2017 | 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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PARKWAY PARK
Ottawa, ON

MESSAGE TO OUR UNITHOLDERS

Mike McGahan, CEO

Photo Courtesy of Pat McGrath/ Ottawa Citizen. Reprinted by permission

2017 proved to be a very interesting year for the REIT. The publicly listed real estate sector started the year strong, then slowed considerably amidst concerns that interest rates increase would continue to accelerate through the year and into 2018. This concern didn't seem to affect the private real estate market which continued to see strong demand for assets not only from existing investors but also from large well-capitalized new entrants. This demand continued through the year and into 2018 which has seen fierce competition for assets and decreasing capitalization rates.

A strengthening economy and robust population growth, driven by immigration, has created extremely strong demand for rental housing. This heighten demand within our core markets has resulted in strong rental growth and occupancy gains, most notably in the later half of 2017. This record growth was partially offset by construction costs, utility and municipal taxes which have all creeped up; a trend we believe will be prevalent in the near-term. We believe going forward the current lack of supply of housing is likely to lead to lower tenant turnover resulting in slightly more tempered growth than otherwise expected.

Although pressure on interest rates slowed through the later half of the year, the REIT continued to focus on reducing risk and exposure to interest rate increases by delevering the balance sheet and locking in more long-term financing.

For the first time in many years, institutions have displayed a strong appetite for owning apartments. We believe this is a result of other asset classes falling out of favour and that the recent trend to urbanization and the "Work, Live, Play" phenomenon is real and here to stay. These Institutions are partnering with one another to developed mixed use properties, which will ultimately lead to more competition. We shall counteract this by making sure that our sites and more importantly our customer experience is "Best in Class". We will utilize our expertise to develop strong partnerships in the best locations for new developments. We believe we took an important step in this direction with our joint venture at 900 Albert St, Ottawa. This property is superbly located at the juncture of the new LRT and faces what many believe to be the new central core of the City of Ottawa; the Lebreton Flats. With this important first step we are realizing the expertise we have in building and operating efficient rental structures that will capitalize on our progressive thoughts of what types of product and experiences our residents will not only want now but in the future.

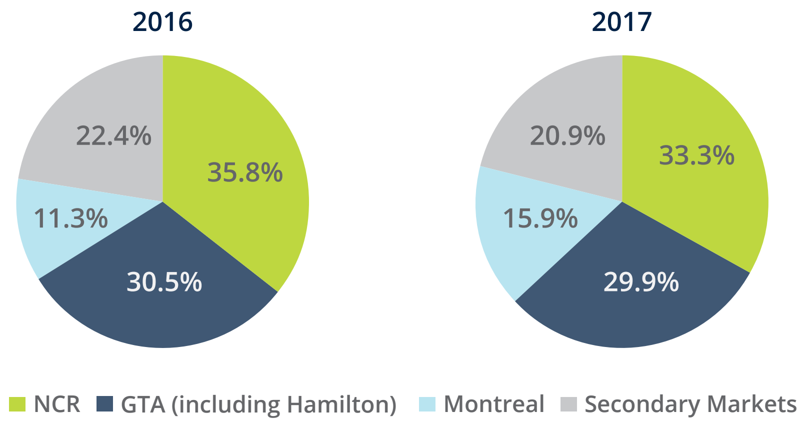
As we look forward to 2018, our main focus shall be on talent management. In order for the REIT to continue to prosper and deliver on its track record of creating unitholder value we will need to continue to keep and attract talented individuals that are like minded and preserve our greatest asset, that being our "Culture". We have always believed that treating our team very well would pay huge dividends. We have been lucky enough to attract some very bright individuals who we have no doubt in believing will become the future stars of our industry. Our goal this year and in the foreseeable future will be to educate and mentor them so they can reach their full potential and become the future leaders of tomorrow.

Our 2017 results provided a total return of 26.2% which was well above most of our peers. We know that this was last years' results and we must continue to evolve to stay on top of the industry. The best is yet to come!

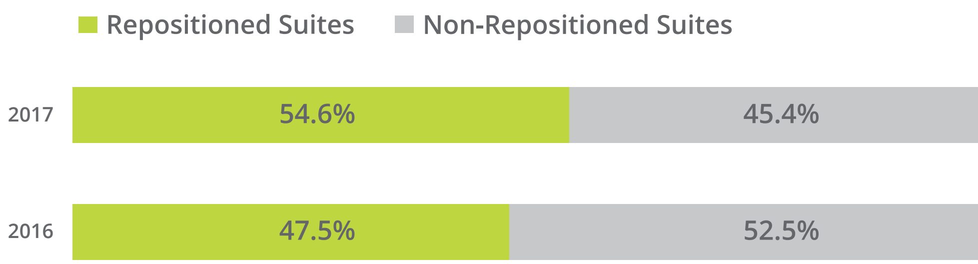
Sincerely,

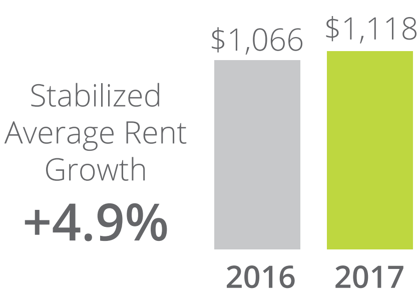
Mike McGahan, CEO

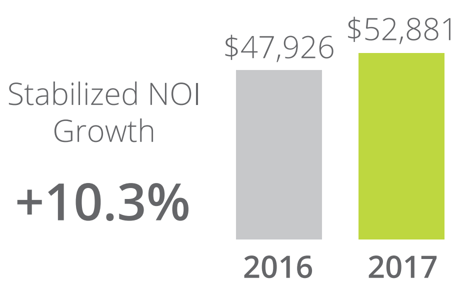
GEOGRAPHIC EXPOSURE BY SUITE COUNT



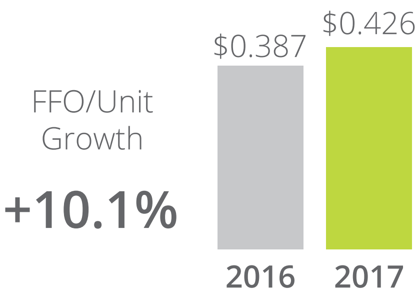
PORTFOLIO BREAKDOWN

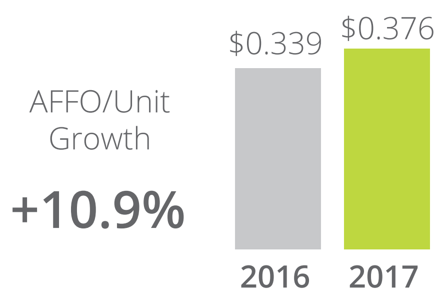






FFO & AFFO PER UNIT - BASIC





QUICK **FACTS**

8,660
TOTAL SUITES

72
TOTAL PROPERTIES

$1,110
AVERAGE RENT PER SUITE

97.9%
OCCUPANCY RATE

$1.7 Billion
TOTAL ASSETS

106%
UNITHOLDER 5-YEAR TOTAL RETURN

2.81%
WEIGHTED AVERAGE INTEREST RATE

at December 31, 2017

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 mean that the pace of our business is fast. We must embrace continuous change 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. 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.

