InterRent Real Estate Investment Trust

Consolidated Financial Statements

For the Years Ended December 31, 2013 and 2012

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, 2013 and December 31, 2012 and the consolidated statements of income, unitholders' equity and cash flows for the years ended December 31, 2013 and December 31, 2012 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, 2013 and December 31, 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012, in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
March 3, 2014
Toronto, Ontario

InterRent Real Estate Investment Trust

Consolidated Balance Sheets
(Cdn $ Thousands)

	Note	December 31, 2013	December 31, 2012
Assets			
Investment properties	4	**$766,820**	$551,021
Prepaids and deposits		**2,023**	2,374
Other assets	7	**6,985**	5,376
Cash		**1,234**	435
		$777,062	$559,206
Liabilities			
Mortgages and loans payable	8	**$368,670**	$256,820
Credit facilities	10	**-**	5,110
Accounts payable and accrued liabilities	11	**18,034**	10,342
Tenant rental deposits		**4,893**	4,088
LP Class B unit liability	12	**996**	974
Unit-based compensation liabilities	13	**7,963**	5,948
		400,556	283,282
Unitholders' equity			
Unit capital	15	**163,292**	82,653
Retained earnings		**213,214**	193,271
		376,506	275,924
		$777,062	$559,206

Subsequent event (note 24)

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

InterRent Real Estate Investment Trust

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

	Note	2013	2012
Operating revenues			
Revenue from investment properties		**$60,506**	$47,530
Operating expenses			
Property operating costs		**10,169**	7,923
Property taxes		**7,978**	6,315
Utilities		**6,318**	5,346
		24,465	19,584
Net operating income		**36,041**	27,946
Financing costs	16	**11,589**	10,669
Administrative costs		**5,323**	3,651
		16,912	14,320
Income from operations before other income and expenses		**19,129**	13,626
Other income and expenses			
Loss on disposition of assets	17	**(21)**	(110)
Fair value adjustments of investment properties	4	**11,854**	72,041
Other fair value losses	18	**(422)**	(2,860)
Interest on units classified as financial liabilities	19	**(281)**	(162)
Net income for the year		**$30,259**	$82,535

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, 2012	$79,459	$121,067	$(4,332)	$116,735	$196,194
Units issued	3,194	-	-	-	3,194
Net income for the year	-	82,535	-	82,535	82,535
Distributions declared to Unitholders	-	-	(5,999)	(5,999)	(5,999)
Balance, December 31, 2012	$82,653	$203,602	$(10,331)	$193,271	$275,924
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**

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	2013	2012
Cash flows from (used in) operating activities			
Net income for the year		**$30,259**	$82,535
Add items not affecting cash			
Amortization		**44**	19
Loss on disposition of assets	17	**21**	110
Fair value adjustments of investment properties	4	**(11,854)**	(72,041)
Other fair value losses	18	**422**	2,860
Unit-based compensation expense	13	**2,535**	1,239
Amortization of deferred finance costs on mortgages and premiums on assumed debt	16	**395**	873
Accretion of discount and amortization of deferred finance cost on convertible debt	16	**-**	343
Tenant inducements		**638**	379
		22,460	16,317
Net income items related to financing activities	16/19	**11,541**	10,340
Changes in non-cash operating assets and liabilities:			
Other assets		**(1,482)**	45
Prepaids and deposits		**351**	204
Accounts payable and accrued liabilities		**7,324**	3,062
Tenant rental deposits		**805**	847
Cash from operating activities		**40,999**	30,815
Cash flows from (used in) investing activities			
Acquisition of investment properties	5	**(107,419)**	(69,128)
Proceeds from sale of investment properties	6	**-**	4,700
Additions to investment properties	4	**(48,386)**	(26,470)
		(155,805)	(90,898)
Cash flows from (used in) financing activities			
Mortgage and loan repayments		**(126,077)**	(87,576)
Mortgage advances		**192,329**	158,626
Interest paid on mortgages and loans payable	16	**(10,703)**	(8,895)
Financing fees		**(2,796)**	(3,715)
Credit facility advances (repayments)		**(5,110)**	5,110
Interest paid on credit facilities	16	**(803)**	(540)
Subordinated convertible debenture repayments		**-**	(25,000)
Proceeds from sale of mortgages receivable	7	**-**	3,029
Interest paid on subordinated convertible debenture		**-**	(880)
Trust units issued, net of issue costs		**77,691**	169
Trust units cancelled		**(742)**	-
Deferred units purchased and cancelled		**(36)**	(11)
Interest paid on units classified as financial liabilities	19	**(35)**	(25)
Distributions paid		**(8,113)**	(4,567)
		115,605	35,725
Increase (decrease) in cash during the year		**799**	(24,358)
Cash at the beginning of year		**435**	24,793
Cash at end of year		**$1,234**	$435

