InterRent Real Estate Investment Trust

Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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, 2012 and December 31, 2011 and the consolidated statements of income, changes in unitholders' equity and cash flows for the years ended December 31, 2012 and December 31, 2011 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, 2012 and December 31, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011, in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
February 19, 2013
Toronto, Ontario

InterRent Real Estate Investment Trust

Consolidated Balance Sheets
(Cdn $ Thousands)

	Note	**December 31, 2012**	December 31, 2011
Assets			
Investment properties	5	**$551,021**	$363,639
Prepaids and deposits		**2,374**	2,529
Other assets	6	**5,376**	5,445
Cash		**435**	24,793
Assets held for sale	7	**-**	9,943
		$559,206	$406,349
Liabilities			
Mortgages and loans payable	8	**$256,820**	$166,753
Subordinated convertible debenture	9	**-**	24,657
Credit facilities	10	**5,110**	-
Accounts payable and accrued liabilities	11	**10,342**	6,504
Tenant rental deposits		**4,088**	3,130
LP Class B unit liability	12	**974**	592
Unit-based compensation liabilities	13	**5,948**	2,332
Liabilities related to assets held for sale	7	**-**	6,187
		283,282	210,155
Unitholders' equity			
Unit capital	14	**82,653**	79,459
Retained earnings		**193,271**	116,735
		275,924	196,194
		$559,206	$406,349

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	2012	2011
Operating revenues			
Revenue from investment properties		**$47,530**	$38,471
Operating expenses			
Property operating costs		**7,923**	7,166
Property taxes		**6,315**	5,638
Utilities		**5,346**	5,161
		19,584	17,965
Net operating income		**27,946**	20,506
Financing costs	15	**10,669**	12,649
Administrative costs		**3,651**	3,485
		14,320	16,134
Income from operations before other income and expenses		**13,626**	4,372
Other income and expenses			
Loss on disposition of assets	16	**(110)**	(453)
Fair value adjustments of investment properties	5	**72,041**	37,002
Adjustment to carrying value of convertible debenture	9	**-**	(1,982)
Other fair value gains (losses)	17	**(2,860)**	409
Interest on units classified as financial liabilities	18	**(162)**	(78)
Net income for the year		**$82,535**	$39,270

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, 2011	$48,049	$81,797	$(271)	$81,526	$129,575
Units issued	31,410	-	-	-	31,410
Profit for the year	-	39,270	-	39,270	39,270
Distributions declared to Unitholders	-	-	(4,061)	(4,061)	(4,061)
Balance, December 31, 2011	$ 79,459	$121,067	$(4,332)	$116,735	$196,194
Balance, January 1, 2012	$79,459	$121,067	$(4,332)	$116,735	$196,194
Units issued	3,194	-	-	-	3,194
Profit 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**

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	2012	2011
Cash flows from (used in) operating activities			
Net income for the year		**$82,535**	$39,270
Add items not affecting cash			
Amortization		**19**	19
Loss on disposition of assets	16	**110**	453
Fair value adjustments of investment properties	5	**(72,041)**	(37,002)
Adjustment to carrying value of convertible debt	9	**-**	1,982
Other fair value losses (gains)	17	**2,860**	(409)
Unit-based compensation expense	13	**1,239**	1,203
Amortization of deferred finance costs on mortgages and premiums on assumed debt	15	**873**	1,022
Accretion of discount and amortization of deferred finance cost on convertible debt	15	**343**	1,814
Tenant inducements		**379**	480
		16,317	8,832
Net income items related to financing activities	16/17	**10,340**	9,876
Changes in non-cash operating assets and liabilities:			
Other assets		**45**	(4,181)
Prepaids and deposits		**204**	(723)
Accounts payable and accrued liabilities		**3,062**	(2,529)
Tenant rental deposits		**847**	48
Cash from operating activities		**30,815**	11,323
Cash flows from (used in) investing activities			
Acquisition of investment properties	4	**(85,967)**	(15,457)
Proceeds from sale of investment properties	7	**4,700**	27,392
Additions to investment properties	5	**(26,470)**	(15,887)
		(107,737)	(3,952)
Cash flows from (used in) financing activities			
Mortgage and loan repayments		**(87,576)**	(38,431)
Mortgage advances		**174,172**	43,392
Interest paid on mortgages and loans payable	15	**(8,895)**	(7,849)
Financing fees		**(2,422)**	(505)
Credit facility advances (repayments)		**5,110**	(3,966)
Interest paid on credit facilities	15	**(540)**	(271)
Subordinated convertible debenture repayment		**(25,000)**	-
Proceeds from sale of mortgages receivable	6	**3,029**	-
Interest paid on subordinated convertible debenture		**(880)**	(1,750)
Trust units issued, net of issue costs		**169**	30,428
Deferred units purchased and cancelled		**(11)**	(92)
Interest paid on units classified as financial liabilities	18	**(25)**	(6)
Distributions paid		**(4,567)**	(3,289)
		52,564	17,661
Increase (decrease) in cash during the year		**(24,358)**	25,032
Cash (bank indebtedness) at the beginning of year		**24,793**	(239)
Cash at end of year		**$435**	$24,793

