2016 | ANNUAL REPORT

INTERRENT
REIT

InterRent REIT is a growth-oriented real estate investment trust engaged in increasing Unitholder value and creating a growing and sustainable distribution through the acquisition and ownership of multi-residential properties.

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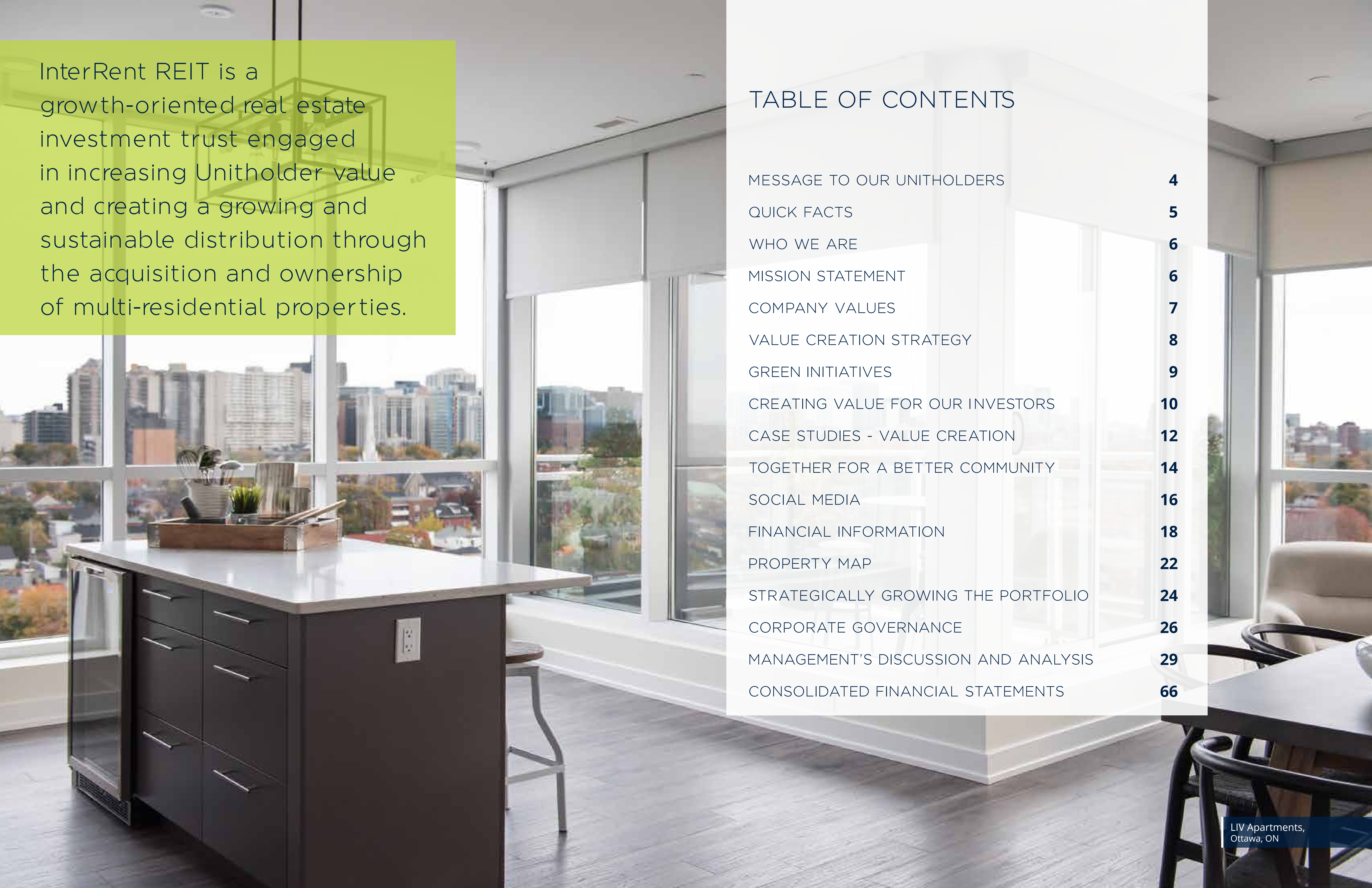

LIV Apartments,
Ottawa, ON

MESSAGE TO OUR UNITHOLDERS

Mike McGahan, CEO

Photo Courtesy of Pat McGrath/ Ottawa Citizen.
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2016 has been another year of growth for InterRent. Although our suite count was down, as a result of our capital-recycling program, we have grown the most important part of our company, our team and their skill set. In recent years we have migrated to a new service-oriented front line model. We focused on hiring numerous individuals that were highly skilled and educated to be our customer service focused front line staff. I believe we are starting to reap the fruits of their contributions and remain steadfast that this strategy will continue to result in a win-win for all of our stakeholders. We always believed that it will be our people that will separate us from our competitors.

We need to be "Best in Class" operators, now more than ever, as the field has become even more competitive. The competition for multi-family assets continues to intensify at an accelerated pace year-after-year and we are no longer the "only shop in town" that will take on the heavy lifting of repositioning properties. Eyes are now wide open and everyone wants to participate; not only REITs, but Pension Funds, Private Equity Funds and International Real Estate groups. Finding product is even more intense and many of the properties being circulated for sale don't meet our investment criteria. We need to broaden our connections even further with the broker community and private owners to source reasonably priced acquisitions. As part of our overall strategy we are utilizing this strong market to cycle out of some non-core properties. During 2016 we sold off 876 suites in non-core markets enabling us to concentrate our ownership in the key core markets of the GTA, Ottawa and Montreal. We feel these markets shall be able to continue to deliver outsized growth in the future.

Our team has a successful history of being able to source undervalued assets and using industry best practices, along with our own proven repositioning formula, to create value. By capitalizing on our platform we are able to continue to reposition and redevelop, and will draw on our vast of array of experiences to potentially develop new apartment buildings on existing sites in an effort to maximize operating income and in turn create significant value for our Unitholders.

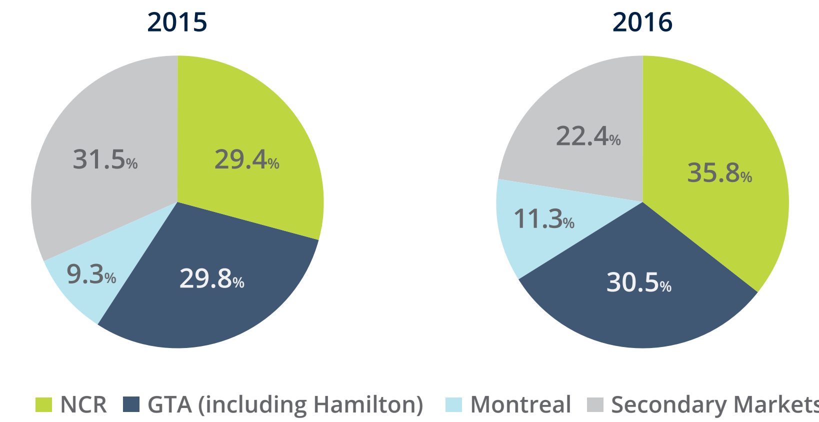
Unfortunately in 2016, the REIT lost a great team member, mentor and friend in Jacie Levinson. Jacie played an integral role in re-shaping InterRent when the management was restructured 7 years ago. He believed in InterRent when no one else did. He knew that the secret to turning InterRent around was the people and he loved nothing more than to mentor and teach the next generation. His passion was contagious. The Board and the Management Team will truly miss his guidance, knowledge and commitment. Most of all, we shall miss his great sense of humor and his friendship.

In closing, we expect 2017 to be a very good year for the REIT. With improving business conditions and renter demographics in our core markets, we are are very optimistic about the organic growth potential that exists within our current portfolio – both in our 5,136 stabilized suites and our 2,923 non-stabilized suites. We have also started down the path of potentially developing new purpose built apartments on new sites. We are also looking at intensifying on our present sites. Both of these add to our potential to grow the portfolio. As you can see, we are very excited about 2017 and our entire Team remains committed to achieving excellence for all of our Unitholders now and for many years to come.

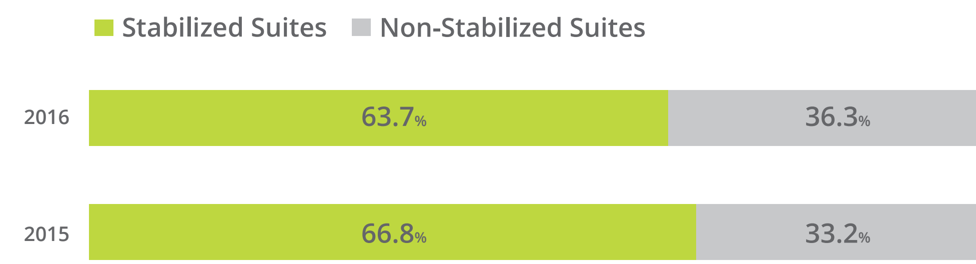
Yours Sincerely,

Mike McGahan, CEO

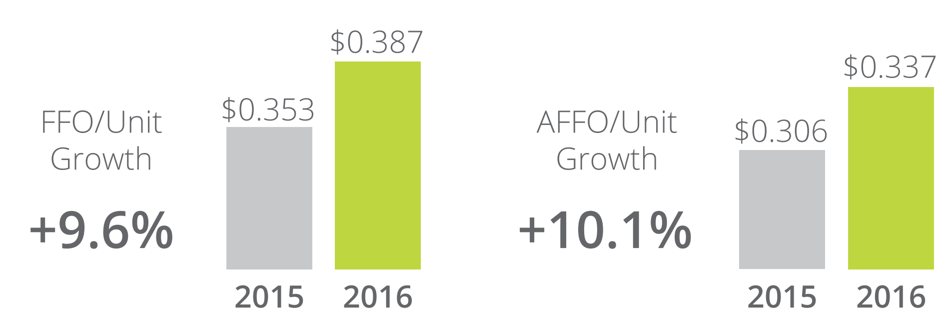
GEOGRAPHIC EXPOSURE BY SUITE COUNT



PORTFOLIO BREAKDOWN



FFO & AFFO PER UNIT - BASIC



QUICK FACTS

8,059
TOTAL SUITES

67
TOTAL PROPERTIES

$1,064
AVERAGE RENT PER SUITE

94.8%
OCCUPANCY RATE

$1.3 Billion
TOTAL ASSETS

176%
UNITHOLDER 5-YEAR TOTAL RETURN

2.69%
WEIGHTED AVERAGE INTEREST RATE

WHO WE ARE

We are a team. As a team, we focus on providing attentive care and support to all our customers on a daily basis.

In order to consistently provide exceptional customer service we encourage all team members to think like our customers and act in an entrepreneurial manner that fosters our core values of: Quality; Respect; Strong Teams and Communities; Integrity; and, Service Excellence.

Market changes and evolving trends means that the pace of our business is fast. In order to succeed and provide excellent service to our customers; a positive work experience for our employees; and, an above average return to our Unitholders we must embrace continuous change. To do this we focus not only on what we do, but more importantly, how we can do it better.

MISSION STATEMENT

The REIT believes that we can increase Unitholder value and create a growing and sustainable distribution by focusing on our team members. Our mission is to treat each team member with complete professionalism and integrity while supporting the individual needs of each to grow. By doing this, we believe each team member will in turn treat each customer, supplier and stakeholder the same way.

LIV Apartments, Ottawa, ON

COMPANY VALUES

Our values form the foundation of our culture. Everyday we need to do our best to demonstrate our values through our interactions with each other and within our communities. We believe that how we do our work is as important as what we do. We believe our values guide our actions and that together, these demonstrate to our customers who we are.

QUALITY

Providing the best unmatched results in delivering the highest levels of customer satisfaction.

INTEGRITY

Inspiring trust by saying what we mean, acting honestly and taking responsibility for our actions.

STRONG TEAMS AND COMMUNITIES

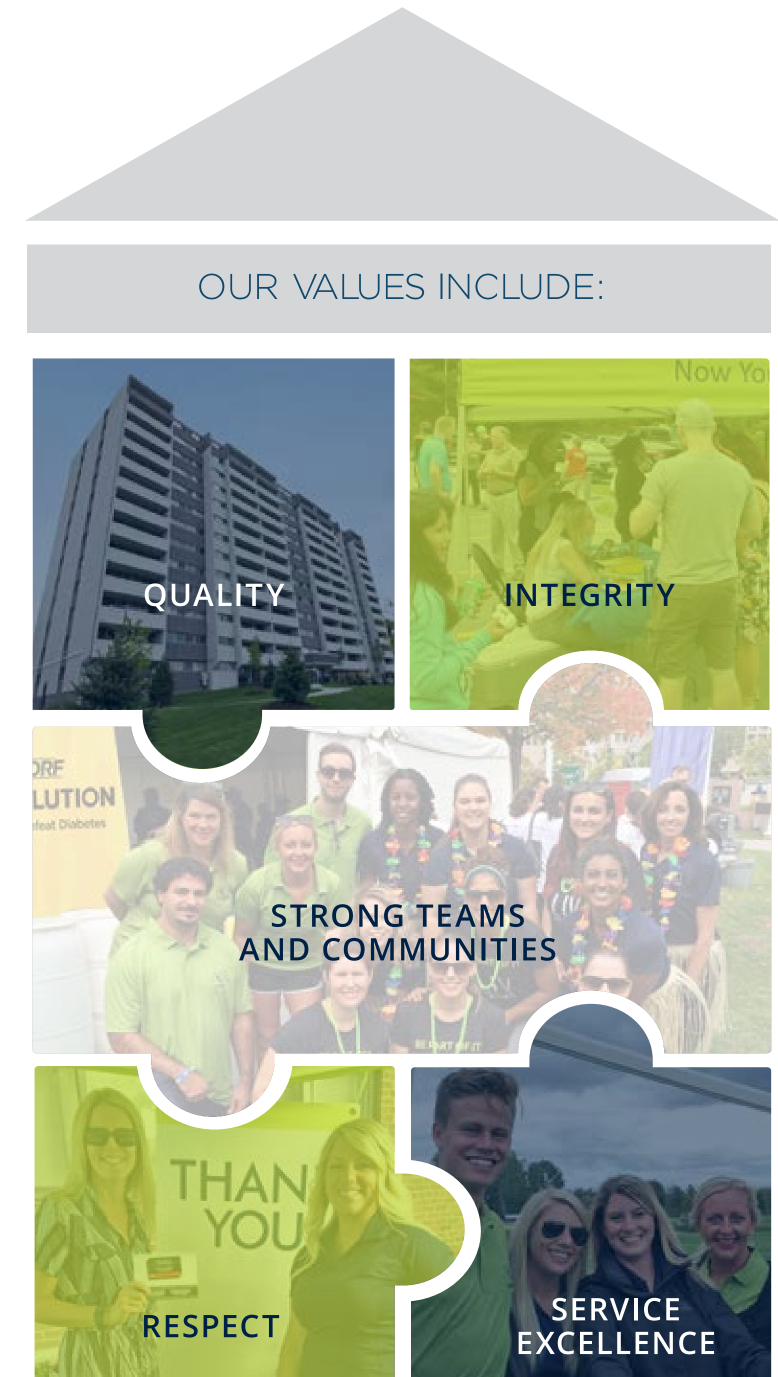
Encouraging and working with our team to give back to our customers and communities through sustainable programs and philanthropic efforts.

RESPECT

Having and showing respect for our customers, suppliers, Unitholders and communities while maintaining an environment of teamwork and growth.

SERVICE EXCELLENCE

Continuously building on our accomplishments and setting best in class standards within our industry.



VALUE CREATION STRATEGY

One of the keys to long-term success for the REIT is to continue to build on a core philosophy of continuous improvement in all aspects of the business. This is consistently applied to activities such as day to day property operations, property acquisitions, capital investments, financing and administrative matters. The InterRent team has a proven track record of creating value through repositioning rental properties. The team has both the experience and ability necessary to continue to grow and improve the REIT, which we believe will continue to create value for Unitholders.

OUR VALUE CREATION STRATEGY RESTS ON 6 PILLARS:

1 OUR PEOPLE

The REIT's team members are the lifeblood of the company. The team is the face of the company in that they interact on a daily basis with customers. The team also maintains existing customers' homes, and prepares the homes for new customers.

2 CUSTOMER SERVICE

At the heart of any business are people dealing with people. In the multi-family sector this is especially true since the business we are dealing with is someone's home. The REIT's objective is to offer an unsurpassed customer experience.

3 COST REDUCTION AND CONTAINMENT

Implement energy-efficient utility programs to lower operating costs while utilizing government programs to leverage investment dollars. Optimize staffing to take advantage of economies of scale. Challenging property tax assessments as appropriate.

4 DRIVING AND ENHANCING REVENUE STREAMS

The REIT is continuously looking to drive revenues through using our space more efficiently (such as building new suites within existing buildings); managing current ancillary revenue streams (parking, laundry, telecom revenue sharing etc.); and finding new revenue streams by offering complimentary services to our customers.

5 ACQUISITIONS

InterRent applies a rigorous and disciplined approach to evaluating potential acquisitions. The REIT continuously searches for properties that are in good rental markets but that may be underperforming for a variety of reasons.

6 RECYCLING AND ALLOCATION OF CAPITAL

The REIT regularly reviews its properties within the portfolio to determine the most efficient and effective use of capital.

GREEN INITIATIVES

As part of the redevelopment process, an analysis of all utility items is conducted to determine ways to reduce consumption and overall utility costs, thereby creating a more environmentally sustainable portfolio of properties that perform at a higher yield. Included in this analysis are water saving fixtures, efficient lighting, boilers, domestic hot water tanks and more. Additionally, InterRent has sub-metered the bulk of its portfolio which heightens awareness about energy consumption with our customers and promotes energy conservation.


Electric Car Charging Station


Submeters


Solar Lights


Variable Speed Drive for Make Up Air


COGEN


Boiler


Programmable Wi-Fi Thermostat


Programmable Lighting Controls


Energy Star Appliances


Variable Speed Booster Pump

CREATING VALUE FOR OUR INVESTORS

The REIT has continued to invest heavily in improvements, such as first-impression items, suite appearance, amenities, infrastructure and energy efficiency. Approximately $78 million was invested in the REIT's income producing properties in 2016 ($57 million in 2015). In line with InterRent's overall repositioning strategy, most of this was invested in properties that management believes are capable of achieving significant operating cost reductions, occupancy gains and increases in market rents, as these are key to InterRent's growth over the long term. The following are various examples of these repositioning efforts:

UPGRADES

Suite Upgrades

- Improved suite layout
- Energy-efficient lighting
- Designer finishes
- Updated kitchens & bathrooms
- Upgraded flooring
- Setup of model suites
- Water efficient fixtures
- Energy efficient appliances

LIV Apartments, Ottawa

Halstead Gardens, Hamilton

Parkway Park, Ottawa

Exterior Upgrades

- Complete, attractive first impression package
- Professional looking & well branded property signage
- Enhanced secured entrances
- Designer-influenced exterior finishes
- Low-maintenance landscaping
- Energy efficient light fixtures

Parkway Park, Ottawa

5220 Lakeshore, Burlington

939 Western, London

Common Area Upgrades

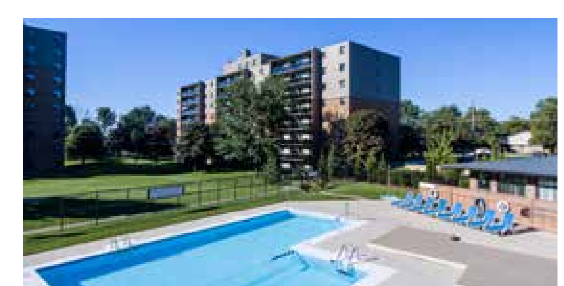
- Energy-efficient lighting
- Designer finishes
- Added functionality
- Inviting first impressions
- Enhanced security

Rosemount Apartments, Burlington

5220 Lakeshore, Burlington

Added Amenities

- Fitness centres
- Media rooms
- Resident lounges
- Modernized laundry rooms



Auburn Park, London

Forest Ridge, Ottawa

CASE STUDIES - VALUE CREATION

2386 & 2400 NEW STREET, BURLINGTON, ONTARIO

Conveniently situated in the Roseland area in Burlington, 2386 & 2400 New Street offers spacious one, two and three bedroom suites with scenic views of Lake Ontario.

This property has received extensive capital investment over the past three years including new landscaping, new balconies, upgraded kitchens and flooring in many suites, energy efficient lighting, a new gym and a media room. There have also been 8 suites added to this property.

Since acquisition in March 2012, average rent on the suites which have been turned over has increased 44% from $1,044 to $1,509. NOI has increased 111% from $1,313,832 to $2,807,480. The expected IRR based on the IFRS value at December 31, 2016 is over 50%.

2386 & 2400 NEW STREET OVERVIEW

Total Suites	238

INVESTMENT HIGHLIGHTS

Investment Timeframe	55 Months
Purchase Price	$20.7M
Expected IRR	50%+
Equity Multiple	5.03

InterRent REIT 2016 Annual Report

2757 BATTLEFORD ROAD, MISSISAUGA, ONTARIO

2757 Battleford is located adjacent to Lake Aquitaine and at the corner of Erin Mills Parkway and Battleford Road in Mississauga. Including our adjacent property at 6599 Glen Erin Drive, the combined site has a land mass of approximately 420,750 square feet (9.66 acres).

Substantial capital improvements have been made to this property including new hard & soft landscaping, new entrance and lobby, hydro submetering, new elevators and energy efficient lighting.

Since acquisition in June 2012, average rent on suites which have been turned over has increased 21% from $1,152 to $1,393. NOI has increased 44% from $1,462,650 to $2,105,622. The expected IRR based on the IFRS value at December 31, 2016 is over 25%.

2757 BATTLEFORD

Suites	184

INVESTMENT HIGHLIGHTS

Investment Timeframe	55 Months
Purchase Price	$23.9M
Expected IRR	25%+
Equity Multiple	3.12

TOGETHER FOR A BETTER COMMUNITY

One of the REIT's core values is community. Throughout each year, InterRent organizes and participates in numerous philanthropic events and sustainable programs to give back to our communities across Ontario and Quebec. The following are some of the highlights from 2016:

Submissions for the Colour for a Cause campaign

INTERRENT SCHOLARSHIP PROGRAM

In 2013, InterRent introduced a Scholarship Program to help the children of employees pursue post-secondary studies.

COLOUR FOR A CAUSE

Make a Wish Foundation (ON & QC)

Across all InterRent REIT sites, children 12 & under coloured and submitted their artwork to their local administration office. We donated $1 to the Make a Wish Foundation for every submission.

JDRF Revolution Ride

JDRF REVOLUTION RIDE

JDRF (Juvenile Diabetes Research Foundation) uses research funding and advocacy to search for a cure and a way to end type 1 diabetes. InterRent and CLV Group had 3 teams of 5 participate in the JDRF Revolution Ride where each member was required to ride on a stationary bike at high speed for 7 minutes.

Staff BBQs

SUMMER FRIDAY BBQS

Every Friday, the staff of InterRent and CLV Group gather outside for a staff BBQ (or inside for a pizza day if it is raining). 100% of the proceeds raised goes to local charities.

Tree of Stars in Head Office

TREE OF STARS

In conjunction with the Youth Services Bureau, the staff of InterRent and CLV Group decorate a tree with stars. Each star represents a donatation that is made to a child or family in need from Ottawa and surrounding areas.