Amounts paid for interest are included in cash flows from financing activities in the consolidated statement of cash flows.
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, 2014.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”). 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 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. 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.

Investment properties are re-measured to fair value at each reporting date. 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 investment properties are recorded in the statement of income in the period in which they arise. Investment properties are not amortized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment property 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 use as a rental property are complete.

Under the requirements of International Accounting Standard 40 - Investment Property ("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 income statement. 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 income statement.

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 measurements recognized in the balance sheet accounts and notes to the consolidated financial statements are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- 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.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

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.

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 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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 2012 and 2013, 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.

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 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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Deferred income taxes are not recognized in the 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.

Change in accounting policy

IFRS 13 fair value measurement

The Trust adopted IFRS 13 Fair Value Measurement (IFRS 13) on January 1, 2013. IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. Quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments will be extended by IFRS 13 to cover all assets and liabilities within its scope. For the Trust, IFRS 13 is applicable for investment properties which are re-measured to fair value each reporting period under IAS 40, and for the financial instruments whose fair value are disclosed in note 22.

Fair value measurements recognized in the balance sheet accounts and notes to the consolidated financial statements are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values.

The adoption of IFRS 13 by the Trust resulted in no change to the method used in estimating fair value or the values determined. The adoption resulted in additional disclosure concerning the inputs as the fair value method used for investment properties is a level 3 based on significant inputs not based on observable market data.

Future accounting changes

IFRS 9 Financial Instruments

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. The effective date for IFRS 9, which is to be applied retrospectively, has not yet been determined.

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.

(Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTIES

	December 31, 2013	December 31, 2012
Composed of:		
Income properties	**$ 719,560**	$ 551,021
Redevelopment property	**47,260**	-
	$ 766,820	$ 551,021

Income properties:

All investment properties other than redevelopment property.

	December 31, 2013	December 31, 2012
Balance, beginning of period	**$ 551,021**	$ 373,245
Acquisitions (note 5)	**115,800**	85,967
Property capital investments	**40,906**	26,470
Settlement from derecognition of liability	**-**	(365)
Fair value adjustments	**11,854**	72,041
Dispositions (note 6)	**(21)**	(6,337)
Balance, end of period	**$ 719,560**	$ 551,021

Redevelopment property:

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

	December 31, 2013	December 31, 2012
Balance, beginning of period	**$ -**	$ -
Acquisition (note 5)	**39,780**	-
Redevelopment costs	**7,480**	-
Balance, end of period	**$ 47,260**	$ -

The fair value of the income properties at December 31, 2013 and 2012 was 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 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 46% of the portfolio was appraised by external valuation professionals throughout the year. 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, 2013		December 31, 2012	
	Range	**Weighted average**	**Range**	**Weighted average**
Capitalization rate	4.75% - 6.75%	5.50%	4.75% - 6.75%	5.55%

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, 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

As at December 31, 2012

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 29,663	$ 30,274	**$ 30,580**	$ 30,886	$ 31,497
Capitalization rate						
-0.25%	5.30%	$ 559,672	$ 571,211	$ 576,981	$ 582,751	$ 594,291
Cap rate used	**5.55%**	$ 534,461	$ 545,481	**$ 551,021**	$ 556,501	$ 567,521
+0.25%	5.80%	$ 511,424	$ 521,969	$ 527,241	$ 532,514	$ 543,059

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 second half of 2014. 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).