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 February 19, 2013.

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;

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’s 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 financial statements.

Investment properties

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

Financial liabilities

The measurement of the LP Class B unit, conversion feature of the convertible debenture 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)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, mortgage holdbacks and mortgages receivables 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 as FVTPL. The conversion feature of the convertible debenture is considered to be a derivative liability, and as such, is classified as FVTPL.

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 the convertible debenture, 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trust units

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

Convertible debenture

The convertible debenture was comprised of two components, the debt component and the conversion feature. The debt component of the convertible debt was initially recognized at fair value and carried at amortized cost, with the residual being allocated to the conversion feature.

The convertible debenture was convertible into trust units, which in turn was redeemable into cash at the option of the holder. As such, the conversion feature of the subordinated convertible debenture was considered a derivative instrument classified as a liability. The conversion feature of the subordinated convertible debenture was re-measured to fair value at each reporting period, 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2011 and 2012, 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 financial statements.

Leases

Management makes judgements 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

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 13 Fair Value Measurement

On May 12, 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

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. Management has not yet determined the potential impact that the adoption of IFRS 13 will have on the Trust's consolidated financial statements.

(Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTY ACQUISITIONS

(i) During the year ended December 31, 2012, 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
January 5, 2012	490	$ 29,464	$ 21,580	3.00%	February 1, 2013
March 7, 2012	230	$ 20,699	$ 14,934	2.75% and 3.00%	March 1, 2016 and April 1, 2013
June 11, 2012	184	$ 26,091	$ 17,278	5.32% and 2.00%	October 5, 2017 and December 1, 2017
August 8, 2012	96	$ 9,713	$ 6,975	2.75%	August 1, 2013

(ii) The Trust completed the following investment property acquisitions during the year ended December 31, 2011:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
March 24, 2011	70	$ 3,718	$ 1,901	5.53%	July 1, 2020
August 4, 2011	120	$ 6,037	$ 4,500	3.23%	August 15, 2012
October 25, 2011	52	$ 6,068	$ 3,426	3.55%	May 1, 2014

5. INVESTMENT PROPERTIES

	December 31, 2012	December 31, 2011
Balance, beginning of year	**$ 373,245**	$ 332,379
Acquisitions (Note 4 and 12)	**85,967**	15,823
Property capital investments	**26,470**	15,887
Settlement from derecognition of liability	**(365)**	-
Fair value gains	**72,041**	37,002
Dispositions	**(6,337)**	(27,846)
	$ 551,021	$ 373,245
Reclassification to assets held for sale (Note 7)	**-**	(9,606)
Balance, end of year	**$ 551,021**	$ 363,639

The fair value of the portfolio at December 31, 2012 and 2011 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 60% 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)

5. INVESTMENT PROPERTIES (Continued)

Investment property valuations are most sensitive to changes in the capitalization rate. The capitalization rate assumptions for the investment properties are included in the following table:

	December 31, 2012		December 31, 2011	
	Range	**Weighted average**	**Range**	**Weighted average**
Capitalization rate	4.75% - 6.75%	5.55%	5.25% - 10.00%	5.93%

The impact of a 25 basis point change in the capitalization rate used to value the investment properties would affect the fair value by approximately ($24,268) for an increase and $26,614 for a decrease.