HOLIDAY HAMPERS

Staff of InterRent and CLV Group participated in packing hampers for the Caring and Sharing Exchange in Ottawa on December 21st. Hampers are distributed to families throughout the community.

HOPE VOLLEYBALL

InterRent entered a team into HOPE's flagship Volleyball SummerFest event. Each year, more than 25,000 players and spectators flock to Mooney's Bay Beach in Ottawa for this combination of volleyball and live entertainment. These participants have helped HOPE donate over $3.5 million in support of more than 110 local charities.

InterRent staff supporting the local clubs

THE BOYS & GIRLS CLUBS OF CANADA

The mission of all Boys & Girls Clubs in Canada is to provide a safe, supportive place where children and youth can experience new opportunities, overcome barriers, build positive relationships and develop confidence and skills for life.

InterRent REIT has supported several Boys & Girls Clubs across Ontario, including Ottawa, London, Toronto and St. Catharines.

FOOD DRIVES

Fill-a-Fiat events to benefit Food Banks across ON & QC

We participated in various cities where our InterRent REIT properties are located, including Ottawa, Hamilton, Burlington, Brantford, London and Montreal. Combined donations totaled over 655 lbs of food!

Fill-a-Fiat donations

InterRent staff deliver donations to the Ottawa Food Bank

SOCIAL MEDIA

Our multiple social media channels are an important part of our customer retention, brand awareness and lead generation strategies. We strive to open up a two-way conversation with our customers, and social media allows us to accomplish this while simultaneously promoting our brand, products and services. We use our active social media presence as a tool for residents to contact and engage with our team, all with a guaranteed quick response time.

In order to ensure we are available to our customers and potential leads, we utilize Facebook, Twitter, Pinterest, YouTube, Google+, Instagram and LinkedIn.

Each platform is utilized differently to appeal to its corresponding demographic and to be sure that we are continuing to provide the best service, insight and information to our customers.

Our goal is to provide a face and voice to our brand to enhance communication, approachability and responsiveness towards our customers and the public.

October 4, 2016 ·

Bienvenu au Le Neuville à Montréal. Superbes vues sur la ville et le parc, et une terrasse incroyable sur le toit. Apprenez comment vous pouvez appeler Le Neuville votre chez-soi : http://www.clvgroup.com/apartments/le-neuville #nowyourehome

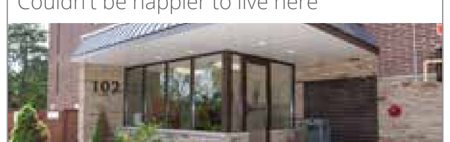
Welcome to Le Neuville in Montreal. Amazing views of the city and park and an incredible roof top deck. Learn how you can call Le Neuville your new home here: http://www.clvgroup.com/apartments/le-neuville #nowyourehome

1,444 people reached

Avalon on the Parkway
GUELPH, ONTARIO
36 Reviews, 4.8 Star Average

5.0 ★★★★★ March 15, 2016

Marissa
"This is such a great place to live. The apartments are so open, spacious and cozy. We got brand new balconies in February and they are beautiful. The grounds; including the gym, are always kept very tidy and I can't wait until the warmer weather comes to be able to use the pool! During the winter the walkways and entrances were always kept salted and safe to walk on. Couldn't be happier to live here"



5220 Lakeshore
BURLINGTON, ONTARIO
19 Reviews, 4.8 Star Average

5.0 ★★★★★ July 22, 2016

Joan
"This building is heaven on earth. The whole building has been renovated to a luxurious state and the added amenities are beyond expectations. The building is kept immaculate and clean by Maureen. The whole place is kept to perfect. Lakeshore Club is beyond anything you would expect from an apartment building. We will not me moving under any conditions. Jennifer throws great events and we love getting to spend time with the staff. "

Forest Ridge
OTTAWA, ONTARIO
102 Reviews, 4.8 Star Average

5.0 ★★★★★ July 11, 2016

Laura
"Andrea showed us the townhouses at forest ridge and was super helpful during the application process. She provided us with fantastic photos, a great tour and lots of additional support. Would definitely recommend anyone to this area. It's quiet, clean and always new additions being made. Andrea always replies quickly to any questions we have and is always so pleasant. Great place and great team!"

InterRent REIT 2016 Annual Report

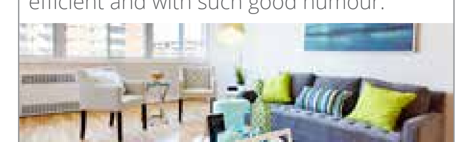
LIV APARTMENTS SOCIAL MEDIA - 2016

13.5K	People Reached in Q4 2016
182,200	Total Impressions
825	PINS
10.9K	Searches in Q4 of 2016
103	Reviews as of February 21, 2017
761	FOLLOWERS

5550 Trent
MONTREAL, QUEBEC
36 Reviews, 4.9 Star Average

5.0 ★★★★★ August 23, 2016

Susan
"Beautiful bright apartment in a very clean, well maintained building. Responsive, professional and friendly staff. Lived here for 6 years and love it. Huge advantage to live in Cote St. Luc. Almost 7 years here! Management is great, thanks to Irina. Thanks as well to the wonderful cleaning staff (Gloria and Florin), and extra thanks to Attila for his excellent repair work, neat, efficient and with such good humour."



614 Lake
ST CATHARINES, ONTARIO
34 Reviews, 4.9 Star Average

4.0 ★★★★☆ Sept 9, 2016

Joan
"I have lived at 614 Lake Street for 17 years. Location is everything – 4 bus stops, 3 Airports, VIA & GO station. City at your doorstep, vineyards very close, quality shopping, theatre & sport, great history and education institutions. Lived through various management, current staff are capable and business-like, intelligent and determined to take care of 614 Lake. Residents are proud to call it home."

6599 Glen Erin
MISSISAUGA, ONTARIO
38 Reviews, 4.6 Star Average

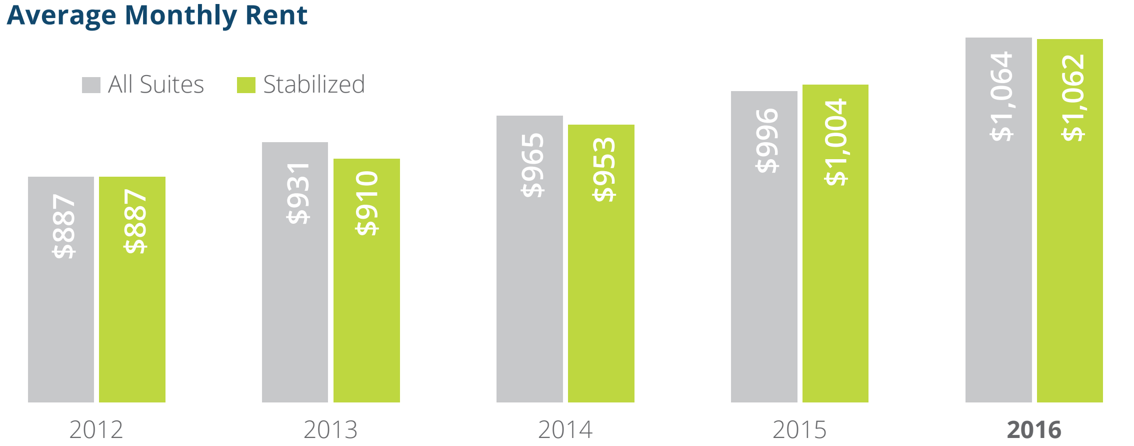
5.0 ★★★★★ July 19, 2016

Marie
"Thank you Jasi, Joanna and everyone who is making living at lakeshore apartments feel like home. Any concerns I have had were promptly taken care of in a fast manner. Enjoying raising my family in this wonderful community. Thank you."

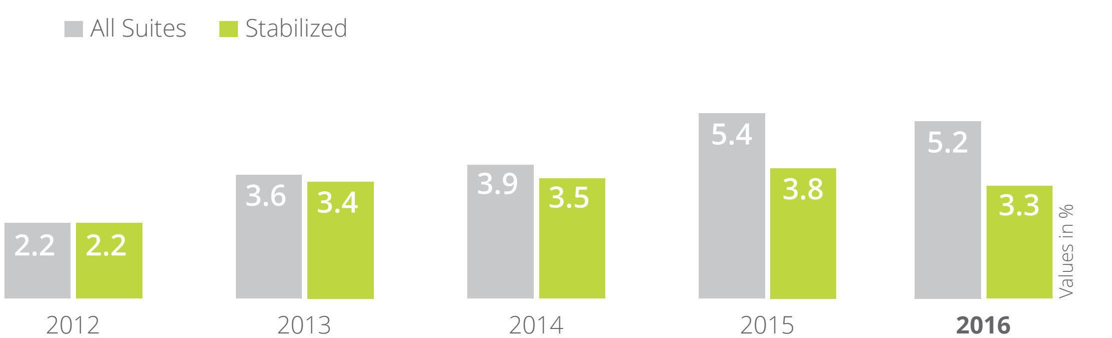
FINANCIAL INFORMATION

InterRent's primary objective is to use the proven industry experience of the trustees, management and operations team to (i) provide Unitholders with stable and growing cash distributions from investments in a diversified portfolio of multi-residential properties; (ii) enhance the value of the assets and maximize long-term Unit value through the active management of such assets; and, (iii) expand the asset base through accretive acquisitions and development.

▼ Average Monthly Rent



▼ Average Monthly Vacancy



▼ FIVE Year History

In $000s, except as noted	2012	2013	2014	2015	2016	CAGR
Total Suites	4,695	6,048	6,700	8,389	8,059	16.1%
Average Rent Per Suite	$887	$931	$965	$996	$1,064	4.8%
Operating Revenues	$47,530	$60,506	$65,404	$82,977	$97,465	20.4%
Net Operating Income (NOI)	$27,946	$36,041	$37,884	$48,490	$56,867	22.6%
NOI %	58.8%	59.6%	57.9%	58.4%	58.3%	1.8%
FFO Per Unit (basic)	$0.31	$0.35	$0.33	$0.35	$0.39	24.4%

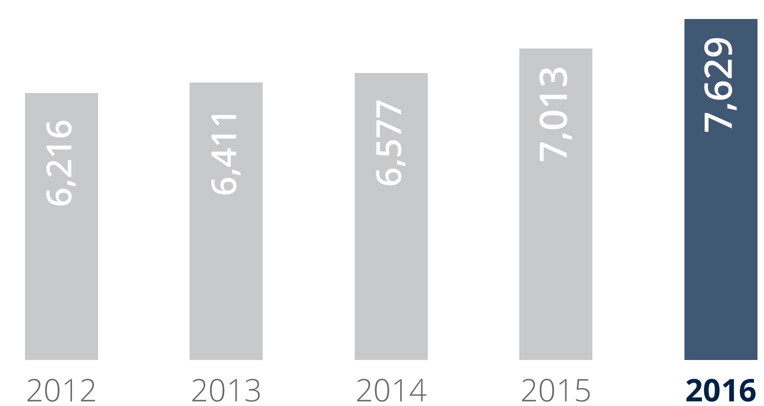
Stabilized properties are defined as all properties owned by the Trust continuously for 24 months. In reality, although the bulk of the work is completed within the first 24 months, the full results of the repositioning efforts often take 36-48 months to be fully reflected in the operational performance of a property. Furthermore, as neighbourhoods change and evolve, the REIT is continuously looking at opportunities to drive rental revenue and NOI upwards by continuing to invest in its stabilized portfolio.

The REIT has been able to create a growing and sustainable distribution by: (i) growing top-line revenue by increasing rents and occupancy levels within the existing portfolio; (ii) managing expenses and investing capital in equipment and technology to drive down operating costs; and, (iii) acquiring under-performing properties that are in healthy rental markets and repositioning them.

The REIT's ability to execute on these three factors has allowed InterRent to achieve above-average rental rates and NOI growth over the past five years.

Part of the repositioning process often results in occupancy levels suffering in the short term. With the acquisition of 2,892 suites from 2014 to 2016 there was some upward pressure on vacancy rates. Management believes that as the repositioning efforts take hold, the Trust will maintain long-term vacancy rates in the 4% range. Management believes that this is an optimal overall range to balance vacancy loss against rental growth.

▼ NOI per Suite - Stabilized



While driving top-line revenue growth is key, managing operating costs is equally critical as it ensures that the growth in revenue makes its way to the bottom line. As properties are acquired and go through the REIT's repositioning program, there can be a short-term drag on NOI. Despite 36.3% of the suites being non-stabilized at year end, the REIT managed to continue to post positive NOI per suite growth for a sixth straight year.

FINANCING FACTS

2.69%
WEIGHTED AVERAGE INTEREST RATE

4.2 Years
AVERAGE TERM TO MATURITY

55.3%
DEBT-TO-GROSS BOOK VALUE

2.51x
INTEREST COVERAGE RATIO

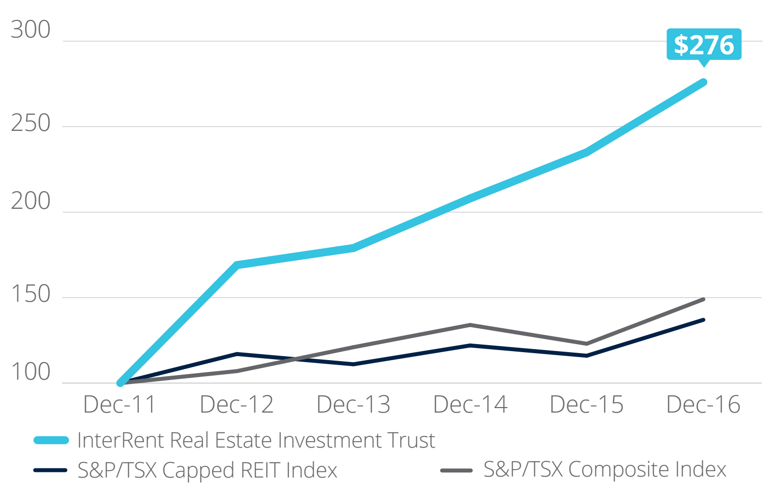
52%
% OF MORTGAGE DEBT CMHC INSURED

FINANCIAL INFORMATION

The acquisitions completed in 2012 and 2013 have for the most part been repositioned, and now form part of the stabilized portfolio. With the physical repositioning substantially complete, the REIT anticipates that those assets will help the REIT to continue providing industry leading same-store NOI growth. The 645 suites acquired in 2014, 1,702 suites acquired in 2015, and 545 suites acquired in 2016 are still undergoing various degrees of repositioning initiatives.

The REIT has experienced significant growth in many facets of its business over the past few years, both in aggregate terms (top-line revenue growth and NOI growth) and in per unit terms (such as FFO per unit). The result of these efforts has been seen in the relative performance of the Trust's unit price over the past five years. The entire REIT team is committed to continuing to work hard and to diligently apply InterRent's proven methodology, which is focused on growing the REIT and creating value for Unitholders. In 2016 InterRent provided unitholders with a total return of over 17%. Management anticipates that the acquisitions over the last few years will continue to drive strong organic growth to Unitholders for years to come.

▼ Total Return on a Canadian $100 Investment



As At Dec 31,	2011	2012	2013	2014	2015	2016	Total Return
InterRent Real Estate Investment Trust	$100	$169	$179	$208	$235	$276	176%
S&P/TSX Composite Index	$100	$107	$121	$134	$123	$149	49%
S&P/TSX Capped REIT Index	$100	$117	$111	$122	$116	$137	37%

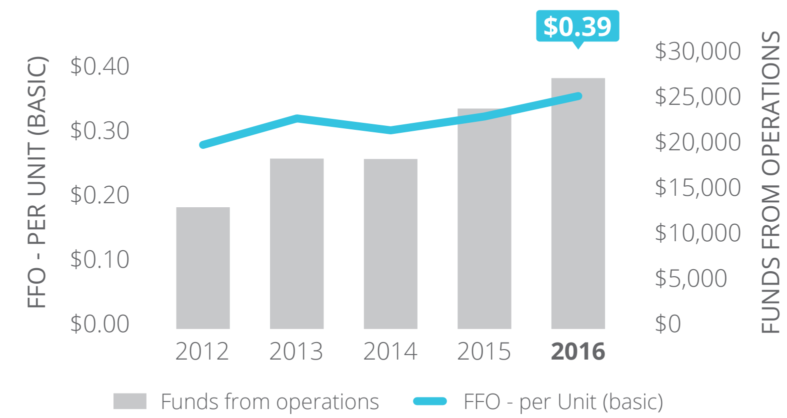
Source: SNL, S&P Dow Jones Indices.

Britannia Beach, Ottawa, ON

Funds from operations is one of the key metrics that is used when measuring a real estate entity, and is one of the calculations that is, for the most part, standardized across the multi-family sector.

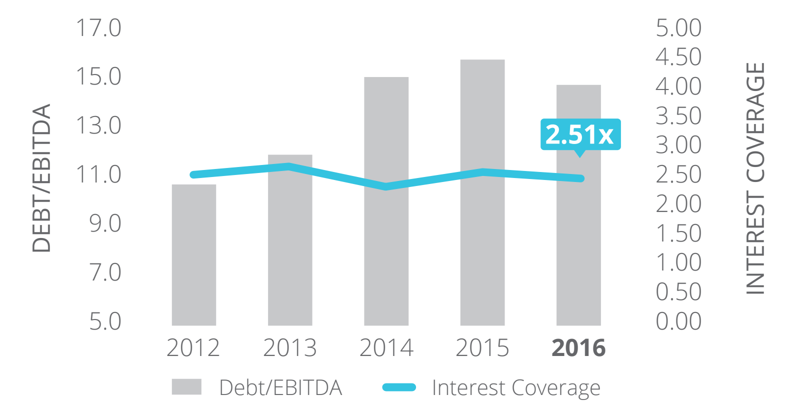
The REIT has experienced significant FFO growth in the past five years, both as a total and on a per unit basis. This growth is due to the growth in overall NOI and reduced interest cost resulting from the decrease in the weighted average interest rates on the REIT's mortgages. Management expects that as recently-acquired properties begin to stabilize, the REIT will continue to experience above-average FFO growth.

▼ FFO and FFO per Unit



The acquisition of 2,892 suites over the last three years has provided the REIT with a well-situated portfolio with strong organic growth potential. To achieve this bottom-line revenue growth, the REIT has been investing in the repositioning of the properties. These acquisitions and repositioning investments have resulted in short-term pressure on the debt/EBITDA and interest coverage ratios. Management anticipates that these will improve as the repositioning efforts are completed and the properties produce above average NOI growth as a result of increased rents and operating margins.

▼ Debt/EBITDA and Interest Coverage



GROWTH FACTS

6.8%

TOTAL PORTFOLIO RENT GROWTH

17.3%

TOTAL NOI GROWTH

4.1%

STABILIZED PORTFOLIO RENT GROWTH

7.0%

STABILIZED NOI GROWTH

9.6%

FFO/UNIT GROWTH (BASIC)

PROPERTY MAP

GTA (INCLUDING HAMILTON)

18 PROPERTIES | 0.7% PENETRATION | 30.5% OF PORTFOLIO

2,458 SUITES | 362,617 TOTAL SUITES IN MARKET

MONTREAL

4 PROPERTIES | 0.1% PENETRATION | 11.3% OF PORTFOLIO

908 SUITES | 638,536 TOTAL SUITES IN MARKET

NATIONAL CAPITAL REGION

25 PROPERTIES | 3.2% PENETRATION | 35.8% OF PORTFOLIO

2,884 SUITES | 90,008 TOTAL SUITES IN MARKET

SECONDARY MARKETS

20 PROPERTIES | 2.3% PENETRATION | 22.4% OF PORTFOLIO

1,809 SUITES | 79,045 TOTAL SUITES IN MARKET

NUMBER OF PROPERTIES
67

NUMBER OF SUITES
8,059

	2015	2016
% of units in stabilized portfolio	67%	64%
% of units in non-stabilized portfolio	33%	36%

STRATEGICALLY GROWING THE PORTFOLIO

Whether InterRent enters a new market or expands in an existing one, a disciplined approach is taken. InterRent seeks to acquire properties that have suffered from the absence of professional management. This gives the REIT an opportunity to increase rents to market rates, improve operational efficiency as well as to invest in energy-saving initiatives. The REIT's focus is to expand in its core markets of the GTA (including Hamilton), Montreal and the National Capital Region. Management has identified these markets as having the four parameters critical to InterRent's growth strategy, which are:

1 HEALTHY ECONOMIC REGIONAL CENTRES & NEIGHBOURHOODS

Regions that have stable employment profiles derived from strong & sustainable industries and are expected to have continued population growth.

2 STRONG DEMAND FOR RENTAL SUITES

Cities that typically have a vacancy rate in line with or better than Canada Mortgage & Housing Corporation (CMHC) vacancy statistics for the region, which allows for consistent cash flow.

3 ECONOMIC RECORD ACCOMMODATING RENTAL RATE GROWTH

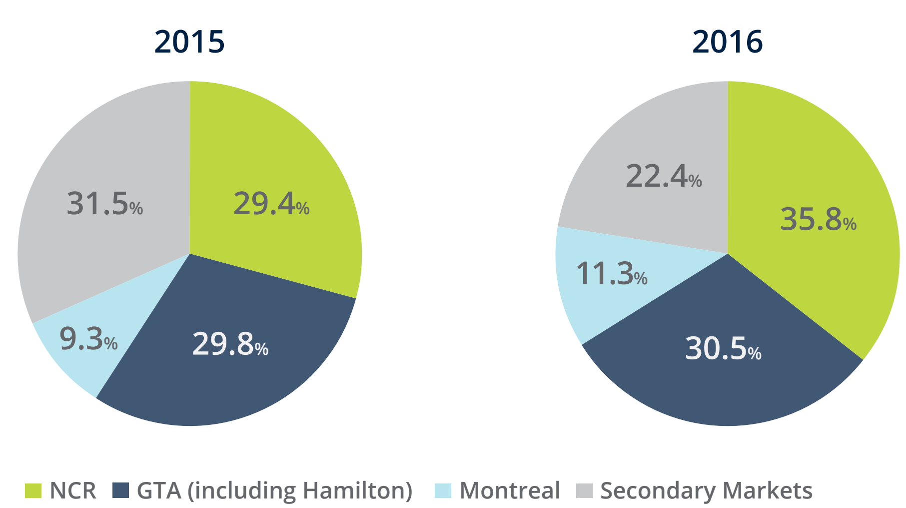
InterRent looks for communities with an economic track record of rising rental rates, preferably where the REIT has experience & success in driving rates up and where existing infrastructure can be leveraged.

4 LOCATIONS THAT OFFER STABLE CAPITALIZATION RATES

By targeting markets that meet the first three parameters and that also have sufficient supply and demand from investors, InterRent ensures that its markets will maintain relatively stable capitalization rates.

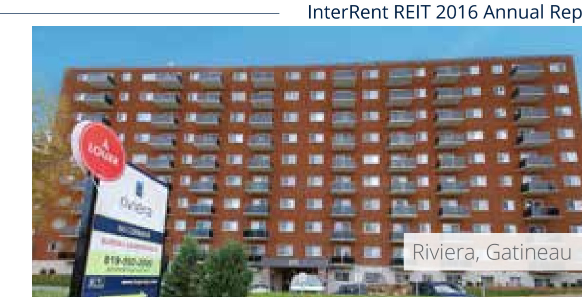
Over the course of 2016, the REIT acquired 545 suites in its core markets and disposed of 876 suites in non-core markets.