THE LAKESHORE CLUB
Burlington, 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

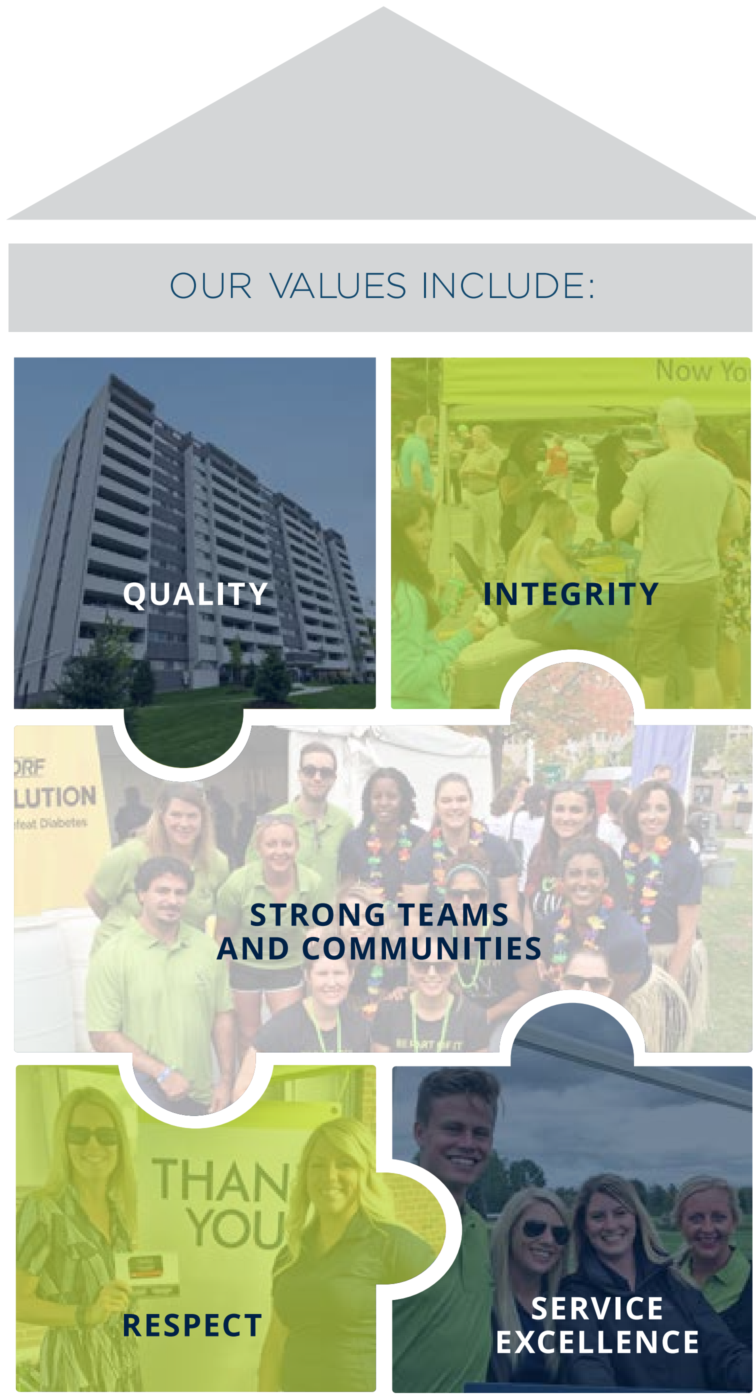
Encouraging and working with our team to give back to our customers and communities through sustainable programs and philanthropic efforts.

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 AND DEVELOPMENT

InterRent applies a rigorous and disciplined approach to evaluating potential acquisitions and development opportunities. The REIT continuously searches for existing properties that are in good rental markets but that may be underperforming as well as potential development sites in our targeted growth areas.

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 repositioning 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 provide a higher yield. Included in this analysis are water saving fixtures, energy efficient lighting, boilers and domestic hot water tanks. Additionally, InterRent has sub-metered the bulk of its portfolio which heightens awareness about energy consumption with our customers and promotes energy conservation.

MICRO COGENERATION

In 2017 IIP added micro cogeneration to its LIV building located at 207 Bell Street in Ottawa, Ontario.

Micro cogeneration or MCHP (Micro Combined Heat and Power) units are natural gas generators designed to produce heat and electrical power simultaneously. The MCHP unit is used for supplying constant electrical power and heat for domestic hot water through high efficiency heat and power generation. It utilizes up to 87% of the fuel burn versus the average 33% burn rate of conventional, 'from the grid' sources. This typically leads to lower energy costs and reduced CO2 emissions compared to remotely generated electricity from the power grid.

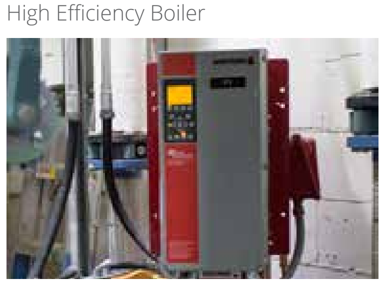
At LIV this equates to an expected 17% offset in electrical consumption from the grid and a 20% reduction in domestic hot water production from the boilers totaling $25,000 in annual savings. In 2018 the REIT will be adding an absorption chiller to the cogen unit to produce cooling from the waste heat to further increase the potential savings from the unit.

Variable Speed Drive for Make Up Air

Energy Star Appliances

Micro Cogeneration

High Efficiency Boiler



Variable Speed Booster Pump

Electric Car Charging Station

Submeters

Solar Lights

Programmable Wi-Fi Thermostat

Programmable Lighting Controls

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 $50 million was invested in the REIT's income producing properties in 2017 ($76 million in 2016). 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

Parkway Park, Ottawa

1101 Rachel, Montreal

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

614 Lake, St Catharines

939 Western, London

5220 Lakeshore, Burlington

Common Area Upgrades

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

Place Kingsley, Montreal

455 Maple, Burlington

Added Amenities

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

2757 Battleford, Mississauga

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 51% from $1,038 to $1,571. NOI has increased 134% from $1,313,832 to $3,069,355. The expected IRR based on the IFRS value at December 31, 2017 is over 50%.

OVERVIEW

Total Suites	238

INVESTMENT HIGHLIGHTS

Investment Timeframe	70 Months
Purchase Price	$20.7M
Expected IRR	50%+*
Equity Multiple	5.41x*

*Expected IRR and equity multiple based on the IFRS value at December 31, 2017.

As a result of the investments made in this property, **ENERGY CONSUMPTION HAS DECREASED BY 6%**

6599 GLEN ERIN DRIVE

Mississauga, Ontario

6599 Glen Erin Drive is a multi-family complex comprised of 13 low rise buildings and one high-rise building. It is located on the grounds of beautiful Lake Aquitane near Erin Mills Parkway and Battleford Road in Mississauga, Ontario.

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 December 2014, average rent on the suites which have been turned over at 6599 Glen Erin has increased 22% from $1,256 to $1,528. NOI has increased 30% from $2,119,611 to $2,760,161. The expected IRR based on the IFRS value at December 31, 2017 is over 35%.

OVERVIEW

Suites	232

INVESTMENT HIGHLIGHTS

Investment Timeframe	37 Months
Purchase Price	$41.0M
Expected Levered IRR	35%+*
Expected Equity Multiple	2.55x*

*Expected IRR and equity multiple based on the IFRS value at December 31, 2017.

As a result of the investments made in this property, **ENERGY CONSUMPTION HAS DECREASED BY 19%**

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 2017:

JDRF Revolution Ride

Hope Volleyball SummerFest

Staff BBQs at Head Office

Tree of Stars in Head Office

INTERRENT SCHOLARSHIP PROGRAM

The Scholarship Program is set up to help children of non-management employees pursue post-secondary education.

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.

HOPE VOLLEYBALL

InterRent entered 2 teams 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.

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.

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.

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 donation that is made to a child or family in need from Ottawa.

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.

Holiday Hampers filled with donations

HOLIDAY HAMPER PROGRAM

Staff of InterRent and CLV Group sponsored two families in need from the Boys and Girls Club of Ottawa.

Each family was assigned a team who created Holiday Hampers with non-perishable food, household essentials, gift cards and personalized gifts for each family member.

InterRent Staff at the Caring & Sharing Exchange

CARING & SHARING EXCHANGE

Staff of InterRent and CLV Group participated in packing food hampers for the Caring and Sharing Exchange in Ottawa on December 20th. Hampers are distributed to families throughout the community.

InterRent staff deliver donations to the Food Banks

FOOD DRIVES

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

Over the course of 2017 we participated in 3 different food drives throughout various cities within our core markets. Combined donations in Ottawa totaled over 1,350 lbs of food.