6. OTHER ASSETS

	December 31, 2012	December 31, 2011
Mortgage holdbacks	**$ 172**	$ 162
Rents and other receivables, net of allowance for uncollectable amounts	**550**	419
Furniture and fixtures, net of accumulated amortization of $167 (2011 - $148)	**30**	45
Deferred finance fees on line of credit, net of accumulated amortization of $78 (2011 - $10)	**293**	84
Mortgages receivable [(1)]	**2,202**	4,306
Tenant inducements [(2)]	**244**	184
Loan receivable long-term incentive plan (Note 19)	**1,885**	245
	$ 5,376	$ 5,445

[(1)] 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%. All mortgages are secured by the related property and a general security agreement. At December 31, 2011 the balance is comprised of nine mortgages with maturity dates ranging from 2 to 67 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.

7. ASSETS HELD FOR SALE

As at December 31, 2012, the Trust has no investment properties classified as assets held for sale (December 31, 2011 – five properties (196 suites)). The following tables set forth the assets and liabilities associated with these properties.

	December 31, 2012	December 31, 2011
Properties	**-**	5
Suites	**-**	196
Investment properties (Note 5)	**$ -**	$ 9,606
Prepaids and deposits	**-**	49
Other assets	**-**	288
Assets held for sale	**$ -**	$ 9,943
Mortgages and loans payable	**$ -**	$ 5,488
Accounts payable and accrued liabilities	**-**	588
Tenant rental deposits	**-**	111
Liabilities related to assets held for sale	**$ -**	$ 6,187

(Cdn $ Thousands except unit amounts)

7. ASSETS HELD FOR SALE (Continued)

During the years ended December 31, 2012 and 2011, the Trust completed the following investment property dispositions. These dispositions do not meet the definition of discontinued operations.

Disposition Date	Suite Count	Sale Price	Cash 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
Total	**139**	**$ 6,953**	**$ 6,530**	**$ 3,622**

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

Disposition Date	Suite Count	Sale Price	Cash Proceeds	Mortgage(s) Repaid
January 12, 2011	11	$ 1,145	$ 1,078	-
February 4, 2011	14	850	769	$ 245
February 7, 2011	4	582	541	82
March 7, 2011	49	3,055	2,907	1,345
March 15, 2011	6	650	603	-
April 29, 2011	18	1,700	1,601	704
May 5, 2011	7	575	541	-
May 5, 2011	7	575	541	-
August 8, 2011	9	915	833	-
August 15, 2011	44	2,050	1,950	597
September 26, 2011	38	2,505	2,360	1,159
November 3, 2011	9	1,415	1,290	567
November 4, 2011	48	2,850	2,717	1,388
November 9, 2011	12	720	674	277
December 21, 2011	60	3,370	3,197	1,462
December 21, 2011	23	1,380	1,310	431
December 21, 2011	28	1,840	1,750	930
December 23, 2011	21	1,510	1,412	641
December 23, 2011	23	1,410	1,318	756
Total	**431**	**$ 29,097**	**$ 27,392**	**$ 10,584**

A gain of $193 was recognized in the year ended December 31, 2012 (December 31, 2011 – loss of $453) in connection with these property dispositions.

The Trust reclassified one property previously included as held for sale during the year ended December 31, 2012.

(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 3.60% (December 31, 2011 – 4.28%).

The mortgages and vendor take-back loans mature at various dates between the years 2013 and 2024.