▼ Geographic Exposure by Suite Count



2012 ACQUISITIONS	SUITES
Riviera, Gatineau (QC)	490
2386 & 2400 New Street, Burlington (ON)	230
2757 Battleford Road, Mississauga (ON)	184
2304 Weston Road, Toronto (ON)	96
	1,000
2013 ACQUISITIONS	**SUITES**
Sir Walter Scott, Montreal (QC)	174
Crystal Beach West, Ottawa (ON)	87
70 Roehampton Avenue, St. Catharines (ON)	64
Elmridge, Ottawa (ON)	118
5220 Lakeshore Road, Burlington (ON)	127
Place Kingsley Apartments, Montreal (QC)	327
Bell Street North, Ottawa (ON)	444
	1,341
2014 ACQUISITIONS	**SUITES**
Crystal Beach East, Ottawa (ON)	54
15 Kappele Circle, Stratford (ON)	23
Tindale Court & Quigley Road, Hamilton (ON)	334
6599 Glen Erin, Mississauga (ON)	232
15 Louisa, Ottawa (ON)	2
	645
2015 ACQUISITIONS	**SUITES**
5501 Aldabert, Montreal (QC)	280
Forest Ridge, Ottawa (ON)	393
Britannia Portfolio, Ottawa (ON)	286
Stoney Creek Portfolio, Hamilton (ON)	618
181 Lebreton & 231 Bell, Ottawa (ON)	2
Maple & Brant, Burlington (ON)	123
	1,702
2016 ACQUISITIONS*	**SUITES**
1101 Rachel, Montreal (QC)	127
Parkway Park Ottawa (ON)	418
	545
TOTAL	**5,233**

*The REIT was a net seller in 2016, disposing of 876 suites in non-core markets.


Riviera, Gatineau

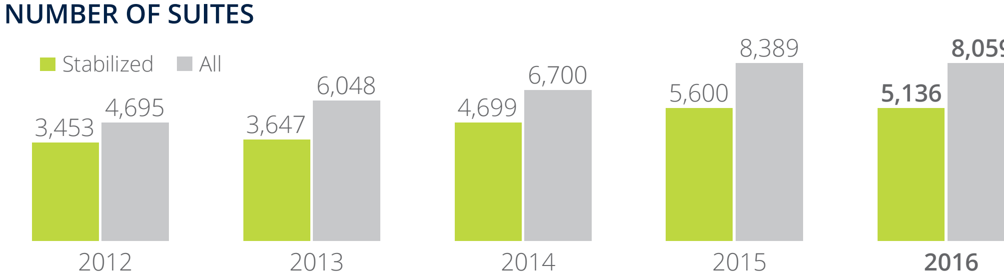

70 Roehampton, St. Catharines


5220 Lakeshore, Burlington


Forest Ridge, Ottawa


1101 Rachel, Montreal

NUMBER OF SUITES



CORPORATE GOVERNANCE

To maintain the confidence of investors and properly oversee the activities of management, adopting and upholding high standards of governance practices are essential. InterRent's governance system is built on corporate ethics, transparency, compliance and discipline. The REIT is committed to providing timely, accurate and complete disclosure of all material information to the public.

1101 Rachel,
MONTREAL, QC

InterRent's Board of Trustees evaluates the management of the REIT and oversees matters related to its strategic direction, business and operations. The Board's overall responsibility is to protect the interest of Unitholders by fostering a culture of integrity and accountability throughout InterRent. InterRent's Board of Trustees consists of six members, five of whom are independent and unrelated to InterRent. The Board has established four committees – the Audit committee, Nominations and Governance Committee, Compensation Committee and Capital Resources Committee – to establish processes for the efficient functioning of InterRent's corporate governance program.

AUDIT COMMITTEE

The Audit Committee's responsibilities include the following: (i) reviewing the Trust's procedures for internal control with the Trust's auditors and Chief Financial Officer; (ii) reviewing and approving the engagement of the auditors; (iii) reviewing annual and quarterly financial statements as well as all other material continuous disclosure documents, such as the Trust's annual information form and management's discussion and analysis; (iv) assessing the Trust's financial and accounting personnel; (v) assessing the Trust's accounting policies; (vi) reviewing the Trust's risk management procedures; and (vii) reviewing any significant transactions outside the Trust's ordinary course of business and any pending litigation involving the Trust.

614 Lake,
ST. CATHARINES, ON

NOMINATIONS AND GOVERNANCE COMMITTEE

The Governance Committee is charged with reviewing, overseeing and evaluating the governance and policies of the Trust. In addition, the Governance Committee is responsible for the following: (i) assessing the effectiveness of the Board of Trustees, each of its committees and individual Trustees; (ii) overseeing the recruitment and selection of candidates as Trustees of the Trust; (iii) making recommendations to the Board with respect to management succession, in particular, succession for the CEO position; (iv) organizing an orientation and education program for new Trustees; (v) considering and approving proposals by the Trustees of the Trust to engage outside advisers on behalf of the Board of Trustees as a whole or on behalf of the Independent Trustees of the Trust; and (vi) reviewing and making recommendations to the Board of Trustees concerning any change in the number of Trustees of the Trust.

COMPENSATION COMMITTEE

The Compensation Committee is responsible for reviewing, overseeing and evaluating the compensation policies of the Trust. In addition, this committee is responsible for the following: (i) reviewing and approving the compensation paid by the Trust, if any, to any officers, advisers and any consultants of the Trust; (ii) administering any unit option or purchase plan of the Trust, and any other compensation incentive programs; (iii) assessing the performance of management of the Trust; and (iv) reviewing and making any recommendations to the Board of Trustees concerning the level and nature of the compensation payable to Trustees and officers of the Trust.

CAPITAL RESOURCES COMMITTEE

The Capital Resource Committee is responsible for reviewing, analyzing and overseeing (i) any acquisition, disposition, major renovation or maintenance of Trust properties; (ii) the Trust's financial and administrative strategies and initiatives as they pertain to property management; (iii) management's identification and assessment of any significant property risks; and (iv) the development of the Trust's response to environmental obligations and strategies.

JACIE LEVINSON

Jacie Levinson was a member of the board of Trustees since 2009 and became Chairman of the Board in 2011. Unfortunately, Mr. Levinson passed away on October 9, 2016. Jacie was an incredible leader who had a passion for life and was involved in many businesses and charitable organizations. Jacie spent over 55 years in the Real Estate industry and shared his vast wealth of knowledge every day with the InterRent team. Jacie had the ability to boil down very complex items into the simplest of terms and communicate his thoughts clearly and effectively. His leadership, driving force and desire to always do better, while still appreciating the victories along the way, shall be remembered by the members of the Board, the management team of InterRent, and all those who came into contact with Jacie.

Management's Discussion & Analysis

FOR THE YEAR ENDED DECEMBER 31, 2016

FEBRUARY 21, 2017

Rosemount,
Burlington, ON

MANAGEMENT DISCUSSION & ANALYSIS
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FORWARD-LOOKING STATEMENTS

Caution Regarding Forward-Looking Statements

This Management's Discussion and Analysis ("MD&A") of InterRent Real Estate Investment Trust ("InterRent REIT" or the "Trust") contains "forward-looking statements" within the meaning of applicable securities legislation. This document should be read in conjunction with material contained in the Trust's audited consolidated financial statements for the year ended December 31, 2016 along with InterRent REIT's other publicly filed documents. Forward-looking statements appear in this MD&A under the heading "Outlook" and generally include, but are not limited to, statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results circumstances, performance or expectations, including but not limited to financial performance and equity or debt offerings, new markets for growth, financial position, comparable multi-residential REITs and proposed acquisitions. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of InterRent REIT to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: the risks related to the market for InterRent REIT's securities, the general risks associated with real property ownership and acquisition, that future accretive acquisition opportunities will be identified and/or completed by InterRent REIT, risk management, liquidity, debt financing, credit risk, competition, general uninsured losses, interest rate fluctuations, environmental matters, restrictions on redemptions of outstanding InterRent REIT securities, lack of availability of growth opportunities, diversification, potential unitholder liability, potential conflicts of interest, the availability of sufficient cash flow, fluctuations in cash distributions, the market price of InterRent REIT's trust units, the failure to obtain additional financing, dilution, reliance on key personnel, changes in legislation, failure to obtain or maintain mutual fund trust status and delays in obtaining governmental approvals or financing as well as those additional factors discussed in the section entitled "Risks and Uncertainties" and in other sections of this Management's Discussion and Analysis.

In addition, certain material assumptions are applied by the Trust in making forward looking statements including, without limitation, factors and assumptions regarding;

- Overall national economic activity
- Regional economic and demographic factors, such as employment rates and immigration trends
- Inflationary/deflationary factors
- Long, medium and short term interest rates
- Availability of financing
- Housing starts
- Housing affordability

Although the forward-looking information contained herein is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. InterRent REIT has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, however there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. InterRent REIT does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

Certain statements included herein may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

INTERRENT REAL ESTATE INVESTMENT TRUST

InterRent Real Estate Investment Trust ("InterRent REIT" or the "Trust") is an unincorporated, open-ended real estate investment trust created pursuant to a Declaration of Trust, dated October 10, 2006, and as amended and restated on June 29, 2007, September 30, 2009 and December 29, 2010, under the laws of the Province of Ontario. InterRent REIT was created to invest in income producing multi-family residential properties within Canada initially through the acquisition of InterRent International Properties Inc. (the "Corporation") and of the Silverstone Group by the way of a plan of arrangement (the "Arrangement") under the *Business Corporations Act* (Ontario), which was completed on December 7, 2006.

InterRent REIT's principal objectives are to provide its unitholders ("Unitholders") with stable and growing monthly cash distributions, partially on a Canadian income tax-deferred basis, and to increase the value of its trust units (the "Units") through the effective management of its residential multi-family revenue producing properties and the acquisition of additional, accretive properties.

DECLARATION OF TRUST

The investment policies of the Trust are outlined in the Trust's Amended and Restated Declaration of Trust (the "DOT") dated as of December 29, 2010 and a copy of this document is available on SEDAR (www.sedar.com). Some of the principal investment guidelines and operating policies set out in the DOT are as follows:

INVESTMENT GUIDELINES

- Focus its activities on acquiring, maintaining, improving and managing multi-unit residential revenue producing properties.
- No single asset shall be acquired if the cost of such acquisition (net of the amount of debt secured by the asset) will exceed 15% of the Trust's "Gross Book Value" (as such term is defined in the DOT).
- Investments in joint ventures are permitted as long as the Trust's interest is not less than 25%.
- No investment will be made that would result in the Trust not qualifying as a "mutual fund trust" as defined in the *Income Tax Act* (Canada).

OPERATING POLICIES

- Overall indebtedness not to exceed 75% of Gross Book Value, as defined by the DOT.
- For individual properties, the maximum debt capacity not to exceed 75% of its market value, on or after the date which is 12 months from the acquisition date.
- No guaranteeing of third party debt except for subsidiaries or wholly-owned entities of the Trust or potential joint venture partner structures.
- Third party surveys of structural and environmental conditions are required prior to the acquisition of a revenue producing property.

At December 31, 2016 the Trust was in material compliance with all investment guidelines and operating policies stipulated in the DOT.

ACCOUNTING POLICIES

InterRent REIT's accounting policies are described in note 3 of the audited consolidated financial statements for the years ended December 31, 2016 and 2015.

In applying these policies, in certain cases it is necessary to use estimates, which management determines using information available to the Trust at the time. Management reviews key estimates on a quarterly basis to determine their appropriateness and any change to these estimates is applied prospectively in compliance with IFRS. Significant estimates are made with respect to the fair values of investment properties and the fair values of financial instruments.

NON-GAAP MEASURES

Funds from Operations, Adjusted Funds from Operations, Net Operating Income and EBITDA (or, in each case, substantially similar terms) are measures sometimes used by Canadian real estate investment trusts as indicators of financial performance, however they do not have standardized meanings prescribed by IFRS (GAAP). These measures may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to similarly termed measures reported by other such issuers.

Funds from Operations ("FFO") is a financial measure which should not be considered as an alternative to net income, cash flow from operations, or any other operating or liquidity measure prescribed under GAAP. The Trust presents FFO in accordance with the Real Property Association of Canada (REALpac) White Paper on Funds from Operations revised April 2014.

Adjusted Funds from Operations ("AFFO") is presented in this MD&A as a non-GAAP measure as it is commonly used performance indicator in determining the sustainability of future distributions to Unitholders. AFFO begins with FFO and removes the effect of certain non-cash income and expense items and adds a provision for maintenance capital expenditures. AFFO should not be interpreted as an indicator of cash generated from operating activities as it does not consider changes in working capital.

A reconciliation of cash flows provided by operating activities to AFFO is presented under "Performance Measures".

Net Operating Income ("NOI") is a key measure of operating performance used in the real estate industry and includes all rental revenues generated at the property level, less related direct costs such as utilities, realty taxes, insurance and on-site maintenance wages and salaries. As one of the factors that may be considered relevant by readers, management believes that NOI is a useful supplemental measure that may assist prospective investors in assessing the Trust.

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") is calculated as earnings before interest, taxes, depreciation, amortization and other adjustments including gain/loss on sale and fair value adjustments.

Readers are cautioned that FFO, AFFO, NOI and EBITDA are not alternatives to measures under GAAP and should not, on their own, be construed as indicators of the Trust's performance or cash flows, measures of liquidity or as measures of actual return on Units of the Trust. These non-GAAP measures, as presented, should only be used in conjunction with the consolidated financial statements of the Trust.

As a result of the redeemable feature of the Trust Units, the Trust's Units are defined as a financial liability and not considered an equity instrument. Therefore no denominator exists to calculate per unit calculations. Consequently, all per unit calculations are considered non-GAAP measures. Management feels that certain per unit calculations are an important method of measuring results from period to period and as such has determined basic and diluted weighted average number of units. Per unit calculations as computed by the Trust may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to other such issuers.

939 Western, London, ON

OVERVIEW

BUSINESS OVERVIEW AND STRATEGY

InterRent REIT is a growth-oriented real estate investment trust engaged in increasing Unitholder value and creating a growing and sustainable distribution through the acquisition and ownership of multi-residential properties. The REIT generates revenues, cash flows and earnings from rental operations and from the sale of revenue producing properties. InterRent REIT's largest and most consistent source of income is its rental operations, which involves leasing individual suites to tenants for lease terms generally ranging from month-to-month to twelve-months.

InterRent's strategy is to expand its portfolio primarily within markets that have exhibited stable market vacancies, sufficient suites available to attain the critical mass necessary to implement an efficient portfolio management structure and, offer opportunities for accretive acquisitions.

InterRent's primary objective is to use the proven industry experience of the Trustees, management and operational team to: (i) provide Unitholders with stable and growing cash distributions from investments in a diversified portfolio of multi-residential properties; (ii) enhance the value of the assets and maximize long-term Unit value through the active management of such assets; and (iii) expand the asset base through accretive acquisitions.

The REIT spent 2010 and 2011 focused on repositioning its portfolio of properties, hiring the right resources, training its team and ensuring the core beliefs of customer service and creation of value were firmly entrenched within the organization. With the repositioning well in-hand by the beginning of 2012, the focus shifted to finding good quality properties where the REIT could drive down operating costs while increasing rents through sound capital investment, good management and exceptional customer service. As a result of the focus on accretive, sustainable growth, the REIT was able to acquire 4,688 suites in the years 2012 to 2015. In 2016 the REIT recycled capital by disposing of 876 suites in non-core markets while adding 545 suites in core markets. The team we have assembled has a proven track record and we believe we have both the experience and ability necessary to execute on our growth strategy in the years to come.

At December 31, 2016, approximately 36% (2,923 suites) of the portfolio was non-stabilized compared to approximately 33% (2,789 suites) at December 31, 2015. The non-stabilized portfolio contributed 31.1% of the overall NOI. Non-stabilized properties in any reporting period are income properties owned by the REIT for less than 24 months.

OUTLOOK

- Management is focused on growing the REIT in a strategic and structured manner. This growth is anticipated to come from: continuing to source properties in our core markets that allow us to build scale within these areas and apply our re-positioning experience and expertise in a manner that continues to provide long term accretion for our Unitholders; continuously looking for new ways and opportunities to drive existing revenues, create new revenue streams and reduce operating costs within our portfolio; and, re-deploying capital from areas of individual properties where management believes that properties have reached their economic peak, that the area will not allow the REIT to reach the desired level of scale within close geographic proximity, or the area is not a market that the REIT has targeted for growth. In line with this, the REIT has:
    a. Throughout 2016, recycled capital from non-core markets (nineteen properties (876 suites) in Brampton, Belleville, Kingston, Sarnia, Brantford and Niagara Falls) and invested in core markets adding 545 suites in the Montreal and Ottawa markets).
    b. The REIT has entered into an unconditional agreement to purchase a property in Montreal (224 suites) that is scheduled to close in early March 2017. The property, located at 1111 and 1121 Mistral, consists of two six-storey concrete mid-rises with a total of 196 1-bedroom and 28 2-bedroom suites and is in close proximity to Highway 40, the Jarry metro station as well as numerous stores, parks and amenities. The purchase price of $24 million, or $107,143 per door, represents a going-in cap rate of 5.3% and will be financed at aproximately 70% through a CMHC insured mortgage.
- Management expects that it will take until mid-summer of 2017 to complete the lease-up program at LIV.
- There are two ways to capture the upside from the capital invested in the REIT's repositioning programs. The first way is through achieving market rent on suite turnover and the second way is through above guideline increases (AGIs) for existing tenants. The REIT has $0.9 million in annualized rental increases remaining to be rolled out based on previously filed applications and is working on a further $0.3 million. Of the total $1.2 million in AGIs planned, approximately $0.5 million is scheduled to be rolled out in the remainder of 2017; $0.5 million in 2018; and, $0.2 million in 2019/20.

Q4 AND FULL YEAR PERFORMANCE HIGHLIGHTS

The following table presents a summary of InterRent's operating performance for the three and twelve months ended December 31, 2016 compared to the same period in 2015:

Selected Consolidated Information In $000's, except per Unit amounts and other non-financial data	**3 Months Ended Dec 31, 2016**	**3 Months Ended Dec 31, 2015**	**Change**	**12 Months Ended Dec 31, 2016**	**12 Months Ended Dec 31, 2015**	**Change**
Total suites	-	-	-	**8,059**	8,389	**-3.9%**
Average rent per suite (December)	-	-	-	**$1,064**	$996	**+6.8%**
Occupancy rate (December)	-	-	-	**94.8%**	94.6%	**+0.2%**
Operating revenues	**$24,782**	$22,498	**+10.1%**	**$97,466**	$82,977	**+17.5%**
Net operating income (NOI)	**14,507**	13,192	**+10.0%**	**56,868**	48,490	**+17.3%**
NOI %	**58.5%**	58.6%	**-0.2%**	**58.3%**	58.4%	**-0.2%**
Stabilized average rent per suite (December)	-	-	-	**$1,062**	$1,020	**+4.1%**
Stabilized NOI	**10,075**	9,453	**+6.6%**	**39,183**	36,612	**+7.0%**
Stabilized NOI %	**60.9%**	61.1%	**-0.3%**	**61.0%**	59.9%	**+1.8%**
Funds from Operations (FFO)	**$7,335**	$6,458	**+13.6%**	**$27,796**	$24,425	**+13.8%**
FFO per weighted average unit - basic	**$0.102**	$0.091	**+12.1%**	**$0.387**	$0.353	**+9.6%**
FFO per weighted average unit - diluted	**$0.101**	$0.090	**+12.2%**	**$0.385**	$0.352	**+9.4%**
Adjusted Funds from Operations (AFFO)	**$6,443**	$5,550	**+16.1%**	**$24,170**	$21,145	**+14.3%**
AFFO per weighted average unit - basic	**$0.089**	$0.078	**+14.1%**	**$0.337**	$0.306	**+10.1%**
AFFO per weighted average unit - diluted	**$0.089**	$0.078	**+14.1%**	**$0.335**	$0.305	**+9.8%**
Cash distributions per unit	**$0.0598**	$0.0568	**+5.3%**	**$0.2330**	$0.2215	**+5.2%**
AFFO payout ratio	**66.9%**	72.8%	**-8.1%**	**69.2%**	72.4%	**-4.4%**
Debt to GBV	-	-	-	**55.3%**	54.2%	**+2.0%**
Interest coverage (rolling 12 months)	-	-	-	**2.51x**	2.62x	**-4.2%**
Debt service coverage (rolling 12 months)	-	-	-	**1.54x**	1.50x	**+2.7%**

- Overall Portfolio:
    a. Operating revenue for the quarter rose by $2.3 million to $24.8 million, an increase of 10.1% over Q4 2015. Operating revenue for the year ended 2016 increased by $14.5 million, or 17.5% year-over-year, to $97.5 million.
    b. Average monthly rent per suite increased to $1,064 (December 2016) from $996 (December 2015), an increase of 6.8%.
    c. Occupancy for December 2016 was 94.8%, up from 94.2% in September 2016 and up 20 bps when compared to December 2015.
    d. Net operating income (NOI) for the quarter increased by 10.0%, or $1.3 million, to $14.5 million compared to Q4 2015. For the quarter, NOI as a percentage of revenues was 58.5% and was down by 10 basis points compared to Q4 2015. NOI for the twelve months ended December 31, 2016 was $56.9 million, an increase of $8.4 million, or 17.3%, compared to 2015. NOI margin for the year ended 2016 was 58.3%, a decrease of 10 basis points compared to 2015.
- Stabilized Portfolio:
    a. Operating revenue for the quarter rose by $1.1 million to $16.5 million, an increase of 6.9% over Q4 2015. Operating revenue for the year ended 2016 increased by $3.1 million to $64.3 million, or 5.1%, over 2015.
    b. Average monthly rent per suite for the stabilized portfolio increased to $1,062 (December 2016) from $1,020 (December 2015), an increase of 4.1%.
    c. Occupancy increased to 96.7% (December 2016) from 95.4% (December 2015).
    d. NOI for the quarter increased by 6.6%, or $0.6 million, to $10.1 million compared to Q4 2015. For the quarter, NOI as a percentage of revenues was down by 20 basis points, compared to Q4 2015, to 60.9%. NOI for the

twelve months ended December 31, 2016 was $39.2 million, an increase of $2.6 million, or 7.0%, compared to 2015. NOI margin for 2016 was 61.0%, an increase of 110 basis points, compared to 2015