OTTAWA DRAGONBOAT FESTIVAL

Every year, over 5,000 paddlers race 44ft dragon boats on the Rideau River. Since its inception, Paddlers have helped the Ottawa Dragonboat Foundation raise over $4.3 million in support of 48 charities. InterRent and CLV Group were proud to contribute as Gold sponsors for the festival in 2017.

SOCIAL MEDIA

Through our extensive social media platforms, we strive to facilitate a two-way conversation with our customers and actively promote customer retention, brand awareness and lead generation strategies. Through our active social media presence, our residents have the freedom and/or option to engage with our team, and receive a guaranteed quick response, fostering an open relationship with trust and rapport. In order to ensure we are available to our customers and potential leads, we utilize Facebook, Twitter, Pinterest, YouTube, Google+, Instagram and LinkedIn daily.

Each platform is managed differently to appeal to its corresponding demographic and to be sure that we are continuing to provide the best service, insight, information and assistance to our customers. Our goal is to provide a face and a voice to our brand, and to actively enhance communication, approachability and responsiveness towards our customers and the public.

f September 24, 2017 -

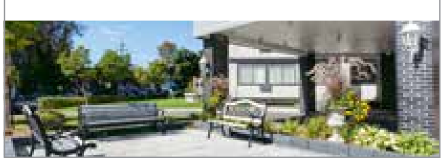
Looking for a 2 bedroom apartment in Stoney Creek?
Step inside our newly renovated suites and find the perfect place to call home at Stoney Creek Towers
http://www.clvgroup.com/apartments/stoney-creek-towers/home

4,775 people reached

5501 Adalbert
MONTREAL, QUEBEC
77 Reviews, 4.8 Star Average

5.0 ★★★★★ 17 weeks ago

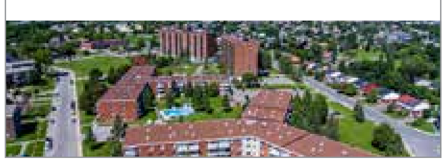
Lynn
"I believe the staff representing the building is key. I had the pleasure of working with Andre from A-Z and I am glad to say that I am a new tenant. I am even looking into bringing my elderly mother in from Ontario to a one bedroom apt into this building. Am definitely looking forward to my move into this gorgeous apt with a beautiful view of Montreal... thank you Andre!!"



Riviera
GATINEAU, QUEBEC
108 Reviews, 4.7 Star Average

5.0 ★★★★★ 24 weeks ago

Lucy
"The service that my fiancé and I received when applying and moving in to our apartment was beyond amazing! Maxime was very helpful in working with us to find the best apartment to suit our needs! I love how clean and safe the buildings are a and the community is wonderful! I would recommend riviera apartments to anyone looking to move to aylmer in the future "



LIV Apartments
OTTAWA, ONTARIO
150 Reviews, 4.1 Star Average

5.0 ★★★★★ 29 weeks ago

Alli
"So many great things to say about LIV: Amazing amenities, awesome neighbor-hood, dog-friendly, immaculately clean and to top it off friendly and personable staff, Catherine was so easy to work with and I would recommend this place to anyone!"

LIV APARTMENTS
2017 SOCIAL MEDIA

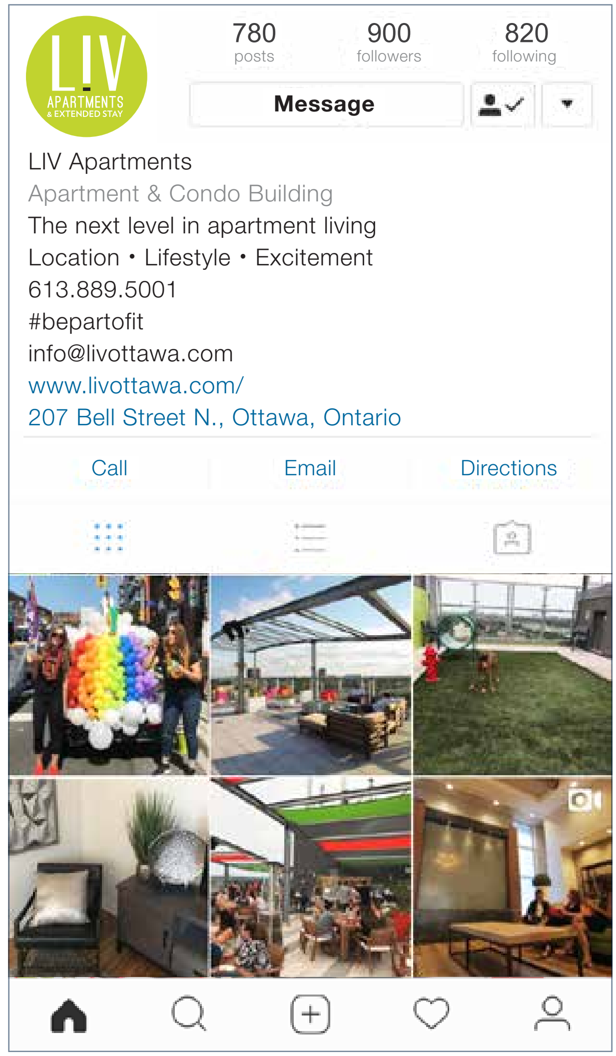
670K People Reached

102,000 Total Impressions

970 Pins

14K Searches in Q4 of 2017
150 Reviews as of Dec 31, 2017

900 Followers



Lakeshore
MISSISSAUGA, ONTARIO
49 Reviews, 4.4 Star Average

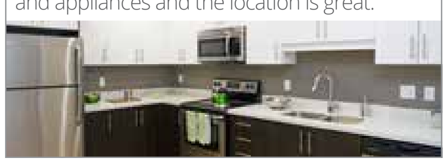
5.0 ★★★★★ 5 weeks ago

Suzy
"I have lived here for almost a year now with my cat, and I hope to stay for many years to come. The service is impeccable, the buildings and surrounding areas kept very clean, and the apartment itself is upgraded and lovely. Thank you so much!"

Rosemount
BURLINGTON, ONTARIO
39 Reviews, 4.5 Star Average

5.0 ★★★★★ 39 weeks ago

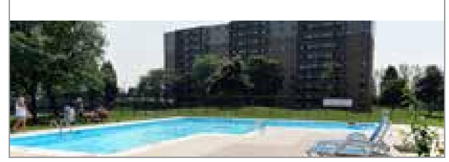
Ben
"My roommate and I are young professionals working in the Hamilton area, so moving to Burlington was ideal. If it wasn't for the resourcefulness and knowledge of our Rental Agent Natalie, we'd still be looking. She showed us two different units in two different locations and both did not disappoint but we knew we wanted Rosemount once we saw it. Our apartment is spacious, brand new amenities and appliances and the location is great."



Auburn Park
LONDON, ONTARIO
60 Reviews, 4.3 Star Average

5.0 ★★★★★ 11 weeks ago

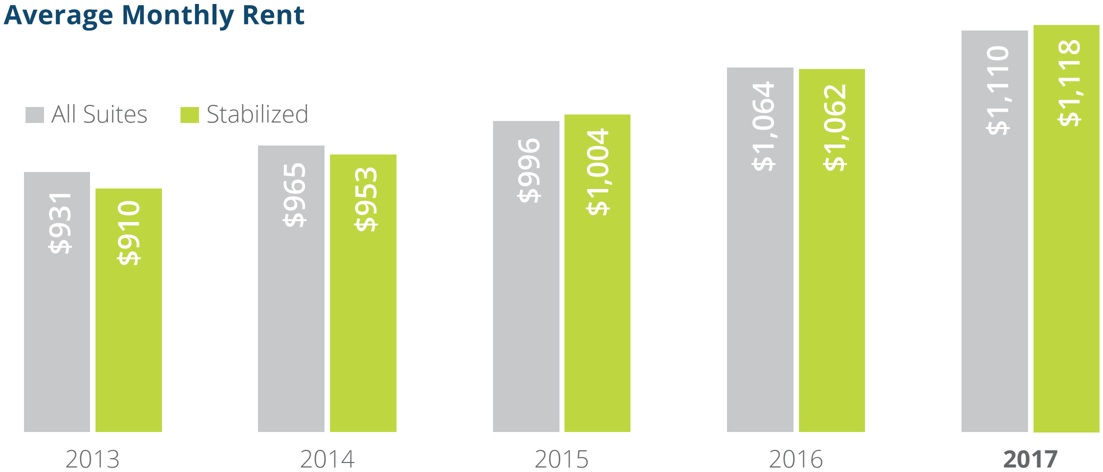
Azu
"It was a good choice to move here! Rachel has always been there to answer all of our inquiries promptly. The apartment is nice and something else we loved about Auburn Park is that it is 100% pet friendly!"