(Cdn $ Thousands except unit amounts)

5. INVESTMENT PROPERTY ACQUISITIONS

During the year ended December 31, 2013, the Trust completed the following income 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
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, 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
May 14, 2013	444	$ 39,780	$ 19,452	1.93%	December 15, 2013

During the year ended December 31, 2012, the Trust completed the following income property acquisitions:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
January 5, 2012	490	$ 29,464	$ 21,580	3.00%	February 1, 2013
March 7, 2012	230	20,699	14,934	2.75% and 3.0%	March 1, 2016 and April 1, 2013
June 11, 2012	184	26,091	17,278	5.32% and 2.0%	October 5, 2017 and December 1, 2017
August 8, 2012	96	9,713	6,975	2.75%	August 1, 2013
	1,000	$ 85,967	$ 60,767		

Cash outflow used for investment property acquisitions:

	2013	2012
Total acquisition costs	**$ (155,580)**	$ (85,967)
Fair value adjustment of assumed debt	**1,634**	1,293
Assumed debt	**46,527**	15,546
	$ (107,419)	$ (69,128)

(Cdn $ Thousands except unit amounts)

6. INVESTMENT PROPERTY DISPOSITIONS

During the year ended December 31, 2013, no investment properties were disposed. A loss of $21 was recognized in the year relating to property disposals in 2012.

During the year ended December 31, 2012, the Trust completed the following investment property dispositions. These dispositions do not meet the definition of discontinued operations.

Disposition Date	Suite Count	Sale Price	Proceeds	Mortgage(s) Repaid
March 8, 2012	36	$ 2,435	$ 2,281	$ 1,581
March 8, 2012	16	983	920	639
May 28, 2012	24	1,375	1,293	464
July 18, 2012	63	2,160	2,036	938
	139	$ 6,953	$ 6,530	$ 3,622

Proceeds include cash consideration of $4,700 and mortgages receivable of $1,830.

A gain of $193 was recognized in the year ended December 31, 2012 in connection with these property dispositions.

7. OTHER ASSETS

	December 31, 2013	December 31, 2012
Mortgage holdbacks	**$ 12**	$ 172
Rents and other receivables, net of allowance for uncollectable amounts	**1,171**	550
Automobile, software, equipment and furniture and fixtures, net of accumulated amortization of $211 (2012 - $167)	**139**	30
Deferred finance fees on line of credit, net of accumulated amortization of $241 (2012 - $79)	**178**	293
Mortgages receivable (1)	**1,995**	2,202
Tenant inducements (2)	**671**	244
Loan receivable long-term incentive plan (note 14)	**2,819**	1,885
	$ 6,985	$ 5,376

(1) 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%. All mortgages are secured by the related property and a general security agreement. At December 31, 2012 the balance is comprised of six mortgages with maturity dates ranging from 5 to 55 months at interest rates from 2% to 8%. During the year ended December 31, 2012, five mortgages with a carrying value of $3,332 were sold for cash proceeds of $3,029 at a loss of $303.

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

(Cdn $ Thousands except unit amounts)

8. MORTGAGES AND LOANS PAYABLE

Mortgages and vendor take-back loans are secured by the investment properties and bear interest at a weighted average interest rate of 3.31% (December 31, 2012 – 3.60%).

The mortgages and vendor take-back loans mature at various dates between the years 2014 and 2024.

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

2014	$ 114,247
2015	40,467
2016	13,543
2017	45,367
2018	5,671
Thereafter	153,771
	373,066
Less: Deferred finance costs and mortgage premiums	4,396
	$ 368,670

9. SUBORDINATED CONVERTIBLE DEBENTURE

On January 15, 2008, the Trust issued a $25,000 subordinated convertible debenture which bore interest at 7.0% per annum and was due on January 31, 2013. The debenture was convertible into Units of the Trust at $4.60 per Unit at the option of the holder and redeemable by the Trust based on certain terms outlined in the debenture agreement.