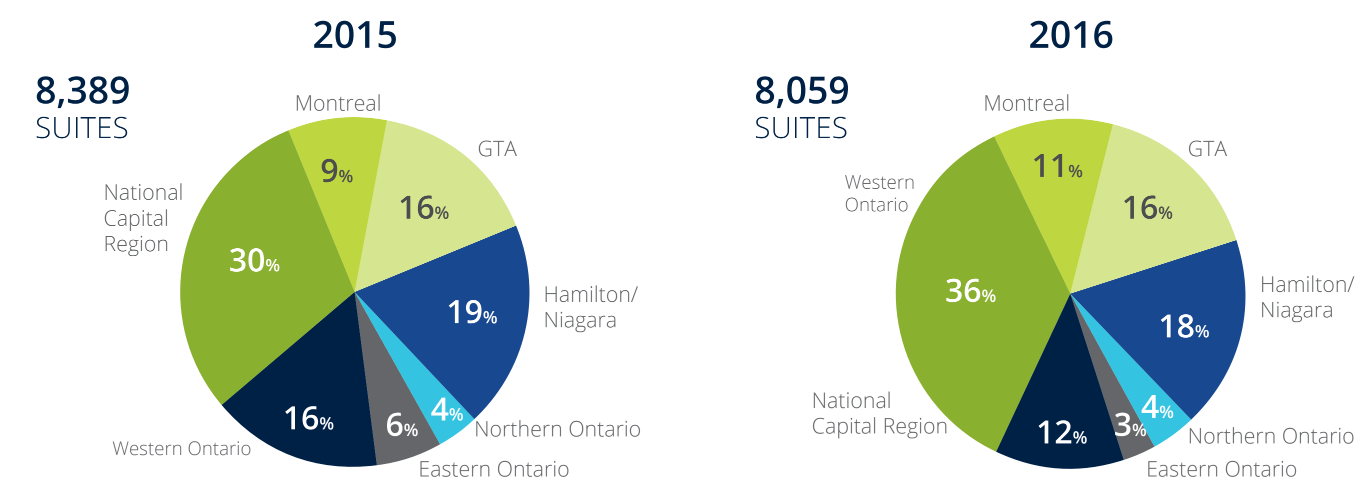
- Funds from Operations (FFO) for the quarter increased by 13.6% to $7.3 million compared to Q4 2015. FFO for the year increased by 13.8% to $27.8 million compared to 2015.
- FFO per Unit for the quarter increased by 12.1% to $0.102 per Unit compared to $0.091 per Unit for Q4 2015. FFO for the year increased by 9.6% to $0.387 per Unit compared to $0.353 per Unit for 2015.
- Adjusted Funds from Operations (AFFO) for the quarter increased by 16.1% to $6.4 million compared to Q4 2015. AFFO for the year increased by 14.3% to $24.2 million compared to 2015.
- AFFO per Unit for the quarter increased by 14.1% to $0.089 per Unit compared to $0.078 per Unit for Q4 2015. AFFO for the year increased by 10.1% to $0.337 per Unit compared to $0.306 per Unit for 2015.
- The Trust completed the following investment property transactions during the year:

Transaction Date	Property	City	Region	Property Type	# of Suites	Transaction Price	$ / Suite
Acquisitions							
9-Mar-16	1101 Rue Rachel Est	Montreal	Montreal	High Rise	127	$21,550,000	$169,685
Q1/16 Acquisitions					**127**	**$21,550,000**	**$169,685**
4-May-16	Parkway Park	Ottawa	NCR	Walk-Up	418	$55,700,000	$133,254
Q2/16 Acquisitions					**418**	**$55,700,000**	**$133,254**
TOTAL ACQUISITIONS					545	$77,250,000	$141,743
Dispositions							
11-Jan-16	26 June Avenue	Brampton	GTA	High Rise	44	$8,675,000	$197,159
29-Mar-16	4 Applewood Drive	Belleville	Eastern Ontario	Walk-up	36	$3,708,000	$103,000
29-Mar-16	414 Dundas Street West	Belleville	Eastern Ontario	Walk-up	40	$3,944,000	$98,600
29-Mar-16	57 Bridge Strewet West	Belleville	Eastern Ontario	Walk-up	35	$3,448,000	$98,514
Q1/16 Dispositions					**155**	**$19,775,000**	**$127,581**
27-May-16	44 Virginia Street	Kingston	Eastern Ontario	Walk-up	40	$4,126,260	$103,157
27-May-16	54 Virginia Street	Kingston	Eastern Ontario	Walk-up	18	$1,856,600	$103,144
27-May-16	66 Virginia Street	Kingston	Eastern Ontario	Walk-up	32	$3,360,000	$105,000
27-May-16	80 Virginia Street	Kingston	Eastern Ontario	Walk-up	24	$2,475,600	$103,150
27-May-16	118 Virginia Street	Kingston	Eastern Ontario	Walk-up	40	$4,325,760	$108,144
27-May-16	276 Conacher Drive	Kingston	Eastern Ontario	Walk-up	24	$2,532,890	$105,537
27-May-16	286 Conacher Drive	Kingston	Eastern Ontario	Walk-up	24	$2,532,890	$105,537
Q2/16 Dispositions					**202**	**$21,210,000**	**$105,000**
5-Jul-16	811-817 Devine Street	Sarnia	Western Ontario	Walk-up	60	$3,275,000	$54,583
5-Jul-16	835 Devine Street	Sarnia	Western Ontario	Walk-up	94	$6,700,000	$71,277
5-Jul-16	849 Devine Street	Sarnia	Western Ontario	Walk-up	59	$4,125,000	$69,915
5-Jul-16	225-233 Capel Street	Sarnia	Western Ontario	Walk-up	70	$4,800,000	$68,571
5-Jul-16	125 College Avenue	Sarnia	Western Ontario	Elevator	63	$5,200,000	$82,540
5-Jul-16	5552 Heritage Drive	Niagara Falls	Hamilton/Niagara	Mid-Rise	69	$8,000,000	$115,942
18-Jul-16	19 Lynnwood Drive	Brantford	Hamilton/Niagara	Walk-up	58	$6,399,544	$110,337
18-Jul-16	120, 126 & 130 St. Paul Ave.	Brantford	Hamilton/Niagara	Elevator	46	$5,075,456	$110,336
Q3/16 Dispositions					**519**	**$43,575,000**	**$83,960**
TOTAL DISPOSITIONS					876	$84,560,000	$96,530

PORTFOLIO SUMMARY

The Trust started the year with 8,389 suites. During the year ended 2016 the Trust purchased two properties totalling 545 suites, added 1 suite to existing properties and sold nineteen properties totalling 876 suites. At December 31, 2016, the Trust owned 8,059 suites. Management continuously reviews the markets that the REIT operates in to determine if the portfolio mix remains suitable. Management believes that there are significant opportunities within the non-stabilized portfolio (2,923 suites) and the stabilized portfolio (5,136 suites) to drive rents, reduce operating costs, and streamline operations. At December 31, 2016, approximately 36% of the portfolio was non-stabilized. Management has identified several cities within its geographical clusters for growth, and has been successful in adding 545 suites within these clusters during the year and has entered into an unconditional agreement to purchase another property in Montreal (224 suites) that is expected to close in early March 2017. We continue to actively seek opportunities within our target markets in order to continue to build our acquisition pipeline and grow the REIT in a fiscally prudent manner. The following graph shows our suite mix by region. InterRent's focus on recycling capital and growing its core markets of GTA (including Hamilton), Ottawa/NCR and Montreal has resulted in approximately 78% of InterRent's suites now being located in these core markets as compared to 69% at the end of 2015.

▼ Suite Portfolio By Region



ANALYSIS OF OPERATING RESULTS

The current and prior period consolidated income statement, and analysis of operating results, does not separately disclose the results from assets held for sale as discontinued operations. Management's position is that the disposal of a property or the classification of a property as held for sale does not constitute a discontinued operation.

In $ OOO's	3 Months Ended Dec 31, 2016		3 Months Ended Dec 31, 2015		12 Months Ended Dec 31, 2016		12 Months Ended Dec 31, 2015	
Gross rental revenue	$25,097		$22,962		$99,476		$83,837	
Less: vacancy & rebates	(1,722)		(1,544)		(7,291)		(5,181)	
Other revenue	1,407		1,080		5,281		4,321	
Operating revenues	$24,782		$22,498		$97,466		$82,977	
Expenses								
Property operating costs	4,523	18.3%	3,983	17.7%	16,992	17.5%	14,592	17.6%
Property taxes	3,192	12.9%	3,072	13.7%	13,548	13.9%	11,366	13.7%
Utilities	2,560	10.3%	2,251	10.0%	10,058	10.3%	8,529	10.3%
Operating expenses	$10,275	41.5%	$9,306	41.4%	$40,598	41.7%	$34,487	41.6%
Net operating income	$14,507		$13,192		$56,868		$48,490	
Net operating margin	58.5%		58.6%		58.3%		58.4%	

REVENUE

Gross rental revenue for the year ended December 31, 2016 increased 18.7% to $99.5 million compared to $83.8 million for the year ended December 31, 2015. Operating revenue for the year was up $14.5 million to $97.5 million, or 17.5% compared to the prior year. The Trust owned, on a weighted average basis, 8,271 suites throughout 2016 (8,059 suites at the end of 2016) as compared to 7,468 throughout 2015 (8,389 at the end of 2015), an increase of 803 suites from 2015. On a weighted average suite basis, gross rental revenue for 2016 grew by 7.1% over 2015.

The average monthly rent for the month of December 2016 increased to $1,064 per suite from $996 (December 2015), an increase of 6.8%. On a stabilized basis, the average rent increased by $42 per suite to $1,062 (or up 4.1%) over December 2015. The overall increase in average rent is a result of changes to the stabilized properties as well as the change in property mix (through the acquisition of properties in our targeted growth markets and dispositions in non-core markets). Management expects to continue to grow rent organically in both the stabilized and non-stabilized properties by moving to market rent on suite turnovers, continued roll-out of guideline increases and AGIs, as well as continuing to drive other ancillary revenue streams such as parking, laundry, locker rentals, and cable and telecom revenue share agreements. The REIT has submitted applications to the Landlord and Tenant Board which should result in an increase in rental income of $0.5 million, on an annualized basis, being rolled out by the end of 2017.

Region	All Properties		Stabilized Properties		Non-stabilized Properties	
	# of Suites	Average Rent	# of Suites	Average Rent	# of Suites	Average Rent
Eastern Ontario	204	$942	204	$942	-	-
GTA	1,283	$1,319	928	$1,350	355	$1,237
Hamilton/Niagara	1,434	$956	816	$1,043	618	$842
Montreal	908	$950	501	$916	407	$991
Northern Ontario	349	$892	349	$892	-	-
NCR – Ottawa (1)	2,387	$1,154	844	$1,160	1,543	$1,150
NCR - Gatineau	497	$834	497	$834	-	-
Western Ontario	997	$995	997	$995	-	-
Total	8,059	$1,064	5,136	$1,062	2,923	$1,068

(1) The number of suites for the region includes all suites at LIV however only those rented have been included in the calculation of average rent.

InterRent REIT has been successful in increasing rent levels while at the same time passing on hydro sub-metering charges to new tenants. The program began in 2011 for select locations and as a result of that success, it continues to be extended to most of the remaining portfolio as well as new properties as they are acquired. Currently, 85% of the portfolio has submetering capabilities in place.

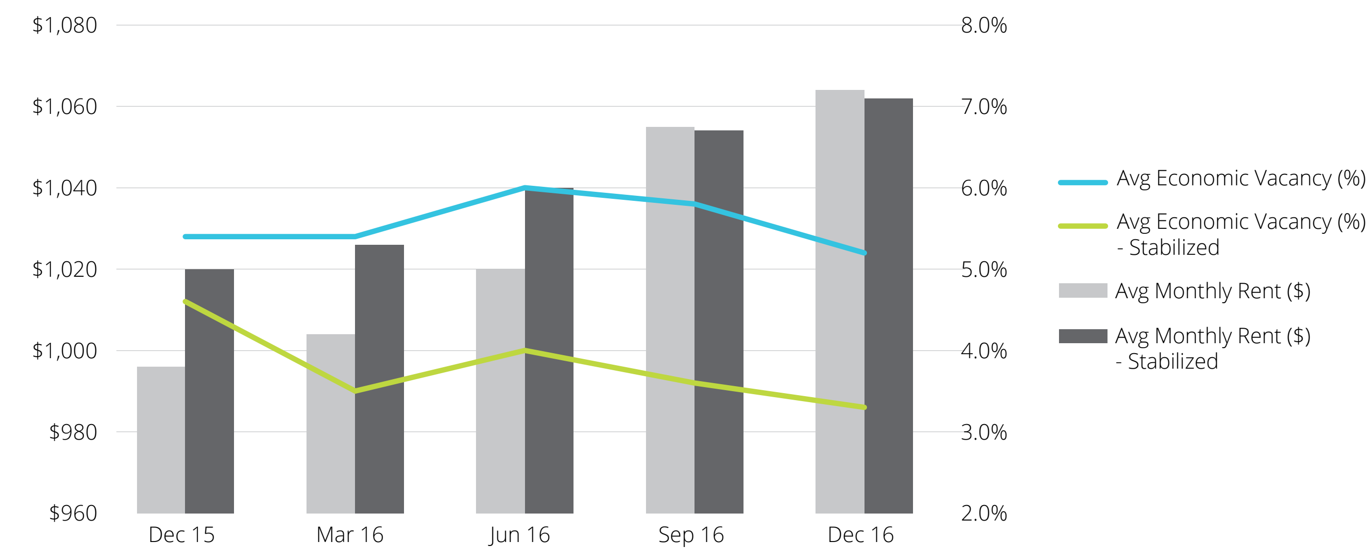
PORTFOLIO OCCUPANCY

As part of the ongoing effort to drive rents throughout the portfolio, the vacancy rate on an annual basis is expected to be in the 4% range once a property is stabilized. Going forward, management believes that minor variations in economic vacancy will continue to occur from one quarter to another given the seasonal nature of rental activity. The rental growth objectives are being achieved as a direct result of:

1. ensuring that properties are well maintained, landscaped and decorated so as to be visually appealing ("curb appeal");
2. ensuring suites are properly repaired and maintained before being rented to new tenants;
3. marketing geared to the right tenant profile;
4. a more stringent screening and credit review process when selecting new tenants; and,
5. ensuring that operations are running as efficiently and cost effectively as possible to ensure the well-being of tenants and tenant enjoyment of their homes.

This is part of the Trust's repositioning strategy to maximize rental revenues, lower operating costs and create value for Unitholders. Management intends to continue to pursue this strategy both within the existing portfolio and as it looks to add new properties within targeted regions.

The following chart represents the economic vacancy for the entire portfolio for the month listed. This data is calculated by taking financial vacancy loss and dividing it by gross rental revenue. All suites in the portfolio are included except for the un-rented suites at LIV.



	December 2015	March 2016	June 2016	September 2016	December 2016
Average monthly rents all properties	$996	$1,004	$1,020	$1,055	$1,064
Average monthly rents stabilized properties	$1,020	$1,026	$1,040	$1,054	$1,062

The overall economic vacancy for December 2016 across the entire portfolio was 5.2%, a reduction of 20 basis points as compared to the 5.4% recorded for December 2015. Economic vacancy for the stabilized portfolio for December 2016 was 3.3%, a reduction of 130 basis points as compared to the 4.6% recorded for the month ended December 2015.

Region	All Properties	Stabilized Properties	Non-Stabilized Properties
Eastern Ontario	1.3%	1.3%	n/a
GTA	2.2%	1.7%	3.8%
Hamilton/Niagara	6.0%	2.7%	11.3%
Montreal	7.0%	4.8%	9.5%
Northern Ontario	5.3%	5.3%	n/a
NCR(1)	7.2%	5.3%	8.9%
Western Ontario	2.0%	2.0%	n/a
Total	5.2%	3.3%	8.7%

(1) Suites at LIV are included in vacancy calculations once the initial lease is executed.

Stabilized property vacancy in the NCR is higher than the average as a result of one property in Aylmer that typically runs with higher vacancy than the Ottawa market as well as one smaller property in Ottawa that is still in a transition phase however is considered stabilized as it has been owned for more than 24 months. The stabilized portfolio in Montreal was also slightly elevated as operational changes were put into place during the last half of the year that resulted in a short-term increase in vacancy.

OTHER REVENUE

Other rental revenue for the twelve months ended December 31, 2016 increased 22.2% to $5.3 million compared to $4.3 million for 2015. The increased revenues from ancillary sources such as parking, laundry, locker rentals and cable and telecom continues to be a focus as it provides organic revenue growth. For the twelve months ended December 31, 2016, other revenue represents 5.4% of net revenue as compared to 5.2% for 2015.

PROPERTY OPERATING COSTS

Property operating costs for the investment properties include repairs and maintenance, insurance, caretaking, superintendents' wages and benefits, property management fees, uncollectible accounts and eviction costs, marketing, advertising and leasing costs.

Property operating costs for the year ended December 31, 2016 amounted to $17.0 million or 17.5% of revenue compared to $14.6 million or 17.6% of revenue for the year ended December 31, 2015. As a percentage of revenue, operating costs decreased by 20 basis points as compared to 2015.

PROPERTY TAXES

Property taxes for the year ended December 31, 2016 amounted to $13.5 million or 13.9% of revenue compared to $11.4 million or 13.7% of revenue for the year ended December 31, 2015. The $2.1 million increase is mainly attributable to the increase in the number of average suites throughout the year as well as increases in assessed property values.

The Trust is constantly reviewing property tax assessments for its properties and this active approach shall continue to help drive down costs. Where appropriate, the Trust will appeal individual property assessments.

UTILITY COSTS

Utility costs for the year ended December 31, 2016 amounted to $10.1 million or 10.3% of revenue compared to $8.5 million or 10.3% of revenue for the year ended December 31, 2015. As a percentage of operating revenues and on a per suite basis, utility costs have remained the same over last year.

Across the entire portfolio, the hydro sub-metering initiative reduced electricity costs by 21.7%, or $1.4 million for the year. At December 31, 2016, the REIT had 6,821 suites that had the infrastructure in place to submeter hydro in order to recover the cost. Of the 6,821 suites that have the infrastructure in place, 4,681 suites were on hydro extra leases whereby the REIT is recovering the cost from the tenant. This represents approximately 69% of the submetered suites or approximately 58% of the total portfolio. The REIT currently has submetering in place for approximately 85% of the suites within the portfolio and plans on continuing to roll this program out to new properties as they are acquired.

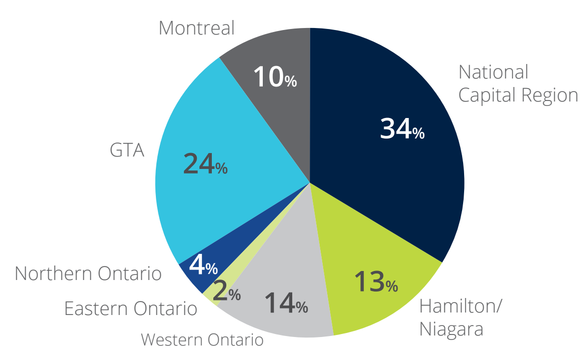
NET OPERATING INCOME (NOI)

NOI for the three months ended December 31, 2016 amounted to $14.5 million or 58.5% of operating revenue compared to $13.2 million or 58.6% of operating revenue for the twelve months ended December 31, 2015. The $1.3 million increase in the quarter is as a result of growing the portfolio and increasing net revenue by 10.1%.

NOI for the twelve months ended December 31, 2016 amounted to $56.9 million or 58.3% of operating revenue compared to $48.5 million or 58.4% of operating revenue for the twelve months ended December 31, 2015. The $8.4 million increase in the year is as a result of growing the portfolio and increasing net revenue by 17.5%. On a weighted average per suite basis (excluding the un-rented suites at LIV), NOI increased 2.8% from $6,860 per suite in 2015 to $7,051 per suite in 2016.

▼ **NOI By Region**

3 Months Ended Dec 31, 2016



NOI from stabilized properties was $39.2 million, or 61.0% of revenue, and NOI from non-stabilized properties was $17.7 million, or 53.3% of revenue. Management continues to focus on top line revenue growth through acquisitions, suite additions, achieving best in market rents and ancillary revenue as well as operating cost reductions (such as efficiencies of scale, investment in energy saving initiatives, and investments to reduce ongoing operating costs).

STABILIZED PORTFOLIO PERFORMANCE

Stabilized properties for the three and twelve months ended December 31, 2016 are defined as all properties owned by the Trust continuously for 24 months, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during the period from January 1, 2015 to December 31, 2016. As at December 31, 2016, the Trust has 5,136 stabilized suites, which represents 63.7% of the overall portfolio.

In $ OOO's	3 Months Ended Dec 31, 2016		3 Months Ended Dec 31, 2015		12 Months Ended Dec 31, 2016		12 Months Ended Dec 31, 2015	
Gross rental revenue	$16,330		$15,708		$64,207		$61,574	
Less: vacancy & rebates	(790)		(962)		(3,447)		(3,500)	
Other revenue	996		730		3,516		3,073	
Operating revenues	$16,536		$15,476		$64,276		$61,147	
Expenses								
Property operating costs	2,696	16.3%	2,534	16.4%	10,462	16.3%	10,243	16.7%
Property taxes	2,128	12.9%	2,067	13.3%	8,532	13.2%	8,183	13.4%
Utilities	1,637	9.9%	1,422	9.2%	6,099	9.5%	6,109	10.0%
Operating expenses	$6,461	39.1%	$6,023	39.0%	$25,093	39.0%	$24,535	40.1%
Net operating income	$10,075		$9,453		$39,183		$36,612	
Net operating margin	60.9%		61.1%		61.0%		59.9%	

For the three months ended December 31, 2016, operating revenues for stabilized properties increased by 6.9% and operating expenses increased by 7.3% as compared to the same period last year. As a result, stabilized NOI has increased by $0.6 million, or 6.6%, as compared to the same period last year. NOI margin for Q4 2016 was 60.9% as compared to 61.1% for Q4 2015, a decrease of 20 basis points. This decrease was mainly attributable to higher utility costs resulting from increased electrical rates.

For the twelve months ended December 31, 2016, operating revenues from stabilized properties increased by 5.1% and operating expenses increased by 2.3% as compared to the same period last year. As a result, stabilized NOI for 2016 increased by $2.6 million, or 7.0% as compared to 2015. NOI margin for 2016 was 61.0% as compared to 59.9% for 2015, an increase of 110 basis points.

The average monthly rent for the month of December 2016 for stabilized properties increased to $1,062 per suite from $1,020 (December 2015), an increase of 4.1%. Economic vacancy for the month of December 2016 for stabilized properties was 3.3%, compared to 4.6% for December 2015.

	December 2016	September 2016	June 2016	March 2016	December 2015
Average monthly rents stabilized properties	$1,062	$1,054	$1,040	$1,026	$1,020
Average monthly vacancy stabilized properties	3.3%	3.6%	4.0%	3.5%	4.6%

For the twelve months ended December 31, 2016, property operating costs for stabilized properties increased by $0.2 million compared to 2015. Property taxes increased $0.3 million and utility costs remained to same as compared to 2015. As a percentage of revenue, operating costs and utilities have decreased as compared to 2015 and property taxes had a small 0.1% increase.

FINANCING AND ADMINISTRATIVE COSTS

In $ OOO's	3 Months Ended Dec 31, 2016	3 Months Ended Dec 31, 2015	12 Months Ended Dec 31, 2016	12 Months Ended De 31, 2015
Net operating income	**$14,507**	$13,192	**$56,868**	$48,490
Expenses				
Financing costs	**5,150**	4,873	**20,797**	17,132
Administrative costs	**1,877**	1,745	**7,717**	6,486
Income before other income and expenses	**$7,480**	$6,574	**$28,354**	$24,872

FINANCING COSTS

Financing costs amounted to $5.1 million or 20.8% of operating revenue for the three months ended December 31, 2016 compared to $4.9 million or 21.7% of operating revenue for the three months ended December 31, 2015.