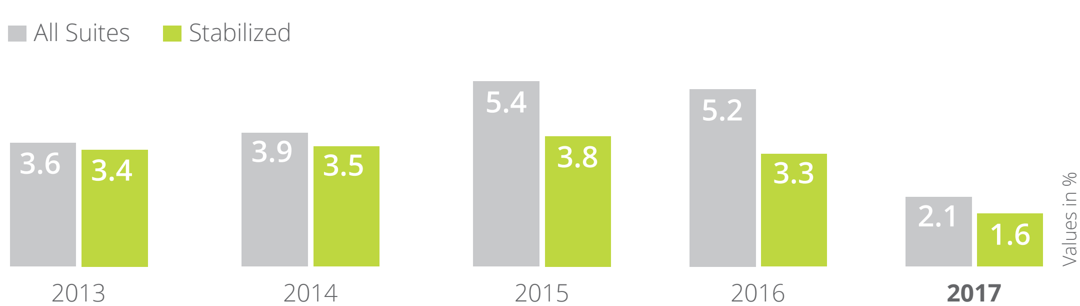
FINANCIAL INFORMATION

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	**2013**	**2014**	**2015**	**2016**	**2017**	**CAGR**
Total Suites	6,048	6,700	8,389	8,059	8,660	9.4%
Average Rent Per Suite	$931	$965	$996	$1,064	$1,110	4.5%
Operating Revenues	$60,506	$65,404	$82,977	$97,466	$109,004	15.9%
Net Operating Income (NOI)	$36,041	$37,884	$48,490	$56,867	$66,166	16.4%
NOI %	59.6%	57.9%	58.4%	58.3%	60.7%	N/A
FFO Per Unit (basic)	$0.35	$0.33	$0.35	$0.39	$0.43	5.3%

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.

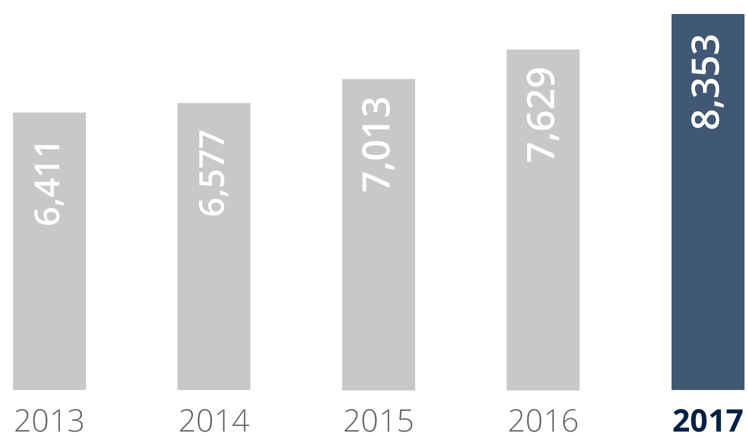
Management is also focused on growing the REIT in a strategic and structured manner with continued focus on applying our repositioning experience and expertise in order to continue to provide long term value creation for our Unitholders. Properties acquired by the REIT which need substantial capital improvements in order to achieve strong operational performance are considered repositioning properties. These properties typically take 3-4 years to become repositioned, depending on how significant the capital requirements are and the rate of tenant turnover at the property.

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 2,849 suites from 2015 to 2017 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 27% of the suites being non-stabilized at year end, the REIT managed to continue to post positive NOI per suite growth for a seventh straight year.

FINANCING **FACTS**

2.81%

WEIGHTED AVERAGE INTEREST RATE

4.9 Years

AVERAGE TERM TO MATURITY

47.8%

DEBT-TO-GROSS BOOK VALUE

2.76x

INTEREST COVERAGE RATIO

67%

% OF MORTGAGE DEBT CMHC INSURED

at December 31, 2017

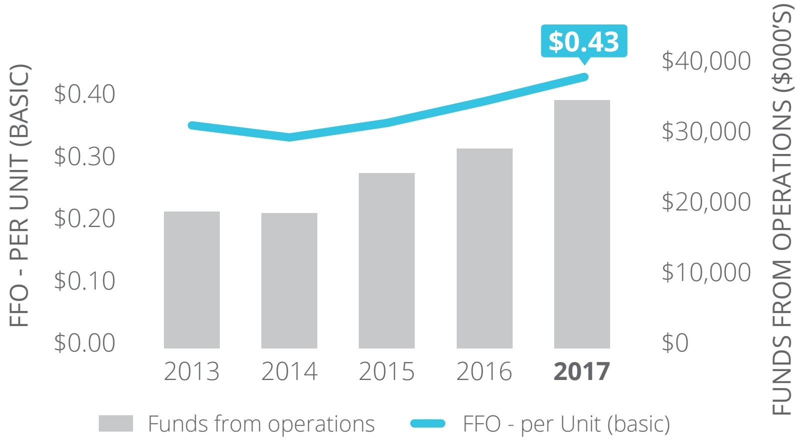
FINANCIAL INFORMATION

The acquisitions completed in 2013 and 2014 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 property NOI growth. The 1,702 suites acquired in 2015, 545 suites acquired in 2016, and 602 suites acquired in 2017 are still undergoing various degrees of repositioning initiatives.

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.

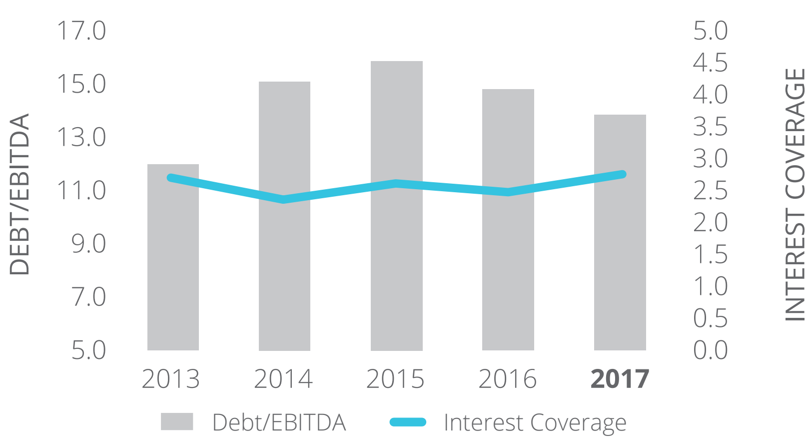
The REIT has experienced significant FFO growth in the past five years, both as a total and on a per unit basis. This growth is due to the growth in overall NOI and reduced interest cost resulting from the decrease in the weighted average interest rates on the REIT's mortgages. Management expects that 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 2,849 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**