On February 1, 2012 the Trust redeemed the debenture at par and expensed the remaining balance of unamortized financing costs.

(Cdn $ Thousands except unit amounts)

10. CREDIT FACILITIES

	December 31, 2013	December 31, 2012
Demand operating loan (i)	**$ -**	$ -
Demand credit facility (ii)	**-**	-
Term credit facility (iii)	**-**	5,110
Term credit facility (iv)	**-**	-
	$ -	$ 5,110

(i) The Trust has a $500 (2012 - $500) demand operating loan with a Canadian chartered bank bearing interest at prime plus 1.0%, secured by a general security agreement and a second collateral mortgage on one (2012 – one) of the Trust's properties.

(ii) The Trust has a $10,000 (2012 - $10,000) demand credit facility with a financial institution bearing interest at prime plus 0.5%, secured by a general security agreement and second collateral mortgages on eight (2012 - nine) of the Trust's properties.

(iii) The Trust has a $10,000 (2012 - $10,000) term credit facility, maturing in 2014, with a Canadian chartered bank bearing interest at prime plus 0.75%, secured by a general security agreement and second collateral mortgages on eight (2012 – nine) of the Trust's properties.

(iv) The Trust has a $12,500 (2012 - $12,500) term credit facility, maturing in 2015, with a Canadian chartered bank bearing interest at prime plus 0.75%, secured by a general security agreement and second collateral mortgages on eight (2012 – ten) of the Trust's properties.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2013	December 31, 2012
Accounts payable	**$ 4,706**	$ 2,536
Accrued liabilities	**11,549**	6,517
Accrued distributions	**959**	590
Mortgage interest payable	**820**	699
	$ 18,034	$ 10,342

(Cdn $ Thousands except unit amounts)

12. LP CLASS B UNIT LIABILITY

The LP Class B units are non-transferable, except under certain circumstances, but are exchangeable, on a one-for-one basis, into Trust units at any time at the option of the holder. Prior to such exchange, distributions will be made on the exchangeable units in an amount equivalent to the distributions which would have been made had the units of Trust been issued.

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

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

Number of Units	
Balance – December 31, 2011	**186,250**
Units issued	-
Balance - December 31, 2012	**186,250**
Units issued	-
Balance – December 31, 2013	**186,250**

On October 25, 2011, 186,250 LP Class B units were issued at $373 as partial consideration for the acquisition of a property.

The LP Class B Units represented an aggregate fair value of $996 at December 31, 2013 (December 31, 2012 - $974). Each LP Class B Unit is accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of Unitholders. There is no value assigned to the Special Voting Units. The gains or losses that resulted from changes in the fair value were recorded in the consolidated statement of income.

13. UNIT-BASED COMPENSATION LIABILITIES

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

	December 31, 2013	December 31, 2012
Unit-based liabilities, beginning of period	**$ 5,948**	$ 2,332
Compensation expense – deferred unit plan	**1,528**	1,052
Compensation expense – unit option plan	**761**	50
DRIP[(1)] expense – deferred unit plan	**246**	137
DUP units converted, cancelled and forfeited	**(551)**	(11)
Unit options exercised and expired	**(369)**	(90)
Loss on fair value of liability (note 18)	**400**	2,478
Unit-based liabilities, end of period	**$ 7,963**	$ 5,948

(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.

(Cdn $ Thousands except unit amounts)

13. 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, 2011	**750,433**
Units issued under deferred unit plan	369,327
Reinvested distributions on deferred units	30,746
Deferred units cancelled	(9,200)
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 (note 15)	(87,546)
Deferred units purchased and cancelled	(5,459)
Deferred units cancelled	(4,345)
Balance – December 31, 2013	**1,418,874**

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, 2013, the 659,716 deferred units, which represent the vested portion, have an intrinsic value of $3,529 (December 31, 2012 – 529,186 deferred units had an intrinsic value of $2,768).