In $ OOO's	3 Months Ended December 31, 2016		3 Months Ended December 31, 2015	
	Amount	% of Revenue	Amount	% of Revenue
Cash based:				
Mortgage interest (1)	$4,339	17.5%	$3,871	17.2%
Credit facilities (1)	636	2.6%	215	1.0%
Interest income	(51)	(0.2%)	(23)	(0.1%)
Non Cash based:				
Amortization of deferred finance cost and premiums on assumed debt	226	0.9%	810	3.6%
Total	$5,150	20.8%	$4,873	21.7%

(1) Net of interest capitalized to redevelopment property.

Financing costs amounted to $20.8 million or 21.3% of revenue for the twelve months ended December 31, 2016 compared to $17.1 million or 20.6% of revenue for the twelve months ended December 31, 2015. As a percentage of operating revenue, financing costs have historically been in the range of 19% to 22%. The decrease in amortization of deferred finance costs and premiums on assumed debt was due primarily to the early refinancing of a mortgage in 2015 that was assumed at a premium in 2012 as part of an acquisition.

In $ OOO's	12 Months Ended December 31, 2016		12 Months Ended December 31, 2015	
	Amount	% of Revenue	Amount	% of Revenue
Cash based:				
Mortgage interest (1)	$17,711	18.2%	$14,688	17.7%
Credit facilities (1)	2,079	2.1%	419	0.5%
Interest income	(175)	(0.2%)	(160)	(0.2%)
Non Cash based:				
Amortization of deferred finance cost and premiums on assumed debt	1,182	1.2%	2,185	2.6%
Total	$20,797	21.3%	$17,132	20.6%

(1) Net of interest capitalized to redevelopment property.

MORTGAGE INTEREST

Mortgage interest (including interest on vendor take-back loans) is one of the single largest expense line items for InterRent REIT. Given the current rates in the market for both CMHC insured and conventional mortgages, it is management's expectation that it will be able to continue to refinance existing mortgages as they come due at rates that are in line with those that mature in 2017 and 2018. Management has been able to decrease the weighted average rate of mortgage debt from 2.74% at December 31, 2015 to 2.69% at December 31, 2016. Despite the decrease in interest rates, mortgage debt has increased on an overall basis, mainly attributable to property acquisitions and repositioning.

ADMINISTRATIVE COSTS

Administrative costs include such items as director pay, salaries and incentive payments, employee benefits, investor relations, transfer agent listing and filing fees, legal, tax, audit, asset management, other professional fees and amortization on corporate assets.

Administrative costs for the twelve months ended December 31, 2016 amounted to $7.7 million or 7.9% of operating revenue compared to $6.5 million or 7.8% of revenue for the twelve months ended December 31, 2015.

SALE OF ASSETS, FAIR VALUE ADJUSTMENTS ON INVESTMENT PROPERTIES AND GAIN/LOSS ON FINANCIAL LIABILITIES

In $ OOO's	3 Months Ended Dec 31, 2016	3 Months Ended Dec 31, 2015	12 Months Ended Dec 31, 2016	12 Months Ended Dec 31, 2015
Income before other income and expenses	**$7,480**	$6,574	**$28,354**	$24,872
Gain/(loss) on sale of assets	**185**	(5)	**(977)**	(5)
Fair value adjustments of investment properties	**9,637**	5,153	**15,176**	27,057
Unrealized gain/(loss) on financial liabilities	**431**	7	**(3,338)**	(1,632)
Distributions expense on units classified as financial liabilities	**(155)**	(126)	**(601)**	(488)
Net income	**$17,578**	$11,603	**$38,614**	$49,804

SALE OF ASSETS

During the year ended December 31, 2016, the Trust sold nineteen (19) investment properties for a total transaction price of $84.6 million compared to a carrying value of $82.2 million. The properties were sold for $2.4 million above their fair market value however selling costs of $3.4 million (which includes commission, legal expense and any unamortized portion of the CMHC insurance premium) were incurred as part of the transactions, resulting in a loss on disposition of $1.0 million. For the year ended December 31, 2015, the Trust sold a property that was damaged by fire in 2014. The property was sold for $1.6 million and a loss of $5 thousand was recognized on the sale as a result of fees associated with the sale.

FAIR VALUE ADJUSTMENTS OF INVESTMENT PROPERTIES

The fair value of the portfolio at December 31, 2016 and 2015 was determined internally by the Trust. In order to substantiate management's valuation, approximately 30% of the portfolio was appraised by external valuation professionals throughout 2016 (approximately 36% in 2015). For the twelve month period ended December 31, 2016, a fair value gain of $15.2 million was recorded on the financial statements as a result of changes in the fair value of investment properties. The increase in the fair value of the properties over last year has been driven primarily by improvements in operating results stemming from the repositioning of the properties. The weighted average capitalization rate used across the portfolio at the end of Q4 2016 was 4.96% as compared to 5.15% for Q4 2015 and 5.00% for Q3 2016. The change in the weighted average capitalization rate is driven primarily by the properties acquired and sold in 2015 and 2016 as well as the decrease in capitalization rates on properties that have undergone significant repositioning.

UNREALIZED FAIR VALUE GAIN/LOSS ON FINANCIAL LIABILITIES

The Trust used a closing price of $7.46 based on the closing price of the TSX listed InterRent REIT Trust Units to determine the fair value of the deferred unit compensation liability. The total fair value of the deferred units recorded on the consolidated balance sheet at December 31, 2016 was $16.3 million and a corresponding fair value loss of $2.5 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2016.

The Trust determined the fair value of the option plan (unit-based compensation liability) at December 31, 2016 at $2.1 million and a corresponding fair value loss of $0.6 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2016. The intrinsic value of the vested options is $2.5 million.

The Trust used a closing price of $7.46 based on the closing price of the TSX listed InterRent REIT Trust Units to determine the fair value of the LP Class B unit liability. The total fair value of these Units recorded on the consolidated balance sheet at December 31, 2016 was $1.4 million and a corresponding fair value loss of $0.2 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2016.

In $ OOO's	3 Months Ended Dec 31, 2016	3 Months Ended Dec 31, 2015	12 Months Ended Dec 31, 2016	12 Months Ended Dec 31, 2015
Fair value gain/(loss) on financial liabilities:				
Deferred unit compensation plan	**$(153)**	$(73)	**$(2,522)**	$(1,611)
Option plan	**(221)**	91	**(648)**	85
LP Class B unit liability	**(57)**	(11)	**(168)**	(106)
Fair value gain/(loss) on financial liabilities	**$(431)**	$7	**$(3,338)**	$(1,632)

DISTRIBUTION EXPENSE

The distribution expense is comprised of distributions to holders of the LP Class B units and distributions earned on the deferred unit plan, as both are classified as a liability.

Place Kingsley Apartments,
Côte-Saint-Luc, QC

INVESTMENT PROPERTIES

The following chart shows the changes in investment properties from December 31, 2015 to December 31, 2016.

In $ OOO's	December 31, 2016
Balance, December 31, 2015	$1,220,213
Acquisitions	79,732
Property capital investments	75,965
Fair value gains	15,176
Dispositions	(82,179)
Total investment properties	$1,308,907

The Trust acquired two properties (545 suites) for $79.7 million and sold nineteen properties (876 suites) with a carrying value of $82.2 million during the year ended December 31, 2016.

The fair value of the portfolio at December 31, 2016 was determined internally by the Trust. In order to substantiate management's valuation, approximately 30% of the portfolio was appraised by external valuation professionals throughout 2016. For the twelve month period ended December 31, 2016, a fair value gain of $15.2 million was recorded on the financial statements as a result of changes in the fair value of investment properties.

For the twelve month period ended December 31, 2016, the Trust invested $76.0 million (2015 – $87.4 million) in the portfolio. Approximately $54.7 million, or 80% of the capital invested in the portfolio, was invested in properties that were classified as either non-stabilized properties at any time in 2016.

UNITHOLDERS' EQUITY

The following chart shows the changes in reported Unitholders' equity from December 31, 2015 to December 31, 2016.

Summary of Unitholders' Capital Contributions	Trust Units	Amount (in $'000)
December 31, 2015	71,045,483	$247,043
Units issued under long-term incentive plan	290,000	2,271
Units issued under the deferred unit plan	84,440	635
Units issued under distribution reinvestment plan	519,608	3,634
Units issued from options exercised	169,005	1,194
December 31, 2016	72,108,536	$254,777

As at December 31, 2016 there were 72,108,536 Trust Units issued and outstanding.

NORMAL COURSE ISSUER BID

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

For the twelve month period ended December 31, 2016, the Trust did not purchase any Trust Units.

DISTRIBUTIONS

The distributions were $0.2330 for 2016 and $0.2215 for 2015. The Trust is currently making monthly distributions of $0.02025 per Unit, which equates to $0.243 per Unit on an annualized basis. For the year ended December 31, 2016, the Trust's FFO and AFFO was $0.39 and $0.34 per unit respectively, compared to $0.35 and $0.31 for the year ended December 31, 2015.

Distributions to Unitholders were as follows:

In $ OOO's	12 Months Ended December 31, 2016	12 Months Ended December 31, 2015
Distributions declared to Unitholders	$ 16,699	$ 15,413
Distributions reinvested through DRIP	(3,634)	(4,352)
Distributions declared to Unitholders, net of DRIP	$ 13,065	$ 11,061
DRIP participation rate	21.8%	28.2%

Our Declaration of Trust provides our trustees with the discretion to determine the payout of distributions that would be in the best interest of the Trust. In establishing the level of distributions to Unitholders, consideration is given to future cash requirements of the Trust as well as forward-looking cash flow information.

CASH FROM OPERATING ACTIVITIES AND CASH DISTRIBUTIONS

The following table outlines the differences between cash flows from operating activities and net income and cash distributions in accordance with National Policy 41-201, "Income Trusts and Other Indirect Offerings":

In $000's	3 Months Ended Dec 31, 2016	3 Months Ended Dec 31, 2015	12 Months Ended Dec 31, 2016	12 Months Ended Dec 31, 2015
Net income	**$17,578**	$11,603	**$38,614**	$49,804
Cash flows from operating activities	**8,506**	10,428	**34,373**	35,313
Distributions paid (1)	**3,376**	2,807	**13,016**	10,798
Distributions declared (1)	**4,314**	4,042	**16,742**	15,454
Excess of net income over distributions paid	**14,202**	8,796	**25,598**	39,006
Excess of net income over distributions declared	**13,264**	7,561	**21,872**	34,350
Excess of cash flows from operations over distributions paid	**5,130**	7,621	**21,357**	24,515
Excess of cash flows from operations over distributions declared	**4,192**	6,386	**17,631**	19,859

(1) Includes distributions on LP Class B units

For the three and twelve months ended December 31, 2016, cash flows from operating activities exceeded distributions paid by $5.1 million and $21.4 million, respectively. Net income is not used as a proxy for distributions as it includes fair value changes on investment properties and fair value change on financial instruments, which are not reflective of the Trust's ability to make distributions. Amounts retained in excess of the declared distributions are used to fund acquisitions and capital expenditure requirements.

WEIGHTED AVERAGE NUMBER OF UNITS

The following table sets forth the weighted average number of Units outstanding:

	3 Months Ended Dec 31, 2016	3 Months Ended Dec 31, 2015	12 Months Ended Dec 31, 2016	12 Months Ended Dec 31, 2015
Trust units	**72,010,431**	70,941,959	**71,611,455**	68,924,542
LP Class B units	**186,250**	186,250	**186,250**	186,250
Weighted average units outstanding - Basic	**72,196,681**	71,128,209	**71,797,705**	69,110,792
Unexercised dilutive options (1)	**360,231**	288,158	**360,231**	288,158
Weighted average units outstanding - Diluted	**72,556,912**	71,416,367	**72,157,936**	69,398,950

(1) Calculated using the treasury method

PERFORMANCE MEASURES

Management believes that Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO) are key measures for real estate investment trusts, however they do not have standardized meanings prescribed by IFRS (GAAP). These measures may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to similarly termed measures reported by other such issuers.

As both measures exclude the fair value adjustments on investment properties and gains and losses from property dispositions, it provides an operating performance measure that, when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and realty taxes, acquisition activities and interest costs, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with GAAP. As these measures are based on historical performance, they lag current operation and are negatively impacted, most notably on a per unit basis, during periods of significant growth. This is further amplified when the growth stems primarily from repositioning/redevelopment properties.

FFO Reconciliation In $000's, except per Unit amounts and Units outstanding	3 Months Ended Dec 31, 2016	3 Months Ended Dec 31, 2015	12 Months Ended Dec 31, 2016	12 Months Ended Dec 31, 2015
Net income	**$17,578**	$11,603	**$38,614**	$49,804
Add (deduct):				
Fair value adjustments on investment property	**(9,637)**	(5,153)	**(15,176)**	(27,057)
(Gain)/loss on sale of assets	**(185)**	5	**977**	5
Unrealized (gain)/ loss on financial instruments	**(431)**	(7)	**3,338**	1,632
Interest expense on puttable units classified as liabilities	**10**	10	**43**	41
Funds from Operations (FFO)	**$7,335**	$6,458	**$27,796**	$24,425
FFO per weighted average unit - basic	**$0.102**	$0.091	**$0.387**	$0.353
FFO per weighted average unit - diluted	**$0.101**	$0.090	**$0.385**	$0.352

AFFO Reconciliation from FFO In $000's, except per Unit amounts and Units outstanding	3 Months Ended Dec 31, 2016	3 Months Ended Dec 31, 2015	12 Months Ended Dec 31, 2016	12 Months Ended Dec 31, 2015
Funds from Operations	**$7,335**	$6,458	**$27,796**	$24,425
Add (deduct):				
Maintenance capital investment	**(892)**	(908)	**(3,626)**	(3,280)
Adjusted Funds from Operations (AFFO)	**$6,443**	$5,550	**$24,170**	$21,145
AFFO per weighted average unit - basic	**$0.089**	$0.078	**$0.337**	$0.306
AFFO per weighted average unit - diluted	**$0.089**	$0.078	**$0.335**	$0.305

CASH GENERATED FROM OPERATING ACTIVITIES TO AFFO RECONCILIATION

The following table reconciles AFFO to cash flow from operations in accordance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures":

AFFO Reconciliation from cash flow In $000's	3 Months Ended Dec 31, 2016	3 Months Ended Dec 31, 2015	12 Months Ended Dec 31, 2016	12 Months Ended Dec 31, 2015
Cash flow from operations	**$8,506**	$10,428	**$34,373**	$35,313
Change in non-cash working capital	**188**	(2,300)	**445**	(4,323)
Tenant inducements	**(368)**	(289)	**(1,582)**	(998)
Amortization	**(49)**	(50)	**(211)**	(135)
Amortization of finance costs	**(226)**	(810)	**(1,182)**	(2,185)
Unit-based compensation	**(716)**	(521)	**(4,047)**	(3,247)
Maintenance capital investment	**(892)**	(908)	**(3,626)**	(3,280)
Adjusted Funds from Operations (AFFO)	**$6,443**	$5,550	**$24,170**	$21,145

QUARTERLY PERFORMANCE HIGHLIGHTS

The following table presents a summary of InterRent's operating performance for the past eight quarters:

Selected Consolidated Information In $000's, except per Unit amounts and other non-financial data	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total suites	8,059	8,059	8,578	8,362	8,389	7,665	7,663	6,985
Average rent per suite (last month of Q)	$1,064	$1,055	$1,020	$1,004	$996	$1,006	$978	$969
Occupancy rate (last month of Q)	94.8%	94.2%	94.0%	94.6%	94.6%	94.5%	95.1%	96.4%
Operating revenues	$24,782	$24,099	$24,682	$23,903	$22,498	$21,570	$20,648	$18,261
Net operating income (NOI)	14,507	14,677	14,706	12,978	13,192	13,278	12,254	9,766
NOI %	58.5%	60.9%	59.6%	54.3%	58.6%	61.6%	59.3%	53.5%
Funds from Operations (FFO)	$7,335	$7,393	$7,226	$5,842	$6,458	$7,183	$6,399	$4,385
FFO per weighted average unit - basic	$0.102	$0.103	$0.101	$0.082	$0.091	$0.101	$0.091	$0.069
FFO per weighted average unit - diluted	$0.101	$0.102	$0.100	$0.082	$0.090	$0.101	$0.090	$0.068
Adjusted Funds from Operations (AFFO)	$6,443	$6,509	$6,288	$4,930	$5,550	$6,355	$5,589	$3,651
AFFO per weighted average unit - basic	$0.089	$0.090	$0.088	$0.069	$0.078	$0.090	$0.079	$0.057
AFFO per weighted average unit - diluted	$0.089	$0.090	$0.087	$0.069	$0.078	$0.089	$0.079	$0.057
Cash distributions per unit	$0.060	$0.058	$0.058	$0.058	$0.057	$0.055	$0.055	$0.055
AFFO payout ratio	67%	64%	66%	84%	73%	61%	69%	96%
Stabilized average rent per suite	$1,062	$1,054	$1,040	$1,026	$1,020	$1,013	$995	$982
Stabilized NOI %	60.9%	63.0%	62.0%	57.9%	61.1%	63.1%	60.8%	54.4%
Debt to GBV	55.3%	54.9%	56.3%	55.0%	54.2%	51.1%	51.5%	47.3%
Interest coverage (rolling 12 months)	2.51x	2.52x	2.57x	2.61x	2.62x	2.55x	2.46x	2.38x
Debt service coverage (rolling 12 months)	1.54x	1.54x	1.53x	1.52x	1.50x	1.46x	1.41x	1.37x

LIQUIDITY AND CAPITAL RESOURCES

InterRent REIT's overall debt level was at 55.3% of Gross Book Value ("GBV") at December 31, 2016. GBV is a non-GAAP term that is defined in the DOT and includes all operations. The following chart sets out the Trust's computed debt to GBV:

In $ OOO's	December 31, 2016	December 31, 2015
Total assets per Balance Sheet	$1,321,524	$1,231,656
Mortgages payable and vendor take-back loans	$638,723	$607,465
Lines of credit	91,800	60,125
Total debt	$730,523	$667,590
Debt to GBV	55.3%	54.2%

With a DOT limit of 75% of Debt-to-Gross Book Value, InterRent REIT has the ability to further leverage the existing portfolio to assist with future investments in new assets. The Trust is conscious of the current credit environment and how this affects the ability of the Trust to grow. Management continues to evaluate on-going repositioning efforts, potential new acquisition opportunities as well as potential dispositions in order to continue to grow the REIT in a fiscally prudent manner.

INTEREST AND DEBT SERVICE COVERAGE

The following schedule summarizes the interest and debt service coverage ratios for InterRent for the comparable rolling 12 month periods ending December 31st:

In $000's	12 Months Ended December 31, 2016	12 Months Ended December 31, 2015
NOI	$56,868	$48,490
Less: Administrative costs	7,717	6,486
EBITDA	$49,151	$42,004
Interest expense [(1)]	19,615	16,047
Interest coverage ratio	**2.51x**	**2.62x**
Contractual principal repayments	12,395	11,927
Total debt service payments	$32,010	$27,974
Debt service coverage ratio	**1.54x**	**1.50x**

(1) Interest expense includes interest on mortgages and credit facilities, including interest capitalized to the redevelopment property and interest income, and excludes interest (distributions) on units classified as financial liabilities.

MORTGAGE AND DEBT SCHEDULE

The following schedule summarizes the aggregate future minimum principal payments and debt maturities for the mortgages and vendor take-back loans (excluding assets for sale) of InterRent REIT.

Year Maturing	Mortgage Balances At December 31, 2016 (in $ 000's)	Weighted Average by Maturity	Weighted Average Interest Rate
2017	$261,732	40.4%	2.65%
2018	$79,652	12.3%	2.50%
2019	$13,303	2.1%	2.64%
2020	$44,892	6.9%	2.45%
2021	$29,201	4.5%	3.56%
Thereafter	$219,347	33.8%	2.74%
Total	$648,127	100%	2.69%

At December 31, 2016, the average term to maturity of the mortgage debt was approximately 4.2 years and the weighted average cost of mortgage debt was 2.69%. At December 31, 2016, approximately 52% of InterRent REIT's mortgage debt was backed by CMHC insurance.

During the quarter the Trust paid down $3.1 million in mortgage principal. The net result at December 31, 2016 compared to September 30, 2016 was:

- A decrease in average term to maturity of the mortgage debt to 4.2 years from 4.5 years;
- No change in the weighted average cost of mortgage debt at 2.69% ; and,
- No change in the mortgage debt backed by CMHC insurance of approximately 52%.

During the year the Trust added a mortgage for a property that was acquired in the first quarter for $16.1 million, re-financed three properties which increased mortgage debt by $59.1 million, repaid sixteen mortgages on properties that were sold for $31.1 million and paid down $12.4 million in mortgage principal. The net result at December 31, 2016 compared to December 31, 2015 was:

- A decrease in average term to maturity of the mortgage debt to 4.2 years from 5.0 years;
- A decrease in the weighted average cost of mortgage debt to 2.69% from 2.74% ; and,
- No change in the mortgage debt backed by CMHC insurance of approximately 52%.

As at December 31, 2016, the Trust had the following credit facilities:

- A $0.5 million demand credit facility with a Canadian chartered bank secured by a general security agreement. Interest is charged at a floating rate plus a pre-defined spread. As at December 31, 2016, the Trust had no balance outstanding under this facility.
- A $25.0 million term credit facility, maturing in 2019, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on ten of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. As at December 31, 2016, the Trust had utilized $23.45 million of this facility.
- A $25.0 million term credit facility, maturing in 2018, with a Canadian chartered bank secured by a general security agreement, a first mortgage on one of the Trust's properties and second collateral mortgages on nine of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. As at December 31, 2016, the Trust had utilized $14.85 million of this facility.
- A $60.0 million term credit facility, maturing in 2017, with a Canadian chartered bank secured by a general security agreement, first mortgages on one of the Trust's properties and second collateral mortgages on five of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread for prime advances and banker's acceptances. As at December 31, 2016, the Trust had utilized $53.5 million of this facility.

Halstead Gardens,
Hamilton, ON

ACCOUNTING

FUTURE ACCOUNTING CHANGES

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The effective date for IFRS 9 is for periods beginning on or after January 1, 2018.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Trust's consolidated financial statements.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently assessing the impact of IFRS 15 and intends to adopt the new standard on the required effective date.

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and supersedes IAS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract: i.e. the customer ("lessee") and the supplier ("lessor"). From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. IFRS 16 is effective as of January 1, 2019; however, a company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15. Management is currently assessing the impact of IFRS 16 and intends to adopt the new standard on the required effective date.

RISKS AND UNCERTAINTIES

The Trust, its business and the transactions contemplated in this MD&A are subject to material risks, both known and unknown, including, but not limited to the following:

The Trust is exposed to a variety of risks, general and specific. General risks are the risks associated with general conditions in the real estate sector, and consist largely of commonly exposed risks affecting the real estate industry as a whole. Specific risks are the risks specific to the Trust and its operations, such as credit, market, liquidity and operational risks.