at December 31, 2017

4.3%

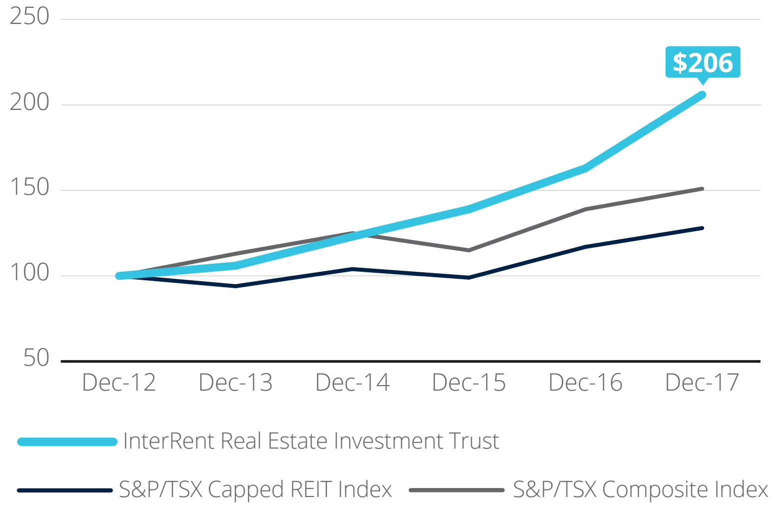
TOTAL PORTFOLIO RENT GROWTH

16.4%

TOTAL NOI GROWTH

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 2017 InterRent provided Unitholders with a total return of over 26%. 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,	2012	2013	2014	2015	2016	2017	Total Return
InterRent Real Estate Investment Trust	$100	$106	$123	$139	$163	$206	106%
S&P/TSX Composite Index	$100	$113	$125	$115	$139	$151	51%
S&P/TSX Capped REIT Index	$100	$94	$104	$99	$117	$128	28%

Source: S&P Market Intelligence, S&P Dow Jones Indices.

4.9%
STABILIZED PORTFOLIO RENT GROWTH

10.3%
STABILIZED NOI GROWTH

10.1%
FFO/UNIT GROWTH (BASIC)

CANADA

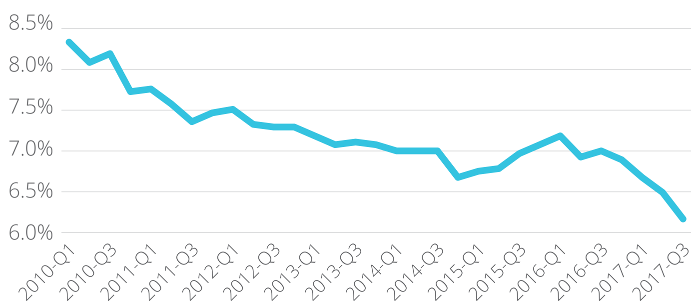
MULTI-FAMILY MARKET OVERVIEW

In 2017, the Canadian rental market continued to strengthen as it saw several positive changes across the country. Following cumulative increases in vacancy in 2015 and 2016, CMHC reported that the average vacancy rate for purpose-built rental apartments decreased from 3.7% in 2016 to 3.0% in 2017. A 3.0% national vacancy marks a ten-year low in the Canadian rental market, ending the upward trend experienced the previous two years. Much of the drop in vacancy can be attributed to a slowing supply of purpose-built rental units, followed by a spike in demand felt throughout many of the nation's major markets.

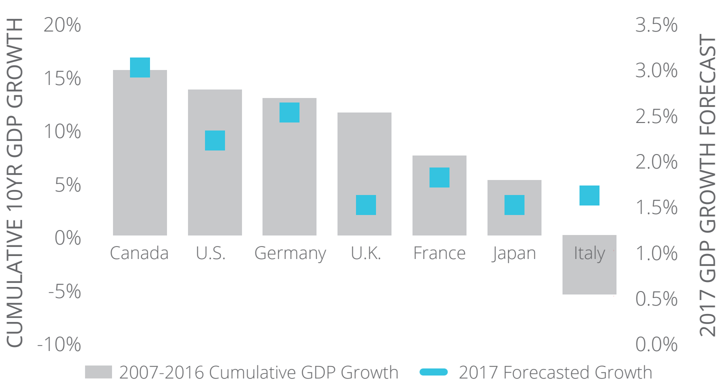
Throughout Canada, the demand for rental apartments has increased, stemming from a variety of factors including improved youth employment, an aging Canadian population, and exceedingly high net international migration.

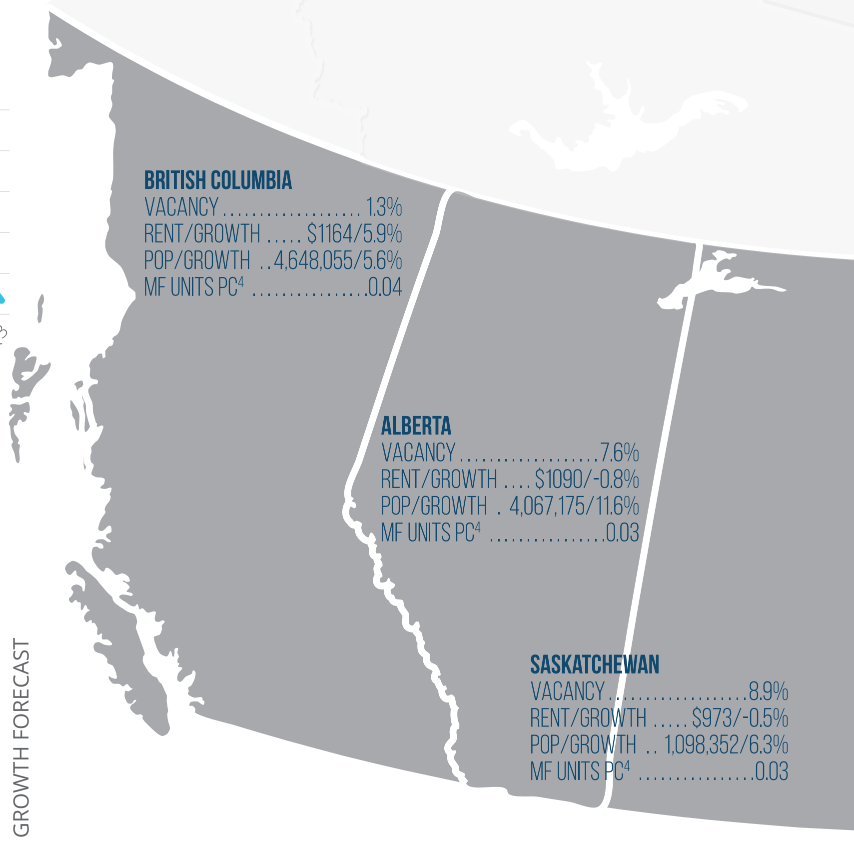
2016 was a near record year for net immigration into Canada, substantially impacting the population[1]. 2017 also saw above average net immigration levels, which continue to provide a solid foundation for rental growth and demand across Canada. According to CMHC, the majority of new international migrants tend to rent for their first few years upon arrival, further showing that the rental market remains the more economical choice over homeownership.

▼ Canada Unemployement[3]



▼ GDP Growth for the G7 (2007-2017)[3]





Sources: Vacancy, Average Rent/Growth, and Multifamily Universe obtained from CMHC Primary Rental Market Statistics (Oct. 2017). Population data obtained from Statistics Canada (2011 and 2016 census). (Population Growth from 2011-2016).