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

2013	$ 95,569
2014	22,045
2015	8,845
2016	16,820
2017	42,913
Thereafter	74,142
	260,334
Less: Deferred finance costs and mortgage premiums	3,514
	$ 256,820

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. The convertible instrument was first segregated between debt and equity based on the fair value of the debt component. The difference between the estimated fair value of the debt at issuance and the face amount (net of incurred costs) was $6,912. This discount was amortized to earnings as financing costs over the term of the debenture. In addition, the Trust incurred costs of $1,451 in connection with issuing the convertible debt. Of these costs, $1,050 had been allocated to the liability component and $401 was allocated to the equity component. The discount on the debt resulted in a weighted average effective interest rate of 16.7%. On December 23, 2011, the Trust elected to redeem the debenture at par on February 1, 2012. As a result, the carrying amount of the convertible debenture was revised to the present value of the estimated future cash flows discounted at the original effective interest rate and an adjustment of $1,982 was recorded as an expense.

On February 1, 2012 the Trust redeemed the debenture at par.

Convertible debenture

	December 31, 2012	December 31 2011
	$ -	$ 24,657

Conversion feature of convertible debenture

The convertible debenture was convertible into trust units, which in turn were redeemable into cash at the option of the holder. As such, the conversion feature of the subordinated convertible debenture was considered a derivative instrument classified as a liability. The conversion feature of the subordinated convertible debenture was re-measured to fair value at each reporting period in 2011, by adjusting market-based valuation assumptions (such as expected term, risk free rate and volatility) with changes recorded in the statement of income. At December 31, 2011 the value of the conversion feature of the convertible debenture was nil.

(Cdn $ Thousands except unit amounts)

10. CREDIT FACILITIES

	December 31, 2012	December 31, 2011
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 (2011 - $1,175) demand operating loan bearing interest at prime plus 1.0%, secured by a general security agreement and a second collateral mortgage on one (2011 – thirteen) of the Trust's properties.

(ii) The Trust has a $10,000 (2011 - $9,617) demand credit facility bearing interest at prime plus 1.0%, secured by a general security agreement and second collateral mortgages on nine (2011 - ten) of the Trust's properties.

(iii) The Trust has a $10,000 (2011 - $nil) term credit facility, maturing in 2014, bearing interest at prime plus 0.75%, secured by a general security agreement and second collateral mortgages on nine (2011 – n/a) of the Trust's properties.

(iv) The Trust has a $12,500 (2011 - $nil) term credit facility, maturing in 2015, bearing interest at prime plus 0.75%, secured by a general security agreement and second collateral mortgages on ten (2011 – n/a) of the Trust's properties.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2012	December 31, 2011
Accounts payable	**$ 2,536**	$ 1,587
Accrued liabilities	**6,517**	3,226
Accrued distributions	**590**	437
Mortgage interest payable	**699**	523
Convertible debenture interest payable	**-**	731
	$ 10,342	$ 6,504

(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 liability.

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

Number of Units	
Balance – December 31, 2010	**-**
Units issued	186,250
Balance - December 31, 2011	**186,250**
Units issued	-
Balance – December 31, 2012	**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 $974 at December 31, 2012 ($592 – December 31, 2011). 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, 2012	December 31, 2011
Unit-based liabilities, beginning of period	**$ 2,332**	$ 320
Compensation expense – deferred unit plan	**1,052**	683
Compensation expense – unit option plan	**50**	448
DRIP[(1)] expense – deferred unit plan	**137**	72
DUP units converted, cancelled and forfeited	**(11)**	(302)
Options exercised	**(90)**	-
Loss on fair value of liability	**2,478**	1,111
Unit-based liabilities, end of period	**$ 5,948**	$ 2,332

[(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 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 Trust implemented a deferred unit plan in 2007 which was subsequently amended in 2009. The deferred unit plan allows the Trust to issue a maximum number of trust units equal to 7.5% of the Trust's issued and outstanding trust units. 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, without change, on June 28, 2010.