Current Economic Risks

InterRent REIT must raise mortgage funds for mortgages as they mature and for acquisitions. Given the interconnectivity of the global economy and the current global economic environment, there is no guarantee that the Trust will be able to secure such funds on a commercially beneficial basis, or at all, and the failure to raise sufficient funds could have a material adverse effect on the business of the Trust and the market value of its securities.

Real Estate Industry Risk

Real estate investments are generally subject to varying degrees of risk depending on the nature of the property. These risks include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations (such as new or revised residential tenant legislation), the attractiveness of the properties to tenants, competition from others with available space and the ability of the owner to provide adequate maintenance at an economic cost. The performance of the economy in each of the areas in which the Trust's properties are located, including the financial results and labour decisions of major local employers, can have an impact on revenues from the properties and their underlying values.

Additional factors which may further adversely affect revenues from the Trust's properties and their underlying values include the general economic climate, local conditions in the areas in which properties are located, such as an abundance of supply or a reduction in demand, the attractiveness of the properties, competition from other properties, the Trust's ability to provide adequate facilities maintenance, services and amenities, the ability of residents to pay rent and the ability of the Trust to rent vacant units on favourable terms.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made regardless of whether or not a property is producing sufficient income to service these expenses. The Trust's properties are subject to mortgages, which require significant debt service payments. If the Trust were unable or unwilling to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale. Real estate is relatively illiquid. Such illiquidity will tend to limit the Trust's ability to vary its portfolio promptly in response to changing economic or investment conditions. In addition, financial difficulties of other property owners resulting in distress sales may depress real estate values in the markets in which the Trust operates. The majority of the Trust's properties were constructed in the 1960's and 1970's and require ongoing capital expenditures, the amount and timing of which is difficult to predict. These expenditures could exceed the Trust's existing reserve estimates which could have a material adverse effect upon Distributable Income.

The nature of the Trust's business is such that refurbishment and structural repairs are required periodically, in addition to regular on-going maintenance.

Multi-Unit Residential Sector Risk

Income producing properties generate income through rent payments made by tenants of the properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the Trust than the existing lease. The Trust is dependent on leasing markets to ensure vacant residential space is leased, expiring leases are renewed and new tenants are found to fill vacancies. A disruption in the economy could have a significant impact on how much space tenants will lease and the rental rates paid by tenants. This would affect the income produced by the Trust's properties as a result of downward pressure on rents.

Environmental Risks

As an owner and manager of real property, the Trust is subject to various Canadian federal, provincial, and municipal laws relating to environmental matters. These laws could encumber the Trust with liability for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the Trust's ability to sell its real estate, or to borrow using real estate as collateral, and could potentially also result in claims or other proceedings against the Trust. Although the Trust is not aware of any material non-compliance with environmental laws at any of its properties nor is it aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any material pending or threatened claims relating to environmental conditions at its properties, no assurance can be given that environmental laws will not result in significant liability to the Trust in the future or otherwise adversely affect the Trust's business, financial condition or results of operations. The Trust has formal policies and procedures to review and monitor environmental exposure. The Trust has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and the Trust may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on the Trust's business, financial condition or results of operation.

Competition Risk

Each segment of the real estate business is competitive. Numerous other residential developers and apartment owners compete in seeking tenants. Although the Trust's strategy is to own multi-residential properties in desirable locations in each market in which it operates, some of the properties of the Trust's competitors may be newer, better located or better capitalized. The existence of alternative housing could have a material adverse effect on the Trust's ability to lease space in its properties and on the rents charged or concessions granted, and could adversely affect the Trust's revenues and its ability to meet its obligations.

General Uninsured Losses

The Trust carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as war or environmental contamination), which are either uninsurable or not economically insurable. The Trust will continue to procure insurance for such risks, subject to certain standard policy limits and deductibles and will continue to carry such insurance if it is economical to do so. Should an uninsured or underinsured loss occur, the Trust could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, and would continue to be obligated to repay any recourse mortgage indebtedness on such properties. There is a risk that any significant increase in insurance costs will impact negatively upon the profitability of the Trust.

Credit Risk - Leases

The key credit risk to the Trust is the possibility that its tenants will be unable or unwilling to fulfill their lease term commitments. Key drivers of demand include employment levels, population growth, demographic trends and consumer confidence. The failure by tenants to fulfill their lease commitments could have a material adverse effect upon Distributable Income.

Local Real Estate Market Risk and Asset Concentration

There is a risk that the Trust would be negatively affected by the new supply of, and demand for, multi-unit residential suites in its local market areas. Any significant amount of new construction will typically result in an imbalance in supply and cause downward price pressure on rents.

Rent Control Legislation Risk

Rent control legislation risk is the risk of the implementation or amendment of new or existing legislative rent controls in the markets where the Trust operates, which may have an adverse impact on the Trust's operations.

Certain provinces of Canada have enacted residential tenancy legislation which imposes, among other things, rent control guidelines that limit the Trust's ability to raise rental rates at its properties. Limits on the Trust's ability to raise rental rates at its properties may adversely affect the Trust's ability to increase income from its properties. In addition to limiting the Trust's ability to raise rental rates, residential tenancy legislation in such provinces provide certain rights to tenants, while imposing obligations upon the landlord. Residential tenancy legislation in the Provinces of Ontario and Québec prescribe certain procedures which must be followed by a landlord in order to terminate a residential tenancy. As certain proceedings may need to be brought before the respective administrative body governing residential tenancies as appointed under a province's residential tenancy legislation, it may take several months to terminate a residential lease, even where the tenant's rent is in arrears.

Further, residential tenancy legislation in certain provinces provide the tenant with the right to bring certain claims to the respective administrative body seeking an order to, among other things, compel the landlord to comply with health, safety, housing and maintenance standards. As a result, the Trust may, in the future, incur capital expenditures which may not be fully recoverable from tenants. The inability to fully recover substantial capital expenditures from tenants may have an adverse impact on the Trust's financial conditions and results of operations and decrease the amount of cash available for distributions.

Residential tenancy legislation may be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner which will materially adversely affect the ability of the Trust to maintain the historical level of earnings of its properties.

Utility and Property Tax Risk

Utility and property tax risk relates to the potential loss the Trust may experience as a result of higher resource prices as well as its exposure to significant increases in property taxes. Over the past few years, property taxes have increased as a result of re-valuations of municipal properties and their adherent tax rates. For the Trust, these re-valuations have resulted in significant increases in some property assessments due to enhancements. Utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. Any significant increase in these resource costs that the Trust cannot pass on to the tenant may have a negative material impact on the Trust.

Operational Risk

Operational risk is the risk that a direct or indirect loss may result from an inadequate or failed technology, from a human process or from external events. The impact of this loss may be financial loss, loss of reputation or legal and regulatory proceedings.

Renovation Risks

The Trust is subject to the financial risk of having unoccupied units during extended periods of renovations. During renovations, these properties are unavailable for occupancy and do not generate income. Certain significant expenditures, including property taxes, maintenance costs, interest payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing revenue. Delays in the renovation of a building or individual apartment could delay the renting of such building or units resulting in an increased period of time where the building is not producing revenue, or produces less revenue than a fully tenanted building. The Trust intends to address these risks by acquiring financing to fund renovations, staggering renovations and by carrying out a detailed capital expenditures budget to monitor its cash position on a monthly basis.

Fluctuations and Availability of Cash Distributions

Although the Trust intends to continue distributing its Distributable Income, the actual amount of Distributable Income distributed in respect of the Units will depend upon numerous factors, some of which may be beyond the control of the Trust. The distribution policy of the Trust is established by the Trustees and is subject to change at the discretion of the Trustees. The recourse of Unitholders who disagree with any change in policy is limited and could require such Unitholders to seek to replace the Trustees. Distributable Income may exceed actual cash available to the Trust from time to time because of items such as principal repayments, tenant allowances, leasing commissions and capital expenditures and redemption of Units, if any. The Trust may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items.

Market Price of Units

One of the factors that may influence the market price of the Units is the annual yield thereon. Accordingly, an increase in market interest rates may lead purchasers of Units to expect a higher annual yield which could adversely affect the market price of the Units. In addition, the market price for the Units may fluctuate significantly and may be affected by changes in general market conditions, fluctuations in the markets for equity securities, short-term supply and demand factors for real estate investment trusts and numerous other factors beyond the control of the Trust. The Trust has no obligation to distribute to Unitholders any fixed amount, and reductions in, or suspensions of, cash distributions may occur that would reduce yield. There is no assurance that there will exist a liquid market for trading in the Units which may have an adverse effect on the market price of the Units. Trading prices of the Units may not correspond to the underlying value of the Trust's assets.

Legal Rights Normally Associated with the Ownership of Shares of a Corporation

As holders of Units, Unitholders do not have all of the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring "oppression" or "derivative" actions against the Trust. The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Ability of Unitholders to Redeem Units

It is anticipated that the redemption right attached to the Units will not be the primary mechanism by which holders of such Units liquidate their investments. The entitlement of holders of Units to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by the Trust in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed $50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such Units are tendered for redemption, the outstanding Units shall be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion provides representative fair market value prices for such Units; and (iii) the normal trading of the Units is not suspended or halted on any stock exchange on which the Units are listed for trading or, if not so listed, on any market on which the Units are quoted for trading, on the redemption date or for more than five trading days during the ten trading day period ending on the redemption date.

Regulatory Approvals Risk

Upon a redemption of Units or termination of the Trust, the Trustees may distribute securities directly to the Unitholders, subject to obtaining any required regulatory approvals. No established market may exist for the securities so distributed at the time of the distribution and no market may ever develop. In addition, the securities so distributed may not be qualified investments for Mutual Fund Plans (Plans), depending upon the circumstances at the time.

Changes in Legislation

There can be no assurance that the Canadian federal income tax laws (or the judicial interpretation thereof), the administrative and/or assessing practices of the Canadian Revenue Agency (CRA) and/or the treatment of mutual fund trusts (including real estate investment trusts) and/or SIFTs will not be changed in a manner which adversely affects the Trust or Unitholders.

Investment Eligibility

The Trust will endeavour to ensure that the Units, continue to be qualified investments for Plans. However, there can be no assurance that this will be so. The Tax Act imposes penalties for the acquisition or holding by Plans of non-qualified investments. Any Notes distributed to, and received by, a Unitholder on an in specie redemption of Units will not be a qualified investment for Plans.

The Units will continue to be qualified investments for Plans, provided that the Trust qualifies as a "mutual fund trust" under the Tax Actor the Units are listed on a designated stock exchange (which includes the TSX). Even though the Units are qualified investments, a holder of a tax-free savings account ("**TFSA**") or an annuitant under a registered retirement savings plan ("**RRSP**") or registered retirement income fund ("**RRIF**") will be liable to a penalty tax if the Units are "prohibited investments" for such TFSA, RRSP or RRIF. Units will generally not be "prohibited investments" unless the holder of the TFSA, or annuitant of the RRSP or RRIF, does not deal at arm's length with the Trust for purposes of the Tax Act; or has a "significant interest" (within the meaning of the Tax Act) in the Trust. The Units will also generally not be prohibited investments if they are "excluded property" (as defined in the Tax Act). Individuals who hold Units in a TFSA, RRSP or RRIF should consult their own tax advisors regarding the potential application of the prohibited investment rules in their particular circumstances.

SIFT Rules

Certain rules in the Tax Act (the "**SIFT Rules**") affect the tax treatment of "specified investment flow-through trusts ("SIFT trusts"), and their unitholders. A trust resident in Canada will generally be a SIFT trust for a particular taxation year for purposes of the Tax Act if, at any time during the taxation year, investments in the trust are listed or traded on a stock exchange or other public market and the trust holds one or more "non-portfolio properties" as defined in the Tax Act. Non-portfolio properties generally include certain investments in real properties situated in Canada and certain investments in corporations and trusts resident in Canada and in partnerships with specified connections to Canada. However, a trust will not be considered to be a SIFT trust for a taxation year if it qualifies as a "real estate investment trust" (as defined in the Tax Act) for that year (the REIT Exception").

SIFT Taxation Regime

Pursuant to the SIFT Rules, distributions of a SIFT trust's "non-portfolio earnings" are not deductible to the SIFT trust in computing its income. Non-portfolio earnings are generally defined as income attributable to a business carried on by the SIFT trust in Canada or to income (other than dividends) from, and taxable capital gains from the disposition of, non-portfolio properties. The SIFT trust is itself liable to pay income tax on an amount equal to the amount of such non-deductible distributions at a rate that is substantially equivalent to the combined federal and provincial general tax rate applicable to taxable Canadian corporations. Such non-deductible distributions paid to a holder of units of the SIFT trust are generally deemed to be taxable dividends received by the holder of such units from a taxable Canadian corporation. Such deemed dividends will qualify as "eligible dividends" for purposes of the enhanced gross-up and dividend tax credit if paid to any individual resident in Canada. Distributions that are paid as returns of capital will not attract this tax.

The REIT Exception

A trust that satisfies the REIT Exception is excluded from the definition of a SIFT trust in the Tax Act and is therefore not subject to the SIFT Rules. In addition to the trust being resident in Canada throughout the year, the following five criteria must be met in order for the Trust to qualify for the REIT Exception:

1. at each time in the Taxation Year, the total fair market value at that time of all "non-portfolio properties" that are "qualified REIT properties" held by the Trust must be at least 90% of the total fair market value at that time of all non-portfolio properties held by the Trust;
2. not less than 90% of the Trust's "gross REIT revenue" for the taxation year is from one or more of the following: "rent from real or immovable properties", interest, capital gains from dispositions of "real or immovable properties" that are capital properties, dividends, royalties and dispositions of "eligible resale properties";
3. not less than 75% of the Trust's gross REIT revenue for the taxation year is derived from one or more of the following: rent from real or immovable properties, interest from mortgages, or hypothecs, on real or immovable properties, from dispositions of real or immovable properties that are capital properties;
4. at no time in the Taxation Year can the total fair market value of properties comprised of real or immovable property that is capital property, an "eligible resale property", cash, deposits (within the meaning of the Canada Deposit Insurance Corporation Act or with a branch in Canada of a bank or a credit union), indebtedness of Canadian corporations represented by banker's acceptances, and debt issued or guaranteed by the Canadian government or issued by a province, municipal government or certain other qualifying public institutions be less than 75% of the "equity value" (in each case, as defined in the Tax Act) of the Trust at that time; and
5. investments in the Trust must be, at any time in the taxation year, listed or traded on a stock exchange or other public market.

The SIFT Rules contain a "look-through rule" under which a trust could qualify for the REIT Exception where it holds properties indirectly through intermediate entities, provided that each such entity, assuming it were a trust, would satisfy paragraphs (1) through (4) of the REIT Exception above.

The REIT Exception does not fully accommodate the current business structures used by many Canadian REITs, and contains a number of technical tests that many Canadian REITs, including the Trust, may find difficult to satisfy.

The Trust will endeavour to ensure that the Trust will qualify for the REIT Exception at all times during each Taxation Year, and each direct and indirect subsidiary of the Trust will qualify as an "excluded subsidiary entity" (as defined in the Tax Act) such that the Trust will not be a SIFT Trust within the meaning of the SIFT Rules at any time. However, there can be no assurance that this will be so. There can also be no assurance that the investments or activities undertaken by the Trust in a Taxation Year will not result in the Trust failing to qualify for the REIT Exception for that Taxation Year.

If the Trust does not qualify for the REIT Exception for a Taxation Year, the SIFT Rules will apply to the Trust for that year. Application of the SIFT Rules may, depending on the nature of distributions from the REIT, including what portion of its distributions are income and what portion are returns of capital, have a material adverse effect on the after-tax returns of certain Unitholders. Such adverse tax consequences may impact the future level of cash distributions made by the Trust, the ability of the Trust to undertake future financings and acquisitions and could also adversely affect the marketability of the Trust's securities.

The Trust believes that it will qualify for the REIT Exception throughout 2017 and therefore the SIFT Rules will have no application and the Trust and its Unitholders will not, directly or indirectly, be subject to tax imposed by the SIFT Rules. In the unlikely event that the Trust does not qualify for the REIT Exception, distributions of income may be treated by the Trust as distributions of capital are not taxed and instead reduce the adjusted cost base of the Unitholder's Units.

The REIT Exception is applied on an annual basis. Accordingly, if the Trust did not qualify for the REIT Exception in a particular Taxation Year, it may be possible to restructure the Trust such that it may qualify in a subsequent Taxation Year. There can be no assurances, however, that the Trust will be able to restructure such that it will not be subject to the tax imposed by the SIFT Rules, or that any such restructuring, if implemented, would not result in material costs or other adverse consequences to the Trust and Unitholders. The Trust intends to take such steps as are necessary to ensure that, to the extent possible, it qualifies for the REIT Exception and any negative effects of the SIFT Rules on the Trust and Unitholders are minimized.

Other Canadian Tax Matters

Although the Trust is of the view that all expenses to be claimed by the Trust and/or its subsidiary entities will be reasonable and deductible and that the cost amount and capital cost allowance claims of such entities will have been correctly determined, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that the CRA will agree. If the CRA successfully challenges the deductibility of such expenses, the taxable income of the Trust and/or its subsidiary entities and indirectly the Unitholders may increase or change. The extent to which distributions will be non-taxable in the future will depend in part on the extent to which the Trust and/or its subsidiary entities is able to deduct capital cost allowance relating to its Properties.

In structuring its affairs, the Trust consults with its tax and legal advisors and receives advice as to the optimal method in which to complete its business objectives while at the same time minimizing or deferring taxes, where possible. There is no guarantee that the relevant taxing authorities will not take a different view as to the ability of the Trust to utilize these strategies. It is possible that one or more taxing authorities may review these strategies and determine that tax should have been paid, in which case the Trust may be liable for such taxes. Such increased tax liability could have a material adverse effect upon the Trust's ability to make distributions to Unitholders.

Risks Associated with Disclosure Controls and Procedures on Internal Control over Financial Reporting

The Trust could be adversely affected if there are deficiencies in disclosure controls and procedures or internal control over financial reporting.

The design and effectiveness of disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. Deficiencies, including material weaknesses, in internal control over financial reporting which may occur could result in misstatements of the Trust's results of operations, restatements of financial statements, a decline in the Unit price, or otherwise materially adversely affect the Trust's business, reputation, results of operations, financial condition or liquidity.

Unitholders Limited Liability

Recourse for any liability of the Trust is intended to be limited to the assets of the Trust. The Amended and Restated Declaration of Trust provides that no Unitholder or annuitant under a plan of which a Unitholder acts as trustee or carrier (an "**annuitant**") will be held to have any personal liability as such, and that no resort shall be had to the private property of any Unitholder or annuitant for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of the Trust or of the Trustees. Because of uncertainties in the law relating to investment trusts, there is a risk (which is considered by counsel to be remote in the circumstances) that a Unitholder or annuitant could be held personally liable for obligations of the Trust (to the extent that claims are not satisfied by the Trust) in respect of contracts which the Trust enters into and for certain liabilities arising other than out of contract including claims in tort, claims for taxes and possibly certain other statutory liabilities. The Trust will seek to limit recourse under all of its material contracts to the assets of the Trust. However, in conducting its affairs, the Trust will be indirectly acquiring real property investments, subject to existing contractual obligations, including obligations under mortgages and leases. Trustees will use all reasonable efforts to have any such obligations under mortgages on such properties and material contracts, other than leases, modified so as not to have such obligations binding upon any of the Unitholders or annuitants personally. However, the Trust may not be able to obtain such modification in all cases. To the extent that claims are not satisfied by the Trust, there is a risk that a Unitholder or annuitant will be held personally liable for obligations of the Trust where the liability is not disavowed as described above. Ontario has enacted legislation intended to remove uncertainty about the liability of Unitholders of publicly traded trusts. *The Trust Beneficiaries' Liability Act, 2004*, implemented on January 1, 2005, is a clear legislative statement that the Unitholders of a trust that is a reporting issuer and governed by the laws of Ontario will not be personally liable for the obligations and liabilities of the trust or any of its trustees that arise after *The Trust Beneficiaries' Liability Act, 2004*, came into force, which *The Trust Beneficiaries' Liability Act, 2004*, states was December 16, 2004.

Structural Subordination of Debt

Liabilities of a parent entity with assets held by various subsidiaries may result in the structural subordination of the lenders to the parent entity. The parent entity is entitled only to the residual equity of its subsidiaries after all debt obligations of its subsidiaries are discharged. In the event of a bankruptcy, liquidation or reorganization of the Trust, holders of indebtedness of the Trust (including holders of Notes) may become subordinate to lenders to the subsidiaries of the Trust.

Statutory Remedies

The Trust is not a legally recognized entity within the relevant definitions of the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act* and in some cases, the *Winding Up and Restructuring Act*. As a result, in the event a restructuring of the Trust were necessary, the Trust would not be able to access the remedies available thereunder. In the event of a restructuring, a holder of debentures may be in a different position than a holder of secured indebtedness of a corporation.

Outstanding Indebtedness

The ability of the Trust to make cash distributions to Unitholders or to make other payments are subject to applicable law and contractual restrictions contained in instruments governing the Trust's indebtedness. Although the Trust is currently not in default under any existing loan agreements or guarantee agreements, any future default could have significant consequences for Unitholders. Further, the amount of the Trust's indebtedness could have significant consequences to holders of Units, including the ability of the Trust to obtain additional financing for working capital, capital expenditures or future acquisitions may be limited; and that a significant portion of the Trust's cash flow from operations may be dedicated to the payment of principal and interest on its indebtedness thereby reducing funds available for future operations and distributions. Additionally, some of The Trust's debt may be at variable rates of interest or may be renewed at higher rates of interest, which may affect cash flow from operations available for distributions. Also, in the event of a significant economic downtown, there can be no assurance that the Trust will generate sufficient cash flow from operations to meet required interest and principal payments. The Trust is subject to the risk that it may not be able to refinance existing indebtedness upon maturity or that the terms of such refinancing may be onerous. These factors may adversely affect the Trust's cash distributions.

Dependence on Key Personnel

The management of the Trust depends on the services of certain key personnel. The termination of employment by any of these key personnel could have a material adverse effect on the Trust.

Potential Conflicts of Interest

The Trust may be subject to various conflicts of interest because of the fact that Trustees and officers of the Trust are engaged in other real estate-related business activities. The Trust may become involved in transactions which conflict with the interests of the foregoing. Further, the Chief Executive Officer of the Trust is also the principal of the Trust's property management company. Trustees may from time to time deal with persons, firms, institutions or corporations with which the Trust may be dealing, or which may be seeking investments similar to those desired by the Trust. The interests of these persons could conflict with those of the Trust. In addition, from time to time, these persons may be competing with the Trust for available investment opportunities. The Amended and Restated Declaration of Trust contains "conflicts of interest" provisions requiring Trustees to disclose material interests in material contracts and transactions and to refrain from voting thereon.

Dilution

The number of Units the Trust is authorized to issue is unlimited. The Trustees have the discretion to issue additional Units in other circumstances, including pursuant to the Unit Option Plan, the Deferred Unit Plan and the Long Term Incentive Plan and upon conversion or exercise of other convertible securities. Any issuance of additional Units may have a dilutive effect on the existing holders of the Units. Future acquisitions and combinations with other entities could result in significant dilution.