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)

13. 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 (increased from 1,000,000 and replenished by 78,500 for previously cancelled or exercised options by unitholder approval June 14, 2013). As at December 31, 2013, 106,000 options have been granted and exercised, 15,000 options have been cancelled, 1,273,000 options have been granted and remain outstanding and 606,000 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:

	2013		**2012**	
	Number of units	**Weighted average exercise price**	**Number of units**	**Weighted average exercise price**
Balance, beginning of period	759,150	$ 2.84	690,000	$ 2.23
Granted	642,500	$ 5.65	140,000	$ 5.50
Exercised (note 15)	(113,650)	$ 2.13	(38,350)	$ 2.13
Expired	(15,000)	$ 5.65	(32,500)	$ 4.19
Balance, end of period	**1,273,000**	**$ 4.23**	**759,150**	**$ 2.84**

Options outstanding at December 31, 2013:

Exercise price	**Number of units**	**Remaining life in years**	**Number of units exercisable**
$ 2.13	505,500	7.48	505,500
$ 5.50	140,000	8.68	70,000
$ 5.65	620,000	9.46	150,000
$ 5.34	7,500	9.87	-
	1,273,000		**725,500**

Fair value of unit options granted for the year ended December 31, 2013 amounted to $1,118 of which $262 was recognized immediately, due to immediate vesting, and $856 is being recognized over the two year vesting period (2012 – $222, over the two year vesting period starting September). Total compensation expense for the year was $761 (2012 - $55). 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 $5.89 (2012 - $5.47), expected option life 5 years (2012 – 5 years), risk-free interest rate 1.59% (2012 – 1.32%), expected volatility, based on historical, 49% (2012 – 50%) and expected distribution yield 5.0% (2012 – 5.0%).

The weighted average market price of options exercised in the year ended December 31, 2013 was $5.79 (2012 - $4.93).

(Cdn $ Thousands except unit amounts)

13. 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, 2013	December 31, 2012
Market price of Unit	$ 5.35	$ 5.23
Expected option life	3.6 years	3.7 years
Risk-free interest rate	1.59%	1.24%
Expected volatility (based on historical)	38%	46%
Expected distribution yield	5.0%	5.0%

The intrinsic value of the exercisable options at December 31, 2013 is $1,628 (December 31, 2012 - $1,919).

14. LONG-TERM INCENTIVE PLAN

The Board of Trustees may award long-term incentive plan (“LTIP”) units to certain officers and key employees, collectively the "Participants" up to a maximum of 1,000,000 units (increased from 650,000 and replenished by 10,000 for previously issued units by unitholder approval June 14, 2013). As at December 31, 2013, 222,500 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	190,000	5.00%	$ 208
March 8, 2012	250,000	3.57%	931
June 29, 2012	50,000	3.35%	199
September 11, 2012	100,000	3.35%	510
June 27, 2013	187,500	3.85%	971
	777,500		$ 2,819

(Cdn $ Thousands except unit amounts)

15. TRUST UNITS

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

	Trust Units	Amount
Balance – December 31, 2011	**43,464,465**	**$ 79,459**
Units Issued under long-term incentive plan (note 14)	400,000	1,743
Units Issued from options exercised (note 13(ii))	38,350	172
Units Issued under distribution reinvestment plan	301,205	1,279
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 (note 14)	187,500	1,022
Units Issued under the deferred unit plan (note 13(i))	87,546	515
Units Issued from options exercised (note 13(ii))	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**

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, 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.

15. 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)

16. FINANCING COSTS

	2013	2012
Mortgages and loans payable	**$ 10,703**	$ 8,895
Convertible debenture	**-**	149
Credit facilities	**803**	540
Interest income	**(191)**	(131)
Interest expense	**11,315**	9,453
Interest capitalized to redevelopment property	**(121)**	-
Amortization of deferred finance costs on mortgages	**800**	822
Amortization of deferred finance costs on credit facilities	**162**	68
Amortization of accretion on convertible debenture	**-**	343
Amortization of fair value on assumed debt	**(567)**	(17)
	$ 11,589	$ 10,669

17. GAIN/(LOSS) ON DISPOSITION OF ASSETS

	2013	2012
Gain (loss) on disposition of investment properties	**$ (21)**	$ 193
Loss on disposition of mortgages receivable	**-**	(303)
	$ (21)	$ (110)