A summary of Deferred Unit activity is presented below:

Number of Units	
Balance – December 31, 2010	**374,015**
Units issued under deferred unit plan	488,598
Reinvested distributions on deferred units	35,806
Deferred units exercised into Trust Units (Note 14)	(101,779)
Deferred units purchased and cancelled	(46,207)
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**

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, 2012, the 529,186 deferred units, which represent the vested portion, have an intrinsic value of $2,768 (December 31, 2011 – 349,122 deferred units had an intrinsic value of $1,110).

During the year ended December 31, 2011, 147,990 deferred units vested of which 101,779 were exercised into Trust Units and 46,207 were purchased and cancelled.

The fair value of such 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 1,000,000. 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 and expired during the year ended December 31 are as follows:

	2012		2011	
	Number of units	**Weighted average exercise price**	**Number of units**	**Weighted average exercise price**
Balance, beginning of period	690,000	$ 2.23	25,000	$4.81
Granted	140,000	$ 5.50	665,000	$2.13
Exercised	(38,350)	$ 2.13	-	-
Expired	(25,000)	$ 4.81	-	-
Expired	(7,500)	$ 2.13	-	-
Balance, end of period	**759,150**	**$ 2.84**	**690,000**	**$ 2.23**

Options outstanding at December 31, 2012:

Exercise price	Number of units	Remaining life in years	Number of units exercisable
$ 2.13	619,150	8.48	619,150
$ 5.50	140,000	9.68	-
	759,150		**619,150**

Fair value of unit options granted for the year ended December 31, 2012 amounted to $222 and is being recognized over the two year vesting period (2011 – $448, immediate vesting). Total compensation expense for the year was $55 (2011 - $448). 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 assumptions: Market price of unit $5.47 (2011 - $2.17), expected option life 5 years (2011 – 5 years), risk-free interest rate 1.32% (2011 – 2.1%), expected volatility 50% (2011 – 54%) and expected distribution yield 5.0% (2011 – 5.6%).

The weighted average market price of options exercised in 2012 was $4.93.

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, 2012	December 31, 2011
Market price of Unit	$ 5.23	$3.18
Expected option life	3.7 years	4.3 years
Risk-free interest rate	1.24%	1.26%
Expected volatility (based on historical)	46%	52%
Expected distribution yield	5.0%	5.6%

The intrinsic value of the options at December 31, 2012 is $1,919 (December 31, 2011 - $698).

(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 may be presented as equity instruments as they meet an exemption under IAS 32.

	Trust Units	Amount
Balance – December 31, 2010	**32,247,518**	**$48,049**
Issued from prospectus	10,723,733	32,171
Unit issue costs	-	(1,743)
Units Issued under distribution reinvestment plan	391,435	772
Units Issued under the deferred unit plan (Note 13)	101,779	210
Balance – December 31, 2011	**43,464,465**	**$ 79,459**
Units Issued under long-term incentive plan (Note 19)	400,000	1,743
Units Issued from options exercised	38,350	172
Units Issued under distribution reinvestment plan	301,205	1,279
Balance – December 31, 2012	**44,204,020**	**$ 82,653**

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

	2012	2011
Mortgages and loans payable	**$ 8,895**	$ 7,849
Convertible debenture	**149**	1,750
Credit facilities	**540**	271
Interest income	**(131)**	(57)
Interest expense	**$ 9,453**	$ 9,813
Amortization of deferred finance costs on mortgages	**822**	827
Amortization of deferred finance costs on debenture	**-**	251
Amortization of deferred finance costs on credit facilities	**68**	10
Amortization of accretion on convertible debenture	**343**	1,563
Amortization of fair value on assumed debt	**(17)**	185
	$ 10,669	$ 12,649

16. LOSS ON DISPOSITION OF ASSETS

	2012	2011
Gain (loss) on disposition of investment properties	**$ 193**	$ (453)
Loss on disposition of mortgages receivable	**(303)**	-
	$ (110)	$ (453)