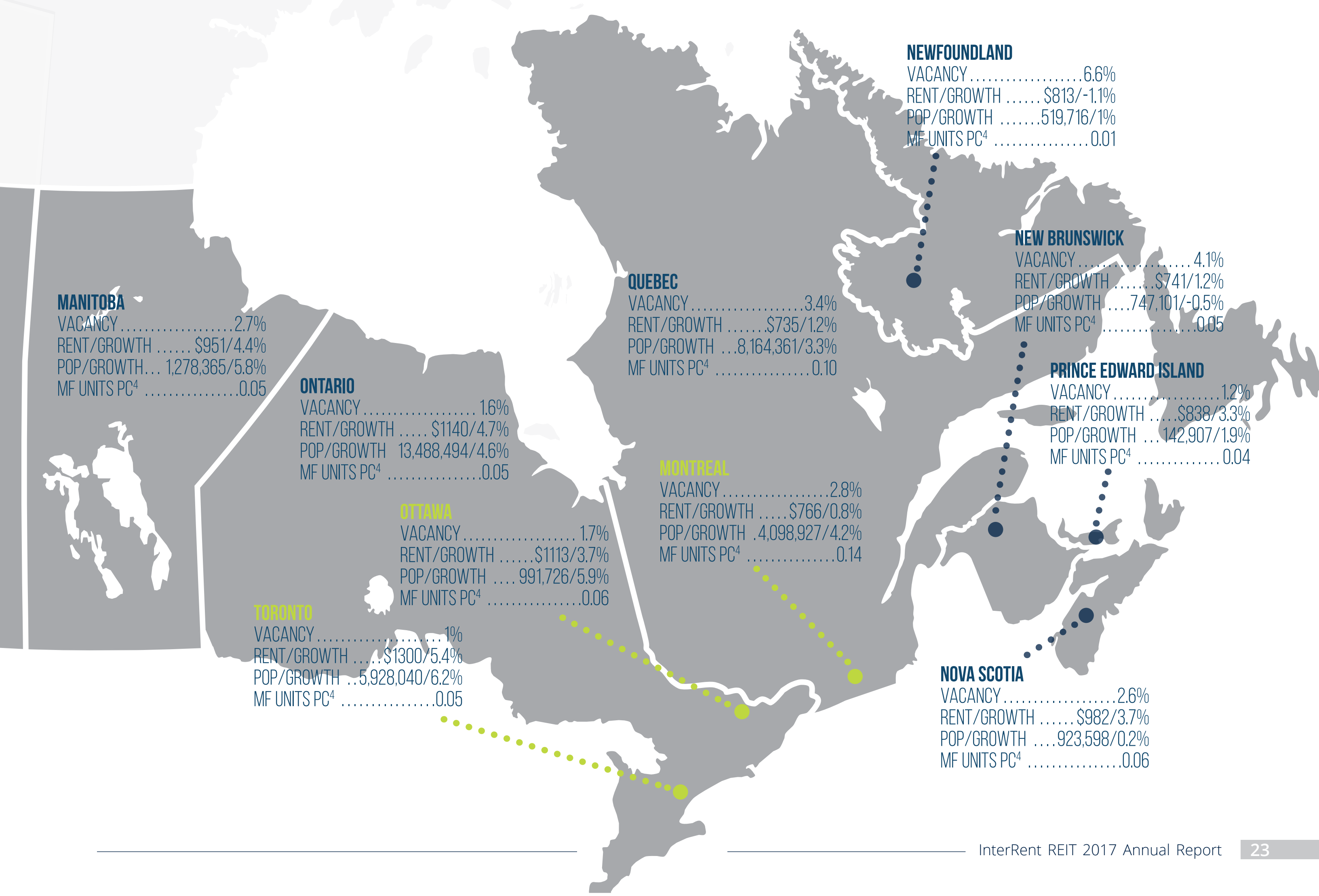
[1] CMHC [2] Statistics Canada [3] OECD [4] Multi-Family Units Per Capita

Given the affordable rental market seen in Canada, younger households tend to enter the rental market as opposed to homeownership. As reported by CMHC, this source of demand is further propelled by strengthening youth employment growth in the 15-29 age bracket. Just as younger households tend to enter the rental market, Canadians entering into retirement tend to do the same. The trend of an increasing population of Canadians aged 65 and older continued in 2017, furthering the demand for rental apartments[1].

While the majority of provinces saw a decline in vacancy given the increase in demand, according to CMHC the largest declines were seen in Ontario and Quebec. While Ontario and Quebec also experienced increased supply of new purpose-built rental units, the demand in these provinces was substantial enough to outpace the growing supply. The high demand in Ontario and Quebec is primarily attributed again to steady growth in youth employment, followed by the relatively high proportion of international immigrants settling in these two provinces.

Average rent for a two-bedroom apartment outpaced inflation in 2017, with an average increase of 2.7% year-over-year[1]. Major centers in Ontario experienced increased rents stemming from low vacancy and high demand including Ottawa and the GTA.

Looking ahead to 2018, Canada has a positive economic outlook. Unemployment sits at a near record low of 5.7% given the 422,500 new jobs created in the last 12-months[2]. In the last ten years, Canada has experienced the highest GDP growth among the G7 nations. Canada has generated cumulative GDP growth of 15.5% over the period, outperforming nations such as the United States and Germany[3].



GTA
(INCLUDING HAMILTON)

The Greater Toronto Area including Hamilton, continues to be a focus for InterRent as we grow our portfolio. The region has a history of exhibiting a healthy economy and a strengthening rental market, making it one of Canada's top markets to date.

According to the Conference Board of Canada, Toronto's GDP is expected to grow 3.7% in 2017 and 2.5% in 2018. The real estate industry is expected to be a primary beneficiary of that sustained growth as low vacancy and high rents are expected to last.

With the spike in housing prices felt across the GTA, many potential first-time buyers shifted their focus to more affordable options in the rental market. The demand stemming from this change in consumer preferences drove vacancy rates down to near record lows of 1.1% [1] in 2017 from an already low 1.4%[1] in 2016. With housing prices expected to remain high, more residents are expected to enter the rental market in the coming years.

The tightening market conditions in the GTA allowed for increased rents throughout the region, even as the rental universe increased by 2,577 units[1]. Even though supply has risen, it has yet to catch up to demand in the area.

The average rent in the GTA is $1,296[1], up 5.4% year-over-year. With low vacancy and increased demand throughout the area, rents are expected to increase further in the coming years. CMHC reported that landlords were able to keep rent increases above the 1.5% provincial guideline as the market becomes competitive with a new wave of demand.

Along with more potential homebuyers shifting to the rental market, increased net migration to the area has also strengthened the market. As reported by CMHC, the majority of new immigrants will favor the rental market for the first several years upon arrival as the rental market is more affordable than homeownership, especially in the GTA. With rising homeownership costs throughout the area, this trend is expected to remain as net migration to the area continues to rise.

This influx of potential renters, further enhanced by increased international student enrollments and higher numbers of temporary workers is keeping demand high. With little signs of slowing down, demand is expected to last as the GTA exhibits a strong job market and a healthy economic outlook.

Along the coast of Lake Ontario to Hamilton, the rental market saw similar changes in 2017. CMHC reported that steady household income levels combined with increasing mortgage carrying costs are preventing many Hamilton residents from becoming first-time home buyers. The result was similar to that of in Toronto, where potential first time home buyers shifted to the rental market.

CMHC further reported that vacancy rates in Hamilton dropped from 3.8% to 2.4% year-over-year, while