18. OTHER FAIR VALUE GAINS/(LOSSES)

	2013	2012
LP Class B unit liability	**$ (22)**	$ (382)
Unit-based compensation liability (deferred unit plan)	**(542)**	(1,567)
Unit-based compensation liability (option plan)	**142**	(911)
	$ (422)	$ (2,860)

19. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	2013	2012
LP Class B unit liability	**$ 35**	$ 25
Unit-based compensation liability (deferred unit plan)	**246**	137
	$ 281	$ 162

(Cdn $ Thousands except unit amounts)

20. 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 December 31, 2013, $574 (December 31, 2012 - $504) 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, 2013, the Trust incurred $6,698 (2012 - $5,377) 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 $3,340 (2012 - $2,690) 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.

	2013	2012
Salaries and other short-term employee benefits	**$ 795**	$ 511
Deferred unit plan	**1,308**	986
Unit option plan	**619**	-
Gain/(loss) on fair value of unit-based compensation liabilities	**(265)**	2,717
	$ 2,457	$ 4,214

Loans outstanding from key management for indebtedness relating to the LTIP at December 31, 2013 were $2,819 (December 31, 2012 - $1,885). Deferred unit plan includes accrued compensation for key management at December 31, 2013 for $1,035 (December 31, 2012 - $705).

21. CAPITAL RISK MANAGEMENT

The Trust's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its unitholders. The Trust defines capital that it manages as the aggregate of its unitholders' equity, which is comprised of issued capital and retained earnings, LP Class B units and deferred unit capital and options recorded as unit-based compensation liabilities.

The Trust manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Trust's working capital requirements. In order to maintain or adjust its capital structure, the Trust, upon approval from its Board of Trustees, may issue or repay long-term debt, issue units, repurchase units through a normal course issuer bid, pay distributions or undertake other activities as deemed appropriate under the specific circumstances. The Board of Trustees reviews and approves any material transactions out of the ordinary course of business, including approval of all acquisitions of investment properties, as well as capital and operating budgets. There have been no changes to the Trust's capital risk management policies for the years ended December 31, 2013 and 2012.

21. CAPITAL RISK MANAGEMENT (Continued)

The Trust monitors capital using a debt to gross book value ratio, as defined in the Declaration of Trust which requires the Trust to maintain a debt to gross book value ratio below 75%. As at December 31, 2013, the debt to gross book value ratio is 47.4% (December 31, 2012 – 46.8%). 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, 2013 and 2012.

22. 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, 2013, the Trust had past due rents and other receivables of $2,005 (December 31, 2012 - $1,033), net of an allowance for doubtful accounts of $834 (December 31, 2012 - $483) 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)

22. 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 21 to the consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities (excluding derivative and other financial instruments reported as liabilities at fair value) when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust's reputation.

As at December 31, 2013, the Trust had credit facilities as described in note 10.

Note 8 reflects the contractual maturities for mortgage and loans payable of the Trust at December 31, 2013, 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 $370,783 (December 31, 2012 - $267,249).

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, 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	-

(Cdn $ Thousands except unit amounts)

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

December 31, 2012	Level 1	Level 2	Level 3
Assets			
Cash	$ 435	$ -	$ -
Income properties			551,021
Liabilities			
Unit-based compensation liability	-	5,948	-
LP Class B unit liability	-	974	-

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, 2013, approximately 1% (December 31, 2012 – 14%) 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 $178 for the year ended December 31, 2013 (2012 - $280).

23. 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.

24. SUBSEQUENT EVENT

The Trust purchased a parking lot located across the street from its redevelopment property on February 14, 2014 for a purchase price of approximately $2,000 and purchased a property (54 suites) that closed on February 25, 2014 for a purchase price of approximately $7,155.

On February 20, 2014, one of the Trust’s properties (17 suites) in Hamilton Ontario suffered fire damage. No tenants or employees were injured. The Trust believes its insurance policy is sufficient to cover costs and rental losses and the Trust does not anticipate any material impact on its business arising from this fire event.