17. OTHER FAIR VALUE GAINS (LOSSES)

	2012	2011
LP Class B unit liability	**$ (382)**	$ (226)
Unit-based compensation liability (deferred unit plan)	**(1,567)**	(773)
Unit-based compensation liability (option plan)	**(911)**	(338)
Conversion feature of convertible debenture	**-**	1,746
	$ (2,860)	$ 409

18. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	2012	2011
LP Class B unit liability	**$ 25**	$ 6
Unit-based compensation liability (deferred unit plan)	**137**	72
	$ 162	$ 78

(Cdn $ Thousands except unit amounts)

19. LONG-TERM INCENTIVE PLAN

The Board of Trustees may award long-term incentive plan ("LTIP") units to certain officers and key employees, collectively the "Participants." The Participants can subscribe for trust units at a purchase price equal to the weighted average trading price of the trust units for the five trading days prior to issuance. The purchase price is payable in instalments, with an initial instalment of 5% paid when the trust units are issued. The balance represented by a loan receivable (Note 6) is due over a term not exceeding ten years. Participants are required to pay interest at a ten-year fixed rate based on the Trust's fixed borrowing rate for long-term mortgage financing (5.00% for units issued in 2010, 3.57% for units issued in March 2012 and 3.35% for units issued in June and September 2012) 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.

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

As at December 31, 2012, $504 (December 31, 2011 - $409) was included in accounts payable and accrued liabilities 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, 2012, the Trust incurred $5,377 (2011 - $3,684) in property and project management services, shared legal services and brokerage services from companies controlled by an officer of the Trust. Of the services received approximately $2,690 (2011 - $1,093) 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.

	2012	2011
Salaries and other short-term employee benefits	**$ 511**	$ 450
Deferred unit plan	**986**	703
Option plan	**-**	305
Gain on fair value of unit-based compensation liabilities	**2,717**	1,025
	$ 4,214	$ 2,483

Loans outstanding from key management for indebtedness relating to the LTIP at December 31, 2012 were $1,885 (December 31, 2011 - $245). Deferred unit plan includes accrued compensation for key management at December 31, 2012 for $705 (December 31, 2011 - $441).

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.

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, 2012, the debt to gross book value ratio is 46.8% (December 31, 2011 – 48.5%).

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, 2012 and 2011.

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 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, 2012, the Trust had past due rents and other receivables of $1,033 (December 31, 2011 - $1,012), net of an allowance for doubtful accounts of $483 (December 31, 2011 - $593) which adequately reflects the Trust's credit risk.

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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

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

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

c) Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The Trust manages liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 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, 2012, the Trust had the following credit facilities:

- A $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 of the Trust's properties. As at December 31, 2012, the Trust had not utilized this facility.
- A $10,000 demand credit facility with a financial institution bearing interest at prime plus 1.0%, secured by a general security agreement and second collateral mortgages on nine of the Trust's properties. As at December 31, 2012, the Trust had not utilized this facility.
- A $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 nine of the Trust's properties. As at December 31, 2012, the Trust had utilized $5,110 of this facility.
- A $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 ten of the Trust's properties. As at December 31, 2012, the Trust had not utilized this facility.

Notes 8 and 9 reflect the contractual maturities for mortgage and loans payable of the Trust at December 31, 2012, 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.

(Cdn $ Thousands except unit amounts)

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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, credit facilities and subordinated convertible debenture is approximately $267,249 (December 31, 2011 - $195,162).

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 financial assets and liabilities:

December 31, 2012	Level 1	Level 2	Level 3
Financial assets			
Cash	$ 435	$ -	$ -
Financial liabilities			
Unit-based compensation liability	-	5,948	-
LP Class B unit liability	-	974	-

December 31, 2011	Level 1	Level 2	Level 3
Financial assets			
Cash	$ 24,793	$ -	$ -
Financial liabilities			
Unit-based compensation liability	-	2,332	-
LP Class B unit liability	-	592	-

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, 2012, approximately 14% (December 31, 2011 – 13%) 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 $280 for the year ended December 31, 2012 (2011 - $104).

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 property (174 suites) that closed on January 28, 2013.