2,587
SUITES

354,845
TOTAL SUITES IN MARKET

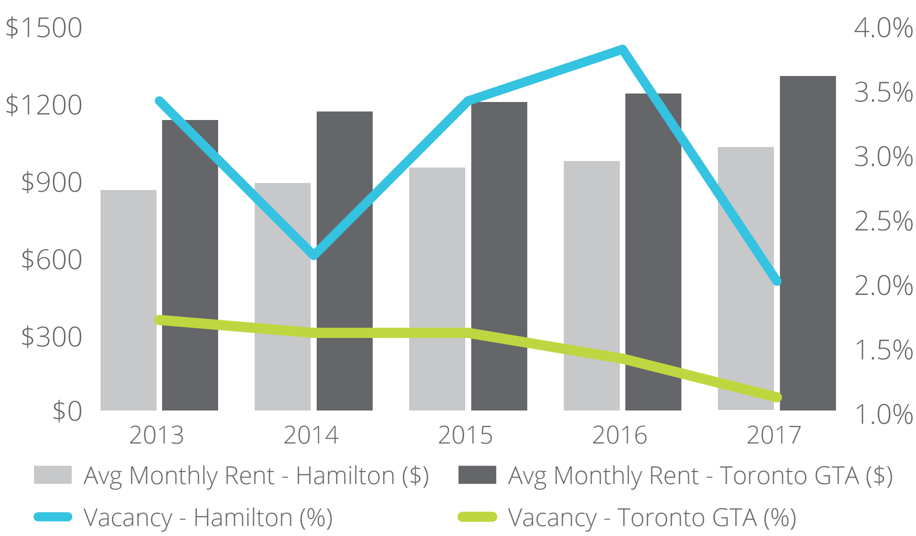
0.7%
PENETRATION

20
PROPERTIES

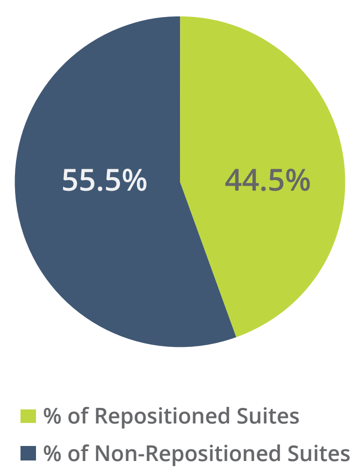
29.9%
OF PORTFOLIO

average rents increased 5.1% over the same period. The drop in vacancy was also due to increasing employment in the 25-44 year old age group. That prime rental demographic also grew 5.5%[1] year-over-year, driving up the demand for rental units. Like most of InterRent's other core markets, Hamilton is also the beneficiary of rising student populations and net migration to the area, all factors driving rental demand upwards.

▼ Vacancy and Rent Trends[1]



▼ Portfolio Breakdown



[1] Source: CMHC

MONTREAL

1101 RACHEL
Montreal, QC

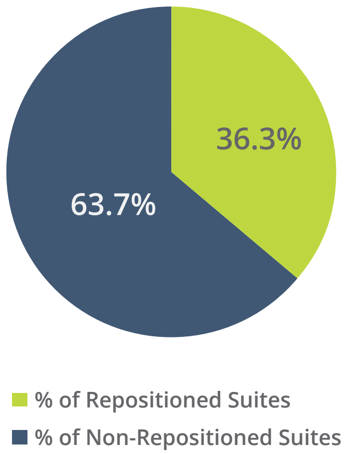
For several years, InterRent has identified the Montreal region as a core market. The Montreal rental market has performed favourably over the past few years, and 2017 continued that positive trend.

As reported by CMHC, the Montreal rental market experienced the lowest vacancy rates since the early 2000's, settling at 2.8% for the year as compared to 3.9% in 2016. Much of the decline in vacancy can be attributed to both increased net migration to the area, along with a decline in the interprovincial migration deficit.

Canadians and new immigrants are choosing Montreal as their place of residence and as with many of InterRent's core markets, demand is exceeding supply in the area, driving the vacancy rate down. The CBoC reported that local GDP was expected to grow 3.2% in 2017 and 2.0% in 2018, showing sustained growth in the coming years. Healthy GDP growth is a positive sign for the continued growth and strength of Montreal's rental market. The strong economic outlook combined with favorable population growth will be a driving force behind Montreal's rental market growth.

Average rents in the area also increased 0.8% year-over-year, again showing the demand for units in the area and consumer preferences to enter the rental market[1]. Along with the increased net migration and declining interprovincial migration deficit, CMHC also reported a decline in the movement to homeownership amongst households aged 15-24.

Portfolio Breakdown



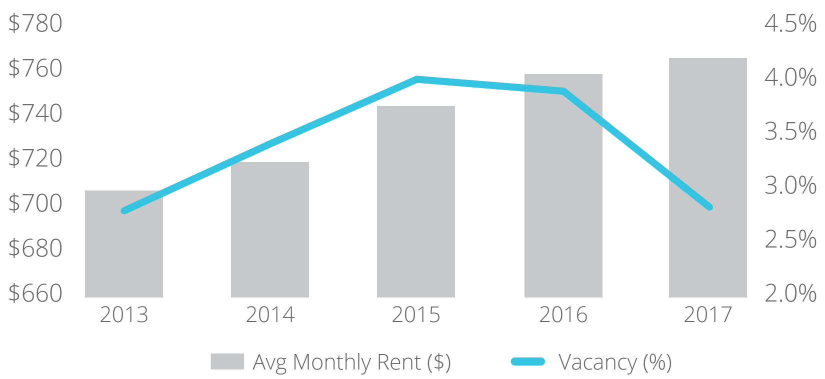
Like many major markets in Ontario and Quebec, renting remains a more affordable option than homeownership. CMHC further reported that a similar trend could be seen among 25-34 year olds.

Montreal has also made investments in public transportation throughout the city with the new $5.9 billion REM automated transportation network. The expanded transportation system will likely create development opportunities along the line and increased employment throughout the city.

Low vacancy and increasing rents are further highlighted by the fact that the supply of rental units in Montreal increased by 4,300 units. CMHC reported the increased supply of units was spurred by developers focusing their attention on accommodating an increasingly aging population in addition to the overall population growth in the area.

Even with increased supply throughout the area, driving factors behind increased demand show no signs of letting up, creating a positive outlook for the rental market. Montreal continues to be a core market for InterRent as we foresee strong growth and new opportunities for years to come.

Vacancy and Rent Trends[1]



1,381
SUITES

574,102
TOTAL SUITES IN MARKET

7
PROPERTIES

0.2%
PENETRATION

15.9%
OF PORTFOLIO

[1] Source: CMHC

NATIONAL CAPITAL REGION

RIVIERA
Gatineau, QC

The National Capital Region remains one of Canada's top rental markets with positive signs of continued growth for years to come. The relative affordability of the NCR rental market combined with a healthy economy are attracting young families to the region.

According to the CBoC, Ottawa is forecast to have consistent GDP growth in the coming years with an estimated 1.8% annual GDP growth from 2018 to 2021. Much of this sustained growth can be attributed to increased employment in the Ottawa public sector, which has seen reduced employment in years previous. Beyond that, increased net migration and rising youth employment are providing a solid foundation to a growing rental market.

According to CMHC, apartment vacancy in Ottawa fell this past year from 3.0% to 1.7% while average rents climbed 3.7% over the same period. Demand continues to outpace supply in the area as both increases in population and employment favor the region's growing rental market.

CMHC also reported that full-time employment for 15-24 year olds increased overall this past year, while the 25-44 year old age bracket saw a dip in full-time employment. These employment trends in Ottawa favor the rental market as they support an early entry for youths into the market, while simultaneously delaying an exit from older workers. In the face of rising costs of homeownership, renting continues to be the more affordable option.

In addition to employment growth in the National Capital Region, steady population growth and net migration has continued to strengthen the rental market. Ottawa has been a popular destination for new residents coming to Canada, and the affordable rental market is enticing residents in other Canadian markets to move to the area. The growing tech industry in Ottawa has also been a major source of growth in the area.

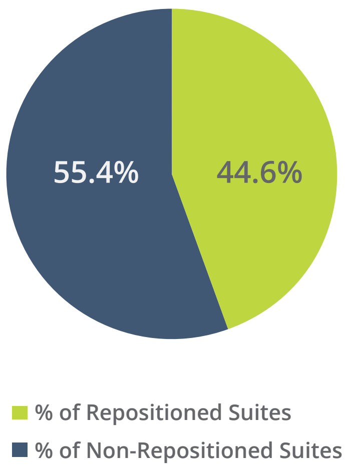
The increased employment and net migration will be handled by the new $2.1 billion Phase I plan for Ottawa's Light Rail Transit (LRT) system coming online in 2018, followed by Phase II in 2023. The new transit line will offer not only convenience with better transportation throughout the city, but new development opportunities as well.

Across the river, Gatineau experienced similar rental market activity. The demand in the Gatineau rental market greatly outpaced supply, driving vacancy down. CMHC reported that 440 new purpose built rental units were completed between July 2016 and June 2017, well above the average over the last few years. Demand was driven by increased net migration to the area, seeing its highest increase since 2011.