Restrictions on Potential Growth and Reliance on Credit Facilities

The payout by the Trust of a substantial part of its operating cash flow could adversely affect the Trust's ability to grow unless it can obtain additional financing. Such financing may not be available, or renewable, on attractive terms or at all. In addition, if current credit facilities were to be cancelled or could not be renewed at maturity on similar terms, the Trust could be materially and adversely affected.

Proposed Property Acquisitions

There can be no assurance that the Trust will complete any proposed acquisitions described herein on the basis described or on expected closing dates, if at all. In the event the Trust does not complete proposed acquisitions, the Trust's financial performance may be negatively impacted until suitable acquisitions with appropriate investment returns can be made. There is no assurance that such suitable investments will be available to the Trust in the near future or at all.

Property Acquisition Risks

An important factor in the success of the Trust is the ability of the management of the combined entities to coexist and, if appropriate, integrating all or part of the holdings, systems and personnel of such entities. The integration of businesses can result in unanticipated operational problems and interruptions, expenses and liabilities, the diversion of management attention and the loss of key employees, tenants or suppliers. There can be no assurance that the business integration will be successful or that future acquisitions will not adversely affect the business, financial condition or operating results of the combined entities. There can be no assurance that the combined entities will not incur additional material charges in subsequent quarters to reflect additional costs associated with the Trust or that that the benefits expected from the Trust will be realized. The Trust's planned growth will require increasingly sophisticated financial and operational controls to be implemented. In the event that financial and operational controls do not keep pace with the Trust's expansion, the potential for unintended accounting and operational errors may increase.

Interest Risk

Interest risk is the combined risk that the Trust would experience a loss as a result of its exposure to a higher interest rate environment (interest rate risk) and the possibility that at the term end of a mortgage the Trust would be unable to renew the maturing debt either with the existing or an additional lender (renewal risk). The Trust attempts to manage its interest rate risk by maintaining a balanced, maturing portfolio with mortgage debt being financed for varying lengths of time through the implementation of a structured mortgage debt ladder. There can however, be no assurance that the renewal of debt will be on as favourable of terms as the Trust's existing debt.

Appraisals of Properties

An appraisal is an estimate of market value and caution should be used in evaluating data with respect to appraisals. It is a measure of value based on information gathered in the investigation, appraisal techniques employed and reasoning both quantitative and qualitative, leading to an opinion of value. The analysis, opinions, and conclusions in an appraisal are typically developed based on, and in conformity with, or interpretation of the guidelines and recommendations set forth in the Canadian Uniform Standards of Appraisal Practice. Appraisals are based on various assumptions of future expectations of property performance and while the appraiser's internal forecast of net income for the properties appraised are considered to be reasonable at that time, some of the assumptions may not materialize or may differ materially from actual experience in the future.

Debt and Distributable Income

Distributable Income available for distribution to Unitholders is based, directly and indirectly, on the ability of the Trust to pay distributions on its Units, such ability, in each case, is dependent upon the performance of the business of the Trust and its ability to maintain certain debt levels. The Trust will be required to refinance certain debt as it expires. The Trust may be unable to refinance such debt on terms as favourable as existing debt, or at all. In addition, the Trust's ability to borrow is subject to certain restrictive covenants contained in the Declaration of Trust and certain credit agreements. The Trust's ability to make distributions may be materially affected should any of the foregoing conditions arise.

Legal Proceedings

In the normal course of operations, the Trust may become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims.

On September 8, 2009, NorthWest Value Partners Inc. ("NWVP") issued a Notice of Application in the Superior Court of Justice of Ontario against the former trustees of the Trust and others (but not against the Trust itself) seeking a declaration, among other things, that the trustees of the Trust did not have authority to complete the private placement that closed on September 3, 2009. On September 28, 2009, the Superior Court of Justice of Ontario directed a trial on certain matters but denied most of the requests by NWVP. Specifically, the Court denied the NWVP request for a declaration that the trustees of the Trust did not have the authority to close the private placement. Further, the court denied the NWVP request that the investors in the private placement not be permitted to vote at the annual and special meeting of unitholders of the Trust held on September 30, 2009. The Superior Court of Justice of Ontario awarded the Trust costs in excess of $100,000. NWVP has paid to the Trust the awarded costs.

On October 15, 2009, NWVP filed a notice of appeal with the Court of Appeal for Ontario appealing the decision of the Superior Court of Justice. On June 7, 2010, the appeal by NWVP was dismissed with costs of $25,000 ordered payable by NWVP to the Trust. NWVP has paid to the Trust the awarded costs.

Future legal costs may be incurred if NWVP proceeds to trial on the other outstanding issues which remain from the September 8, 2009 Notice of Application relating to the private placement. While the Trust maintains that the merits of NWVP's claims for damages are low, there is the possibility of an award of damages, in the event that NWVP was able to prove damages at trial. In such event, it is expected that the former trustees of the Trust would seek indemnity from the Trust to the extent that any such damages are not fully covered by policies of insurance held by the Trust for the benefit of the former trustees. The foregoing litigation costs, if incurred without successfully recovering the costs, and an award of damages against the former trustees that is not fully covered by policies of insurance held by the Trust for the benefit of the former trustees could to the extent of the Trust's indemnification obligations, if any, have an adverse impact on the financial condition of the Trust.

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 sheet 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, 2016, the Trust had past due rents and other receivables of $2.8 million net of an allowance for doubtful accounts of $0.7 million 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 audited consolidated balance sheet as mortgage holdbacks relate primarily to amounts that were 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 in the December 31, 2016 audited 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 when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust's reputation.

As at December 31, 2016, the Trust had credit facilities as described in note 9 in the December 31, 2016 audited consolidated financial statements.

Note 8 in the December 31, 2016 audited consolidated financial statements reflects the contractual maturities for mortgage and loans payable of the Trust at December 31, 2016, 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 ongoing 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 is approximately $745 million as at December 31, 2016 excluding any deferred financing costs.

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.

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, 2016, approximately 29% of the Trust's mortgage debt was at variable interest rates. The Trust's credit facilities bear interest at variable rates. If there was a 100 basis point change in the interest rate, cash flows would have changed by approximately $1.6 million for the year ended December 31, 2016.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2016 the Trust did not have any off-balance sheet arrangements in place.

RELATED PARTY TRANSACTIONS

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

(i) Accounts Payable (net of amounts receivable)

As at December 31, 2016, $1.1 million (December 31, 2015 - $1.9 million) was included in accounts payable and accrued liabilities, net of amounts receivable, which are due to companies 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, 2016 the Trust incurred $8.9 million (December 31, 2015 - $8.8 million) in services from companies controlled by an officer of the Trust. Of the services received approximately $3.8 million (December 31, 2015 - $4.5 million) has been capitalized to the investment properties and the remaining amounts are included in operating and administrative costs.

Britannia Beach Apartments, Ottawa, ON

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that all material information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. The preparation of this information is supported by a set of disclosure controls and procedures implemented by management.

The Trust's Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Trust's disclosure controls and procedures as of December 31, 2016 and concluded that such controls and procedures are adequate and effective to ensure that the information required to be disclosed by the Trust in its annual filings, interim filings or other reports that it files or submits pursuant to Canadian securities laws is (a) recorded, processed, summarized and reported within the time periods specified by applicable Canadian securities laws; and (b) accumulated and communicated to the management of the Trust, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure as specified in Canadian securities laws. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework adopted by the Trust and the requirements of National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* of the Canadian Securities Administrators.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. The Trust's Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Trust's internal controls over financial reporting as of December 31, 2016, and concluded that such controls are adequate and effective.

There were no changes in the internal controls over financial reporting during the financial year-end December 31, 2016, which have materially affected, or are reasonably likely to materially affect, the Trust's internal controls over financial reporting.

SUBSEQUENT EVENTS

The Trust increased the amount available under one of its term credit facilities maturing in 2018 from $25 million to $35 million effective January 2017.

OUTSTANDING SECURITIES DATA

As of February 21, 2017, the Trust had issued and outstanding: (i) 72,237,245 units; (ii) LP Class B Units that are exchangeable for 186,250 units of the Trust; (iii) options exercisable to acquire 1,171,800 units of the Trust; and (iv) deferred units that are redeemable for 2,408,556 units of the Trust.

ADDITIONAL INFORMATION

Additional information concerning InterRent REIT, including InterRent REIT's annual information form, is available on SEDAR at www.sedar.com.

614 Lake Street,
St. Catharines, ON

Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

Elmridge Gardens,
Ottawa, ON

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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, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of income, changes in unitholders' equity and cash flows for the years then ended 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 consolidated 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 judgement, 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 as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Chartered Professional Accountants
Licensed Public Accountants
February 21, 2017
Toronto, Ontario

Consolidated Balance Sheets
(Cdn $ Thousands)

	Note	December 31, 2016	December 31, 2015
Assets			
Investment properties	4	**$1,308,907**	$1,201,129
Prepaids and deposits		**1,784**	2,972
Assets held for sale	6	**-**	19,188
Receivables and other assets	7	**10,342**	7,596
Cash		**491**	771
Total assets		**$1,321,524**	$1,231,656
Liabilities			
Mortgages and loans payable	8	**$638,723**	$600,811
Credit facilities	9	**91,800**	60,125
LP Class B unit liability	11	**1,390**	1,222
Unit-based compensation liabilities	12	**18,425**	13,858
Tenant rental deposits		**8,304**	7,429
Liabilities related to assets held for sale	6	**-**	7,032
Accounts payable and accrued liabilities	10	**26,331**	34,277
Total liabilities		**784,973**	724,754
Unitholders' equity			
Unit capital	14	**254,777**	247,043
Retained earnings		**281,774**	259,859
Total unitholders' equity		**536,551**	506,902
Total liabilities and unitholders' equity		**$1,321,524**	$1,231,656

Commitments and contingencies (note 23)

Subsequent events (note 24)

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

Approved on behalf of the Trust *Ronald Leslie* Trustee *Michael McGahan* Trustee

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

	Note	2016	2015
Operating revenues			
Revenue from investment properties		**$97,466**	$82,977
Operating expenses			
Property operating costs		**16,992**	14,592
Property taxes		**13,548**	11,366
Utilities		**10,058**	8,529
		40,598	34,487
Net operating income		**56,868**	48,490
Financing costs	15	**20,797**	17,132
Administrative costs		**7,717**	6,486
Income before other income and expenses		**28,354**	24,872
Other income and expenses			
Loss on disposition of assets	6	**(977)**	(5)
Fair value adjustments of investment properties	4	**15,176**	27,057
Other fair value losses	16	**(3,338)**	(1,632)
Interest on units classified as financial liabilities	17	**(601)**	(488)
Net income for the year		**$38,614**	$49,804

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

Consolidated Statements of Changes in 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, 2015	$168,232	$257,843	$(32,375)	$225,468	$393,700
Units issued	78,811	-	-	-	78,811
Net income for the year	-	49,804	-	49,804	49,804
Distributions declared to Unitholders	-	-	(15,413)	(15,413)	(15,413)
Balance, December 31, 2015	**$247,043**	**$307,647**	**$(47,788)**	**$259,859**	**$506,902**
Balance, January 1, 2016	$ 247,043	$ 307,647	$ (47,788)	$ 259,859	$ 506,902
Units issued (note 14)	7,734	-	-	-	7,734
Net income for the year	-	38,614	-	38,614	38,614
Distributions declared to Unitholders	-	-	(16,699)	(16,699)	(16,699)
Balance, December 31, 2016	**$254,777**	**$346,261**	**$(64,487)**	**$281,774**	**$536,551**

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

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

	Note	2016	2015
Cash flows from (used in) operating activities			
Net income for the year		**$ 38,614**	$ 49,804
Add items not affecting cash			
Amortization		**211**	135
Loss on disposition of investment property	6	**977**	5
Fair value adjustments on investment properties	4	**(15,176)**	(27,057)
Other fair value losses	16	**3,338**	1,632
Unit-based compensation expense	12	**4,047**	3,247
Financing costs	15	**20,797**	17,132
Interest expense	15	**(19,615)**	(14,947)
Tenant inducements		**1,582**	998
		34,775	30,949
Net income items related to financing activities	17	**43**	41
Changes in non-cash operating assets and liabilities	18	**(445)**	4,323
Cash from operating activities		**34,373**	35,313
Cash flows from (used in) investing activities			
Acquisition of investment properties	5	**(79,732)**	(197,893)
Proceeds from sale of investment properties	6	**81,911**	1,577
Additions to investment properties	4	**(84,086)**	(80,433)
		(81,907)	(276,749)
Cash flows from (used in) financing activities			
Mortgage repayments		**(124,759)**	(126,081)
Mortgage advances		**156,451**	302,977
Financing fees		**(2,390)**	(5,290)
Credit facility advances		**31,675**	8,999
Trust units issued, net of issue costs	14	**958**	71,862
Deferred units purchased and cancelled	12	**(1,665)**	(128)
Interest paid on units classified as financial liabilities	17	**(43)**	(41)
Distributions paid	18	**(12,973)**	(10,757)
		47,254	241,541
Increase/(decrease) in cash during the year		**(280)**	105
Cash at the beginning of year		**771**	666
Cash at end of year		**$ 491**	$ 771

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

Notes to Consolidated Financial Statements
(Cdn $ Thousands except unit amounts)

1. ORGANIZATIONAL INFORMATION

InterRent Real Estate Investment Trust (the "Trust" or the "REIT") is an unincorporated, open-ended real estate investment trust created pursuant to a Declaration of Trust, dated October 10, 2006, and most recently amended and restated on December 29, 2010, under the laws of the Province of Ontario.

The Trust was created to invest in income producing residential properties within Canada. InterRent REIT Trust Units are listed on the Toronto Stock Exchange under the symbol IIP.UN. The registered office of the Trust and its head office operations are located at 485 Bank Street, Suite 207, Ottawa, Ontario, K2P 1Z2.

These consolidated financial statements were authorized for issuance by the Trustees of the Trust on February 21, 2017.

2. BASIS OF PRESENTATION

Statement of compliance

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

Basis of presentation

The Trust presents its consolidated balance sheets based on the liquidity method, whereby all assets and liabilities are presented in increasing order of liquidity.

These 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 and LP Class B unit liability which are measured at fair value.

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

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 entities over which the Trust has control and are consolidated from the date control commences until control ceases. Control is achieved when the Trust has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

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 have a risk of causing material adjustment to the reported amounts recognized in the consolidated financial statements. Estimates made by management are based on events and circumstances at the balance sheet date. Accordingly actual results may differ from these estimates.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Investment properties

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

a) Income properties

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Investment properties under redevelopment

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

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

Assets held for sale

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

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.

Revenue recognition

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

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

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

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.

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 statement of income.

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 statement of income. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Cash, 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.

Notes to Consolidated Financial Statements
(Cdn $ Thousands except unit amounts)

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 discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

Fair value measurement

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

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

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

Trust units

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

LP Class B unit liability

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

Unit-based compensation

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

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 2015 and 2016, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical judgments in applying accounting policies

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

Investment properties

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

Leases

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

Property acquisitions

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

Income tax

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

Assets held for sale

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

(Cdn $ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The effective date for IFRS 9 is for periods beginning on or after January 1, 2018.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Trust's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently assessing the impact of IFRS 15 and intends to adopt the new standard on the required effective date.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and supersedes IAS 17 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract: i.e. the customer ("lessee") and the supplier ("lessor"). From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. IFRS 16 is effective as of January 1, 2019; however, a company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15. Management is currently assessing the impact of IFRS 16 and intends to adopt the new standard on the required effective date.

4. INVESTMENT PROPERTIES

	December 31, 2016	December 31, 2015
Composed of:		
Income properties	**$ 1,308,907**	$ 1,201,129
Redevelopment properties	**-**	-
	$ 1,308,907	$ 1,201,129

Income properties:
All investment properties other than redevelopment properties.

	December 31, 2016	December 31, 2015
Balance, beginning of period	**$ 1,220,213**	$ 836,721
Acquisitions (note 5)	**79,732**	197,893
Property capital investments	**75,965**	57,345
Fair value adjustments	**15,176**	10,471
Transfer from redevelopment properties	**-**	117,783
Dispositions	**(82,179)**	-
	$ 1,308,907	$ 1,220,213
Reclassification to assets held for sale (note 6)	**-**	(19,084)
Balance, end of period	**$ 1,308,907**	$ 1,201,129

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

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

The fair value of the income properties at December 31, 2016 and 2015 was determined internally by the Trust. The fair value methodology of the Trust's investment properties is considered a level 3 as significant unobservable inputs are required to determine fair value. The Trust determined the fair value of each income property internally based upon the direct capitalization income approach method of valuation. The fair value was determined by applying a capitalization rate to stabilized net operating income ("NOI"), which incorporates allowances for vacancy, management fees, labour and repairs and maintenance for the property. In order to substantiate management's valuation, approximately 30% of the portfolio, representing 2,034 suites, was appraised by external valuation professionals throughout the year (2015 – 36% of the portfolio representing 3,004 suites). These external appraisals provided the Trust with a summary of the major assumptions and market data by city in order for the Trust to complete its internal valuations.

(Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTIES (Continued)

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

	December 31, 2016		December 31, 2015	
	Range	Weighted average	Range	Weighted average
Capitalization rate	4.25% - 6.75%	4.96%	4.25% - 6.75%	5.15%

The direct capitalization income approach method of valuation requires that an estimated annual net operating income ("NOI") be divided by a capitalization rate ("Cap Rate") to determine a fair value. As such, changes in both NOI and Cap Rate could significantly alter the fair value of the investment properties. The tables below summarize the impact of changes in both NOI and Cap Rate on the Trust's fair value of the income properties which includes assets held for sale:

As at December 31, 2016

Net operating income		-3% $ 62,974	-1% $ 64,273	As estimated **$ 64,922**	+1% $ 65,571	+3% $ 66,870
Capitalization rate						
-0.25%	4.71%	$ 1,337,035	$ 1,364,603	$ 1,378,386	$ 1,392,170	$ 1,419,738
Cap rate used	**4.96%**	$ 1,269,644	$ 1,295,822	**$ 1,308,907**	$ 1,322,000	$ 1,348,179
+0.25%	5.21%	$ 1,208,721	$ 1,233,643	$ 1,246,104	$ 1,258,565	$ 1,283,487

As at December 31, 2015

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

The redevelopment property in Ottawa acquired May 14, 2013 was valued at acquisition cost plus redevelopment costs at December 31, 2014. The direct capitalization income approach method of valuation was not a reliable measure as the property was undergoing a significant redevelopment program which effected multiple components of the estimated NOI as well as the Cap Rate. The work on the redevelopment property in Ottawa was substantially completed by the end of the third quarter of 2015. As such, the property, along with the associated land acquired in February 2014, was transferred out of redevelopment properties in September 2015 at fair value, using the direct capitalization income approach based on estimated normalized NOI less estimated costs to complete, and into income properties.

Cash outflow used for additions to investment properties:

	December 31, 2016	December 31, 2015
Property capital investments	**$ (75,965)**	$ (57,345)
Redevelopment costs	**-**	(30,070)
Changes in non-cash investing accounts payable and accrued liabilities	**(8,121)**	6,982
	$ (84,086)	$ (80,433)

5. INVESTMENT PROPERTY ACQUISITIONS

During the year ended December 31, 2016, 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
March 9, 2016	127	$ 22,239	$ 16,100	Prime	April 1, 2017
May 4, 2016	418	$ 57,493	-	-%	n/a
	545	**$ 79,732**	**$ 16,100**		

During the year ended December 31, 2015, the Trust completed the following investment property acquisitions:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
March 11, 2015	280	$ 33,016	$ 24,300	1.94%	March 15, 2016
April 7, 2015	393	59,420	41,000	Prime - 0.50%	August 1, 2016
April 30, 2015	286	28,056	20,750	2.5% and 2.7%	May 1, 2016 and May 1, 2017
May 14, 2015	-	1,521	-	-%	n/a
July 13, 2015	1	494	-	-%	n/a
July 21, 2015	1	467	-	-%	n/a
November 30, 2015	618	52,844	36,000	BA + 2.00%	November 30, 2017
December 15, 2015	123	22,075	14,250	BA + 1.80%	June 15, 2017
	1,702	$ 197,893	$ 136,300		

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

6. INVESTMENT PROPERTY DISPOSITIONS AND ASSETS HELD FOR SALE

As at December 31, 2016, the Trust had no investment properties classified as assets held for sale (December 31, 2015 – four properties and 155 suites as a result of the Trust initiating an active program to dispose of these properties). The following table sets forth the assets and liabilities associated with these properties.

	December 31, 2016	December 31, 2015
Properties	**-**	4
Suites	**-**	155
Investment properties (note 4)	**$ -**	$ 19,084
Prepaids and deposits	**-**	25
Receivables and other assets (note 7)	**-**	79
Assets held for sale	**$ -**	$ 19,188
Mortgages and loans payable	**$ -**	$ 6,654
Accounts payable and accrued liabilities (note 10)	**-**	215
Tenant rental deposits	**-**	163
Liabilities related to assets held for sale	**$ -**	$ 7,032

(Cdn $ Thousands except unit amounts)

6. ASSETS HELD FOR SALE (Continued)

During the year ended December 31, 2016, the Trust completed the following investment property dispositions. These dispositions do not meet the definition of discontinued operations under IFRS.

Disposition Date	Suite Count	Sale Price	Net Proceeds	Mortgage(s) Discharged
January 11, 2016	44	$ 8,675	$ 8,418	$ -
March 29, 2016	36	3,708	3,482	2,257
March 29, 2016	35	3,448	3,258	2,180
March 29, 2016	40	3,944	3,672	2,485
May 27, 2016	40	4,126	3,932	2,548
May 27, 2016	18	1,856	1,775	858
May 27, 2016	32	3,360	3,220	1,644
May 27, 2016	24	2,476	2,355	1,370
May 27, 2016	40	4,326	4,120	2,441
May 27, 2016	24	2,533	2,427	1,260
May 27, 2016	24	2,533	2,408	1,260
July 5, 2016	63	5,200	5,108	-
July 5, 2016	70	4,800	4,711	1,747
July 5, 2016	60	3,275	3,139	2,037
July 5, 2016	94	6,700	6,583	-
July 5, 2016	59	4,125	4,052	2,282
July 5, 2016	69	8,000	7,694	3,781
July 18, 2016	58	6,400	6,051	1,785
July 18, 2016	46	5,075	4,797	1,165
Total	**876**	**$ 84,560**	**$ 81,202**	**$ 31,100**

A loss of $977 was recognized for the year ended December 31, 2016 in connection with these property dispositions. The loss represents the difference between the net proceeds (sale price less closing costs) and the carrying value of the properties at the date of disposition.

During the year ended December 31, 2015, the Trust completed the disposition of a property damaged by fire in 2014 that was included in redevelopment properties for cash proceeds of $1,577. A loss of $5 was recognized in the year ended December 31, 2015.

