting, and $856 is being recognized over the two year vesting period starting September). Total compensation expense for the year was $608 (2013 - $761). 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: market price of unit $5.72 (2013 - $5.89), expected option life 5 years (2013 – 5 years), risk-free interest rate 1.34% (2013 – 1.59%), expected volatility, based on historical, 34% (2013 – 49%) and expected distribution yield 5.0% (2013 – 5.0%).

The weighted average market price of options exercised in the year ended December 31, 2014 was $5.48 (2013 - $5.79).

(Cdn $ Thousands except unit amounts)

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:

	December 31, 2014	December 31, 2013
Market price of Unit	$ 5.99	$ 5.35
Expected option life	3.5 years	3.6 years
Risk-free interest rate	1.17%	1.59%
Expected volatility (based on historical)	29%	38%
Expected distribution yield	5.0%	5.0%

The intrinsic value of the exercisable options at December 31, 2014 is $1,406 (December 31, 2013 - $1,628).

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" up to a maximum of 1,000,000 units. As at December 31, 2014, 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 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	140,000	5.00%	$ 133
March 8, 2012	250,000	3.57%	913
June 29, 2012	50,000	3.35%	196
September 11, 2012	100,000	3.35%	507
June 27, 2013	187,500	3.85%	970
December 16, 2014	100,000	3.27%	552
	827,500		$ 3,271

(Cdn $ Thousands except unit amounts)

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.

	Trust Units	Amount
Balance – December 31, 2012	**44,204,020**	**$ 82,653**
Issued from prospectus	12,420,646	81,107
Unit issue costs	-	(3,709)
Units Issued under long-term incentive plan	187,500	1,022
Units Issued under the deferred unit plan	87,546	515
Units Issued from options exercised	113,650	610
Units Issued under distribution reinvestment plan	336,985	1,836
Units purchased and cancelled	(145,600)	(742)
Balance – December 31, 2013	**57,204,747**	**$ 163,292**
Units Issued under long-term incentive plan (note 13)	100,000	581
Units Issued under the deferred unit plan (note 12(i))	105,343	584
Units Issued under distribution reinvestment plan	511,535	2,772
Units Issued from options exercised (note 12(ii))	193,000	1,003
Balance – December 31, 2014	**58,114,625**	**$ 168,232**

On March 20, 2013 the Trust completed a bought deal prospectus whereby it issued 12,420,646 Trust Units for cash proceeds of $81,107 and incurred $3,709 in issue cost.

On July 29, 2013, 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 4,596,134 of its Trust Units, or approximately 10% of its public float of 45,961,336 Trust Units as of July 19, 2013, for cancellation over a 12 month period commencing on August 1, 2013 until the earlier of July 31, 2014 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 29,211 Trust Units (being 25% of the average daily trading volume), 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 year ended December 31, 2014, the Trust did not purchase any Trust Units under the Bid. For the year ended December 31, 2013, the Trust purchased 145,600 Trust Units at a cost of $742 (average cost per Trust Unit of $5.10). 129,000 Trust Units were cancelled prior to the end of the year and the remaining 16,600 Trust Units were held in treasury and cancelled subsequent to year end on January 7, 2014.

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.

(Cdn $ Thousands except unit amounts)

15. FINANCING COSTS

	2014	2013
Mortgages and loans payable	**$ 12,438**	$ 10,703
Credit facilities	**1,212**	803
Interest income	**(201)**	(191)
Interest capitalized to redevelopment properties	**(728)**	(121)
Interest expense	**12,721**	11,194
Amortization of deferred finance costs on mortgages	**1,182**	800
Amortization of deferred finance costs on credit facilities	**224**	162
Amortization of fair value on assumed debt	**(1,368)**	(567)
	$ 12,759	$ 11,589

16. OTHER FAIR VALUE GAINS/(LOSSES)

	2014	2013
LP Class B unit liability	**$ (120)**	$ (22)
Unit-based compensation liability (deferred unit plan)	**(1,338)**	(542)
Unit-based compensation liability (option plan)	**(37)**	142
	$ (1,495)	$ (422)

17. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	2014	2013
LP Class B unit liability	**$ 38**	$ 35
Unit-based compensation liability (deferred unit plan)	**354**	246
	$ 392	$ 281

(Cdn $ Thousands except unit amounts)

18. 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 consolidated financial statements.

(i) Accounts Payable (net of amounts receivable)

As at December 31, 2014, $1,032 (December 31, 2013 - $574) was included in accounts payable and accrued liabilities, net of amounts receivable, which are due to companies that are controlled by an officer of the Trust. The amounts were non-interest bearing and due on demand.

(ii) Services

During the year ended December 31, 2014, the Trust incurred $7,405 (2013 - $6,698) 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 $3,700 (2013 - $3,340) has been capitalized to the investment properties and the remaining amounts are included in operating and administrative costs.

(iii) Key management remuneration

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

	2014	2013
Salaries and other short-term employee benefits	**$ 1,071**	$ 795
Deferred unit plan	**1,375**	1,308
Unit option plan	**264**	619
Gain/(loss) on fair value of unit-based compensation liabilities	**1,947**	(265)
	$ 4,657	$ 2,457

Loans outstanding from key management for indebtedness relating to the LTIP at December 31, 2014 were $3,271 (December 31, 2013 - $2,819). Deferred unit plan includes accrued compensation for key management at December 31, 2014 for $1,135 (December 31, 2013 - $1,035).

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. There have been no changes to the Trust's capital risk management policies for the years ended December 31, 2014 and 2013.

19. CAPITAL RISK MANAGEMENT (Continued)

The Trust monitors capital using a debt to gross book value ratio, as defined in the Declaration of Trust which requires the Trust to maintain a debt to gross book value ratio below 75%. As at December 31, 2014, the debt to gross book value ratio is 52.7% (December 31, 2013 – 47.4%).

In addition, the Trust is subject to financial covenants in its mortgages payable and credit facilities such as minimum tangible net worth, interest coverage, debt service coverage and leverage ratio (similar to debt to gross book value as calculated in the Declaration of Trust). The Trust was in compliance with all financial covenants throughout the years ended December 31, 2014 and 2013.

20. 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 December 31, 2014, the Trust had past due rents and other receivables of $2,293 (December 31, 2013 - $2,005), net of an allowance for doubtful accounts of $1,022 (December 31, 2013 - $834) which adequately reflects the Trust's credit risk.

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.

(Cdn $ Thousands except unit amounts)

20. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (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 December 31, 2014 and 2013, the Trust had credit facilities as described in note 9.

Note 8 reflects the contractual maturities for mortgage and loans payable of the Trust at December 31, 2014, 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, is approximately $490,307 (December 31, 2013 - $370,783).

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.

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

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

(Cdn $ Thousands except unit amounts)

20. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

December 31, 2013	Level 1	Level 2	Level 3
Assets			
Cash	$ 1,234	$ -	$ -
Income properties			719,560
Liabilities			
Unit-based compensation liability	-	7,963	-
LP Class B unit liability	-	996	-

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 December 31, 2014, the Trust had no mortgage debt at variable interest rates (December 31, 2013 – 1%). 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 $165 for the year ended December 31, 2014 (2013 - $178).

21. 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.

22. COMPARATIVE RESULTS

Certain amounts in the prior year consolidated financial statements have been reclassified in order to conform to the presentation adopted in the current year. None of these changes in presentation affect previously reported results of operations.

23. SUBSEQUENT EVENT

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 expects to incur approximately $3,587 in issue costs.