Cash inflow received from sale of investment properties for the year ended:

	December 31, 2016	December 31, 2015
Proceeds	**$ 81,202**	$ 1,577
Vendor take-back mortgage issued	**(300)**	-
Non-cash closing costs	**1,009**	-
	$ 81,911	$ 1,577

7. RECEIVABLES AND OTHER ASSETS

	December 31, 2016	December 31, 2015
Current:		
Rents and other receivables, net of allowance for uncollectable amounts	**$ 2,105**	$ 1,701
Tenant inducements [2]	**738**	852
Mortgage receivable [1]	**308**	-
	$ 3,151	$ 2,553
Reclassification to assets held for sale (note 6)	**-**	(79)
	$ 3,151	$ 2,474
Non-current:		
Automobiles, software, equipment and furniture and fixtures, net of accumulated amortization of $462 (2015 - $380)	**$ 1,243**	$ 948
Deferred finance fees on credit facilities, net of accumulated amortization of $951 (2015 - $716)	**286**	305
Mortgage receivable [1]	**-**	308
Loan receivable long-term incentive plan (note 13)	**5,662**	3,561
	$ 7,191	$ 5,122
	$ 10,342	$ 7,596

[1] At December 31, 2016, the balance is comprised of one mortgage with a maturity date of 7 months (2015 – 19 months) at an interest rate of 2% (2015 – 2%). Mortgages are secured by the related property and a general security agreement.

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

(Cdn $ Thousands except unit amounts)

8. MORTGAGES AND LOANS PAYABLE

Mortgages and vendor take-back loans are secured by the investment properties and bear interest at a weighted average interest rate of 2.69% (December 31, 2015 – 2.74%).

The mortgages and vendor take-back loans mature at various dates between the years 2017 and 2026.

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

2017	$ 261,732
2018	79,652
2019	13,303
2020	44,892
2021	29,201
Thereafter	219,347
	648,127
Less: Deferred finance costs and mortgage premiums	9,404
	$ 638,723

9. CREDIT FACILITIES

	December 31, 2016	December 31, 2015
Demand credit facility (i)	**$ -**	$ -
Term credit facility (ii)	**23,450**	17,325
Term credit facility (iii)	**14,850**	15,800
Term credit facility (iv)	**53,500**	27,000
	$ 91,800	$ 60,125

(i) The Trust has a $500 (2015 - $500) demand credit facility with a Canadian chartered bank secured by a general security agreement. The weighted average interest rate on amounts drawn during the year ended December 31, 2016 was 3.20% (2015 – 3.29%).

(ii) The Trust has a $25,000 (2015 - $17,500) term credit facility, maturing in 2019, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on ten (2015 – twelve) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. The weighted average interest rate on amounts drawn during the year ended December 31, 2016 was 3.43% (2015 – 3.54%).

(iii) The Trust has a $25,000 (2015 - $25,000) term credit facility, maturing in 2018, with a Canadian chartered bank secured by a general security agreement, first mortgage on one (2015 – one) of the Trust's properties and second collateral mortgages on nine (2015 – nine) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. The weighted average interest rate on amounts drawn during the year ended December 31, 2016 was 3.40% (2015 – 3.54%).

(iv) The Trust has a $60,000 (2015 - $27,000) term credit facility, maturing in 2017, with a Canadian chartered bank secured by a general security agreement, first mortgages on one (2015 – three) of the Trust's properties and second collateral mortgages on five (2015 – six) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread for prime advances and banker's acceptances. The weighted average interest rate on amounts drawn during the year ended December 31, 2016 was 2.73% (2015 – 3.04%).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2016	December 31, 2015
Accounts payable	**$ 7,473**	$ 7,632
Accrued liabilities	**16,206**	24,464
Accrued distributions	**1,464**	1,371
Mortgage interest payable	**1,188**	1,025
	$ 26,331	$ 34,492
Reclassification to liabilities related to assets held for sale (note 6)	**-**	(215)
	$ 26,331	$ 34,277

11. LP CLASS B UNIT LIABILITY

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

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

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

Number of Units	
Balance – December 31, 2014	**186,250**
Units issued	-
Balance - December 31, 2015	**186,250**
Units issued	-
Balance – December 31, 2016	**186,250**

The LP Class B Units represented an aggregate fair value of $1,390 at December 31, 2016 (December 31, 2015 - $1,222). The fair value represents the closing price of the Trust Units on the TSX on the reporting date, or the first trading date after the reporting date. Each LP Class B Unit is accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of Unitholders. There is no value assigned to the Special Voting Units. The gains or losses that resulted from changes in the fair value were recorded in the consolidated statement of income.

12. UNIT-BASED COMPENSATION LIABILITIES

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

	December 31, 2016	December 31, 2015
Unit-based liabilities, beginning of period	**$ 13,858**	$ 11,358
Compensation expense – deferred unit plan	**3,413**	2,474
Compensation expense – unit option plan	**76**	326
DRIP (1) expense – deferred unit plan	**558**	447
DUP units converted, cancelled and forfeited	**(2,300)**	(1,827)
Unit options exercised and expired	**(350)**	(446)
Loss on fair value of liability (note 16)	**3,170**	1,526
Unit-based liabilities, end of period	**$ 18,425**	$ 13,858

(1) Distribution reinvestment plan

(Cdn $ Thousands except unit amounts)

12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

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

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

(i) DEFERRED UNIT PLAN

The deferred unit plan entitles trustees, officers and employees, at the participant's option, to elect to receive deferred units (elected portion) in consideration for trustee fees or bonus compensation under the employee incentive plan, as the case may be. The Trust matches the elected portion of the deferred units received. The matched portion of the deferred units vest 50% on the third anniversary and 25% on each of the fourth and fifth anniversaries, subject to provisions for earlier vesting in certain events. The deferred units earn additional deferred units for the distributions that would otherwise have been paid on the deferred units (i.e. had they instead been issued as Trust Units on the date of grant).

A summary of Deferred Unit activity is presented below:

Number of Units	
Balance - December 31, 2014	**1,890,680**
Units issued under deferred unit plan	426,496
Reinvested distributions on deferred units	71,595
Deferred units exercised into Trust Units	(275,829)
Deferred units purchased and cancelled	(17,217)
Deferred units cancelled	(6,408)
Balance - December 31, 2015	**2,089,317**
Units issued under deferred unit plan	543,806
Reinvested distributions on deferred units	76,949
Deferred units exercised into Trust Units (note 14)	(84,440)
Deferred units purchased and cancelled	(217,971)
Deferred units cancelled	(2,696)
Balance – December 31, 2016	**2,404,965**

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, 2016, the 1,104,596 deferred units, which represent the vested portion, have an intrinsic value of $8,240 (December 31, 2015 – 947,986 deferred units had an intrinsic value of $6,219).

The fair value of such vested Units represents the closing price of the Trust Units on the TSX on the reporting date, or the first trading date after the reporting date, representing the fair value of the redemption price.

12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

(ii) UNIT OPTIONS

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

Options granted, exercised and expired during the years ended December 31 are as follows:

	2016		**2015**	
	Number of units	**Weighted average exercise price**	**Number of units**	**Weighted average exercise price**
Balance, beginning of period	1,350,680	$ 5.16	1,546,000	$ 4.97
Exercised (note 14)	(169,005)	$ 5.00	(156,820)	$ 3.16
Expired	(1,500)	$ 5.81	(38,500)	$ 5.76
Balance, end of period	**1,180,175**	**$ 5.18**	**1,350,680**	**$ 5.16**

Options outstanding at December 31, 2016:

Exercise price	**Number of units**	**Remaining life in years**	**Number of units exercisable**
$ 2.13	170,000	4.48	170,000
$ 5.50	96,575	5.68	96,575
$ 5.65	528,100	6.47	528,100
$ 5.81	385,500	7.96	385,500
	1,180,175		**1,180,175**

Total compensation expense for the year was $76 (2015 - $326). Compensation cost was determined based on an estimate of the fair value using the Black-Scholes option pricing model at date of grant using the following weighted average assumptions for the 2014 grant: market price of unit $5.72, expected option life 5 years, risk-free interest rate 1.34%, expected volatility, based on historical, 34% and expected distribution yield 5.0%.

The weighted average market price of options exercised in the year ended December 31, 2016 was $7.69 (2015 - $6.32).

(Cdn $ Thousands except unit amounts)

12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

The fair value of unit options is re-valued at each reporting period based on an estimate of the fair value using the Black-Scholes option pricing model using the following weighted average valuation assumptions:

	December 31, 2016	December 31, 2015
Market price of Unit	$ 7.46	$ 6.56
Expected option life	2.7 years	2.6 years
Risk-free interest rate	0.85%	0.53%
Expected volatility (based on historical)	18%	20%
Expected distribution yield	5.0%	5.0%

13. LONG-TERM INCENTIVE PLAN

The Board of Trustees may award long-term incentive plan ("LTIP") units to certain officers and key employees, collectively the "Participants". The maximum number of Trust Units issuable under the Trust's equity incentive compensation plans, which includes the long-term incentive plan, as well as the DUP and unit option plan (note 12) is 10% of the issued and outstanding Trust Units. The Participants can subscribe for Trust Units at a purchase price equal to the weighted average trading price of the Trust Units for the five trading days prior to issuance. The purchase price is payable in instalments, with an initial instalment of 5% paid when the Trust Units are issued. The balance represented by a loan receivable (note 7) is due over a term not exceeding ten years. Participants are required to pay interest at a ten-year fixed rate based on the Trust's fixed borrowing rate for long-term mortgage financing and are required to apply cash distributions received on these units toward the payment of interest and the remaining instalments. Participants may pre-pay any remaining instalments at their discretion. The Trust has recourse on the loans receivable and has reasonable assurance that the Trust will collect the full amount of the loan receivable. The loans receivable are secured by the units as well as the distributions on the units. If a Participant fails to pay interest and/or principal, the Trust can enforce repayment which may include the election to reacquire or sell the units in satisfaction of the outstanding amounts.

Date of award	Number of units	Interest rate	Loan receivable
May 10, 2010	15,000	5.00%	$ 9
March 8, 2012	250,000	3.57%	865
June 29, 2012	50,000	3.35%	186
September 11, 2012	100,000	3.35%	495
June 27, 2013	187,500	3.85%	960
December 16, 2014	100,000	3.27%	543
June 9, 2015	75,000	3.44%	450
June 30, 2016	290,000	2.82%	2,154
	1,067,500		$ 5,662

14. TRUST UNITS

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

	Trust Units	Amount
Balance – December 31, 2014	**58,114,625**	**$ 168,232**
Issued from prospectus	11,719,000	75,002
Unit issue costs	-	(3,660)
Units Issued under long-term incentive plan	75,000	476
Units Issued under the deferred unit plan (note 12(i))	275,829	1,699
Units Issued under distribution reinvestment plan	704,209	4,352
Units Issued from options exercised	156,820	942
Balance – December 31, 2015	**71,045,483**	**$ 247,043**
Units Issued under long-term incentive plan	290,000	2,271
Units Issued under the deferred unit plan (note 12(i))	84,440	635
Units Issued under distribution reinvestment plan	519,608	3,634
Units Issued from options exercised (note 12(ii))	169,005	1,194
Balance – December 31, 2016	**72,108,536**	**$ 254,777**

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

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

For the year ended December 31, 2016, the Trust did not purchase any Trust Units under the Bid.

(Cdn $ Thousands except unit amounts)

14. TRUST UNITS (Continued)

Declaration of Trust

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

(a) Trust Units

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

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

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

ii) 100% of the "closing market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading on the redemption notice date.

(b) Special Voting Units

The Declaration of Trust provides for the issuance of an unlimited number of Special Voting Units that will be used to provide voting rights to holders of LP Class B units or other securities that are, directly or indirectly, exchangeable for Trust Units.

Each Special Voting Unit entitles the holder to the number of votes at any meeting of unitholders, which is equal to the number of Trust Units that may be obtained upon surrender of the LP Class B unit to which the Special Voting Unit relates. The Special Voting Units do not entitle or give any rights to the holders to receive distributions or any amount upon liquidation, dissolution or winding-up of Trust. There is no value assigned to the Special Voting Units.

15. FINANCING COSTS

	2016	2015
Mortgages and loans payable	**$ 17,711**	$ 14,971
Credit facilities	**2,079**	1,236
Interest income	**(175)**	(160)
Interest capitalized to redevelopment properties	**-**	(1,100)
Interest expense	**19,615**	14,947
Amortization of deferred finance costs on mortgages	**1,085**	2,133
Amortization of deferred finance costs on credit facilities	**234**	251
Amortization of fair value on assumed debt	**(137)**	(199)
	$ 20,797	$ 17,132

16. OTHER FAIR VALUE GAINS/(LOSSES)

	2016	2015
LP Class B unit liability	**$ (168)**	$ (106)
Unit-based compensation liability (deferred unit plan)	**(2,522)**	(1,611)
Unit-based compensation liability (option plan)	**(648)**	85
	$ (3,338)	$ (1,632)

17. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	2016	2015
LP Class B unit liability	**$ 43**	$ 41
Unit-based compensation liability (deferred unit plan)	**558**	447
	$ 601	$ 488

18. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Net change in non-cash operating assets and liabilities

	2016	2015
Receivables and other assets	**$ (2,239)**	$ (1,051)
Prepaid and deposits	**1,213**	-
Accounts payable and accrued liabilities	**(131)**	3,382
Tenant rental deposits	**712**	1,992
	$ (445)	$ 4,323

(b) Net cash distributions to unitholders

	2016	2015
Distributions declared to unitholders	**$ 16,699**	$ 15,413
Add: Distributions payable at beginning of period	**1,368**	1,064
Less: Distributions payable at end of period	**(1,460)**	(1,368)
Less: Distributions to participants in the DRIP	**(3,634)**	(4,352)
	$ 12,973	$ 10,757

(c) Interest paid

	2016	2015
Interest expense	**$ 19,615**	$ 14,947
Add: Mortgage interest payable at beginning of period	**1,025**	1,033
Less: Mortgage interest payable at end of period	**(1,188)**	(1,025)
Add: Interest capitalized	**-**	1,100
Add: Interest income received	**175**	160
	$ 19,627	$ 16,215

(Cdn $ Thousands except unit amounts)

19. RELATED PARTY TRANSACTIONS

The transactions with related parties are incurred in the normal course of business. Related party transactions have been listed below.

(i) Accounts Payable (net of amounts receivable)

As at December 31, 2016, $1,129 (December 31, 2015 - $1,933) was included in accounts payable and accrued liabilities, net of amounts receivable, which are due to companies that are controlled by an officer of the Trust. The amounts were non-interest bearing and due on demand.

(ii) Services

During the year ended December 31, 2016, the Trust incurred $8,873 (2015 - $8,843) in property, asset and project management services and shared legal services from companies controlled by an officer of the Trust. Of the services received approximately $3,792 (2015 - $4,506) 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.

	2016	2015
Salaries and other short-term employee benefits	**$ 1,008**	$ 878
Deferred unit plan	**1,799**	1,881
Gain on fair value of unit-based compensation liabilities	**4,039**	2,490
	$ 6,846	$ 5,249

Loans outstanding from key management for indebtedness relating to the LTIP at December 31, 2016 were $5,587 (December 31, 2015 - $3,561). Deferred unit plan includes accrued compensation for key management at December 31, 2016 for $1,548 (December 31, 2015 - $1,620).

20. 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, 2016 and 2015.

20. 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, 2016, the debt to gross book value ratio is 55.3% (December 31, 2015 – 54.2%).

In addition, the Trust is subject to financial covenants in its mortgages payable and credit facilities such as minimum tangible net worth, interest coverage, debt service coverage and leverage ratio (similar to debt to gross book value as calculated in the Declaration of Trust). The Trust was in compliance with all financial covenants throughout the years ended December 31, 2016 and 2015.

21. FINANCIAL RISK MANAGEMENT

a) Overview

The Trust is exposed to credit risk, liquidity risk and market risk. The Trust's primary risk management objective is to protect earnings and cash flow and, ultimately, unitholders value. Risk management strategies, as discussed below, are designed and implemented to ensure the Trust's risks and the related exposures are consistent with its business objectives and risk tolerance.

b) Credit Risk

The Trust's credit risk is attributable to its rents and other receivables, loan receivable long-term incentive plan, mortgage holdbacks and mortgages receivable.

The amounts disclosed as rents and other receivables and loan receivable long-term incentive plan in the consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Trust's management based on prior experience and their assessment of the current economic environment. The Trust establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of rents and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and an overall loss component established based on historical trends. At December 31, 2016, the Trust had past due rents and other receivables of $2,808 (December 31, 2015 - $2,338), net of an allowance for doubtful accounts of $703 (December 31, 2015 - $637) which adequately reflects the Trust's credit risk.

(Cdn $ Thousands except unit amounts)

21. FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The Trust manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 20 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, 2016 and 2015, the Trust had credit facilities as described in note 9.

The Trust continues to refinance the outstanding debts as they mature. Given the Trust's available credit and its available liquid resources from both financial assets and on-going operations, management assesses the Trust's liquidity risk to be low.

The undiscounted contractual maturities and repayment obligations of the Trust's financial liabilities, excluding unit-based compensation liabilities and LP Class B unit liability as their redemption time is uncertain, as at December 31, 2016 are as follows:

Year	Mortgages and loans payable	Mortgage and loan interest [1]	Credit facilities	Accounts payable and accrued liabilities	Total
2017	$261,732	$13,236	$53,500	$26,331	$354,799
2018	79,652	8,878	14,850	-	103,380
2019	13,303	8,256	23,450	-	45,009
2020	44,892	7,475	-	-	52,367
2021	29,201	6,385	-	-	35,586
Thereafter	219,347	17,575	-	-	236,922
	$648,127	**$61,805**	**$91,800**	**$26,331**	**$828,063**

[1] Based on current in-place interest rates for the remaining term to maturity.

d) Market Risk

Market risk includes the risk that changes in interest rates will affect the Trust's cash flows or the fair value of its financial instruments.

At December 31, 2016, approximately 29% (December 31, 2015 – 26%) of the Trust's mortgage debt is at variable interest rates and the Trust's credit facilities bear interest at variable rates. If there was a 100 basis point change in the interest rate, cash flows would have changed by approximately $1,607 for the year ended December 31, 2016 (2015 - $879).

22. FAIR VALUE MEASUREMENT

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

Financial instruments are defined as a contractual right to receive or deliver cash or another financial asset. The fair values of the Trust's financial instruments, except for mortgages payable and loans payable, approximate their recorded values due to their short-term nature and/or the credit terms of those instruments.

The fair value of the mortgages and loans payable has been determined by discounting the cash flows using current market rates of similar instruments. These estimates are subjective in nature and therefore cannot be determined with precision. The fair value of mortgages and loans payable, excluding assets held for sale, and credit facilities, which are measured at a fair value level 2, is approximately $744,909 (December 31, 2015 - $676,792) excluding any deferred financing costs.

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

December 31, 2016	Level 1	Level 2	Level 3
Assets			
Investment properties	-	-	$1,308,907
Liabilities			
Unit-based compensation liability	-	$18,425	-
LP Class B unit liability	-	1,390	-

December 31, 2015	Level 1	Level 2	Level 3
Assets			
Investment properties	-	-	$1,201,129
Liabilities			
Unit-based compensation liability	-	$13,858	-
LP Class B unit liability	-	1,222	-

23. COMMITMENTS AND CONTINGENCIES

The Trust is committed to purchase a property (224 suites) in March 2017 for a purchase price of approximately $24,000.

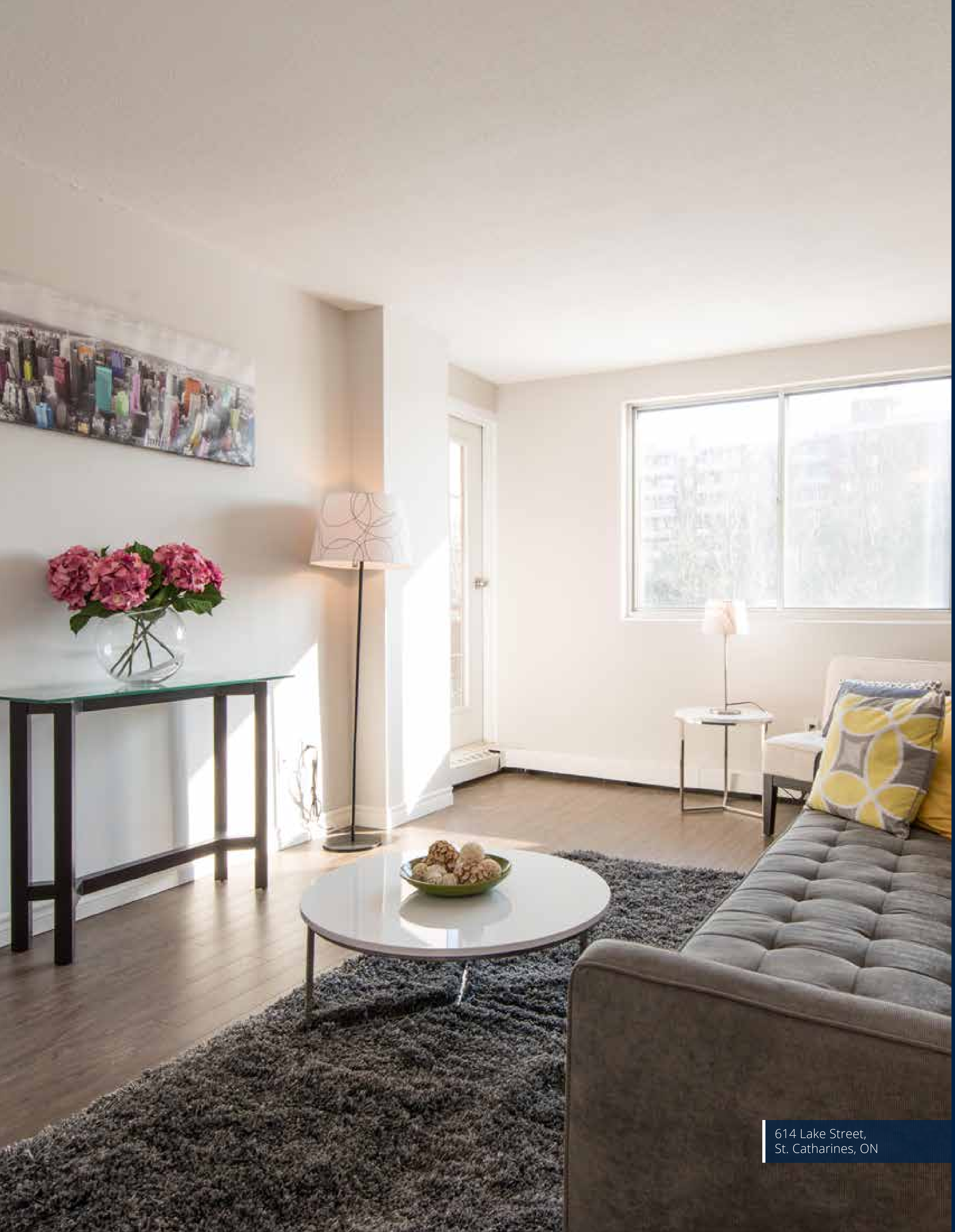
In the ordinary course of business activities, the Trust may be contingently liable for litigation and claims with tenants, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

24. SUBSEQUENT EVENTS

The Trust increased the amount available under one of its term credit facilities maturing in 2018 from $25,000 to $35,000 effective January 2017.

25. COMPARATIVE RESULTS

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



614 Lake Street,
St. Catharines, ON

EXCHANGE AND SYMBOL

TSX: IIP.UN

UNITS OUTSTANDING

72,108,536
(as at December 31, 2016)

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Curt Millar - CFO

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WEBSITE

www.interrentreit.com

ANNUAL MEETING

Monday June 19, 2017
at 11:00 ET
2600-160 Elgin Street
Ottawa, ON, K1P 1C3

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