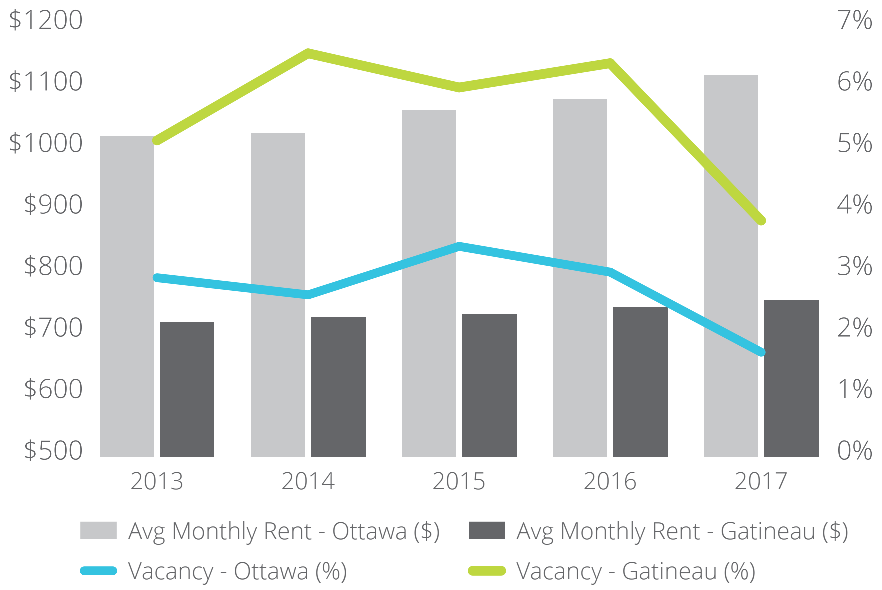
As reported by CMHC, the increased demand forced vacancy down from 6.3% in 2016 to just 3.8% in 2017, a substantial drop year-over-year. In addition to declining vacancy, average rent increased 2.2% this past year.

InterRent has maintained a focus on the National Capital Region with 25 properties making up 33.3% of the portfolio. The National Capital Region has shown a strong and continuing track record of rental growth, supported by a healthy economic outlook and stable capitalization rates.

Portfolio Breakdown



Vacancy and Rent Trends[1]



2,883
SUITES

83,306
TOTAL SUITES IN MARKET

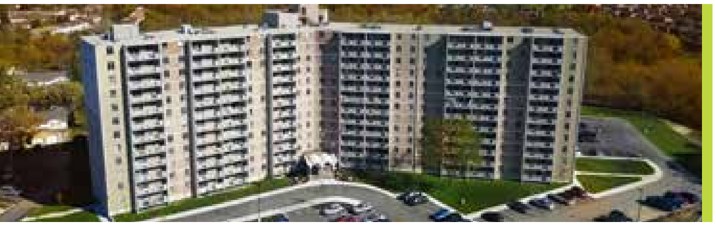
3.5%
PENETRATION

33.3%
OF PORTFOLIO

25
PROPERTIES

LIV APARTMENTS
Ottawa, ON

PROPERTY **MAP**



GTA (INCLUDING HAMILTON)

2,587
SUITES

20
PROPERTIES

354,845
TOTAL SUITES IN MARKET

29.9%
OF PORTFOLIO

0.7%
PENETRATION

MONTREAL

1,381
SUITES

7
PROPERTIES

574,102
TOTAL SUITES IN MARKET

15.9%
OF PORTFOLIO

0.2%
PENETRATION

NATIONAL CAPITAL REGION

2,883
SUITES

25
PROPERTIES

83,306
TOTAL SUITES IN MARKET

33.3%
OF PORTFOLIO

3.5%
PENETRATION

SECONDARY MARKETS

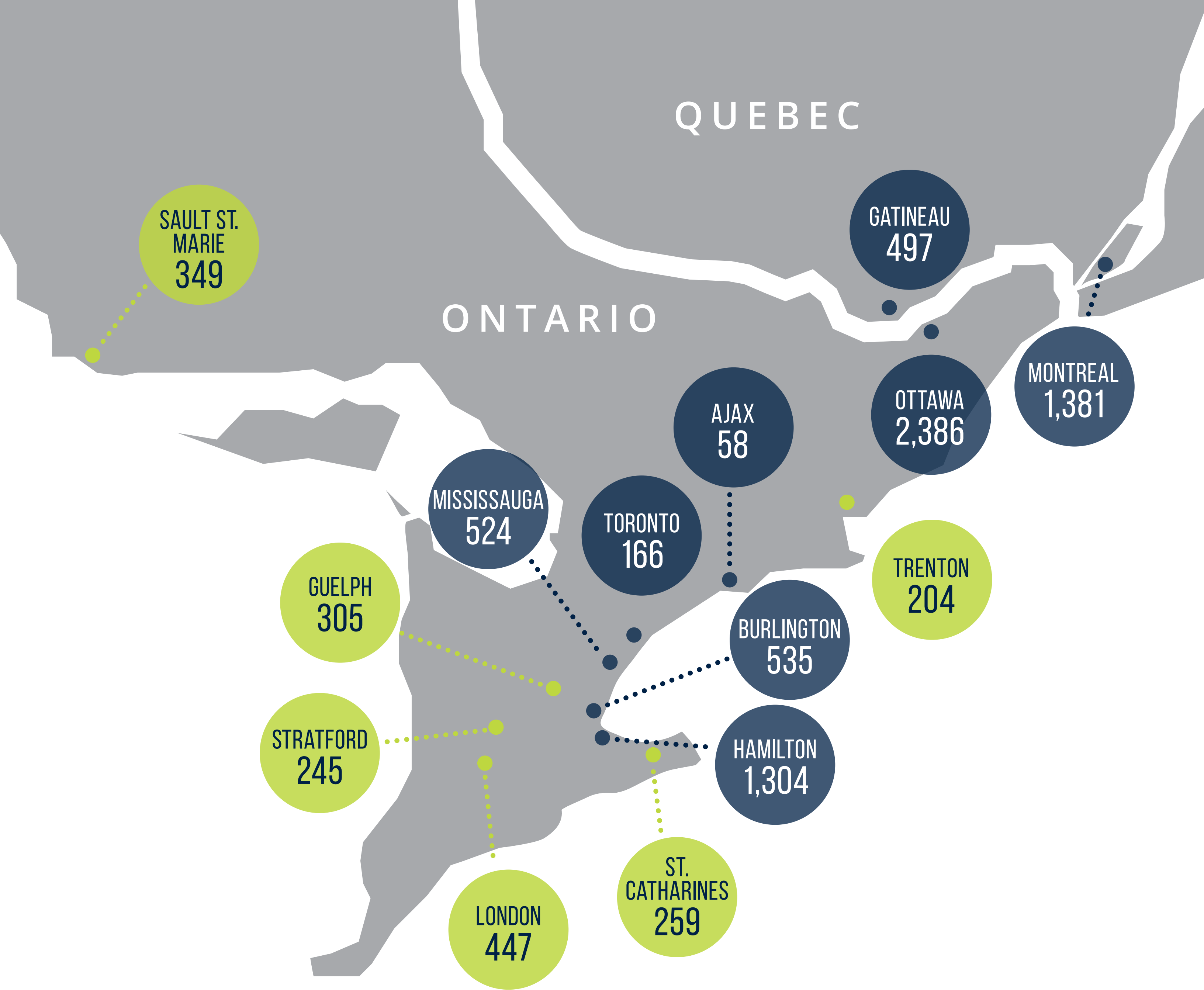
1,809
SUITES

20
PROPERTIES

179,472
TOTAL SUITES IN MARKET

20.9%
OF PORTFOLIO

1.0%
PENETRATION



NUMBER OF PROPERTIES **72**

NUMBER OF SUITES **8,660**

	2016	2017
% OF REPOSITIONED SUITES IN PORTFOLIO	**47%**	**55%**
% OF NON-REPOSITIONED SUITES IN PORTFOLIO	**53%**	**45%**

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 and 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

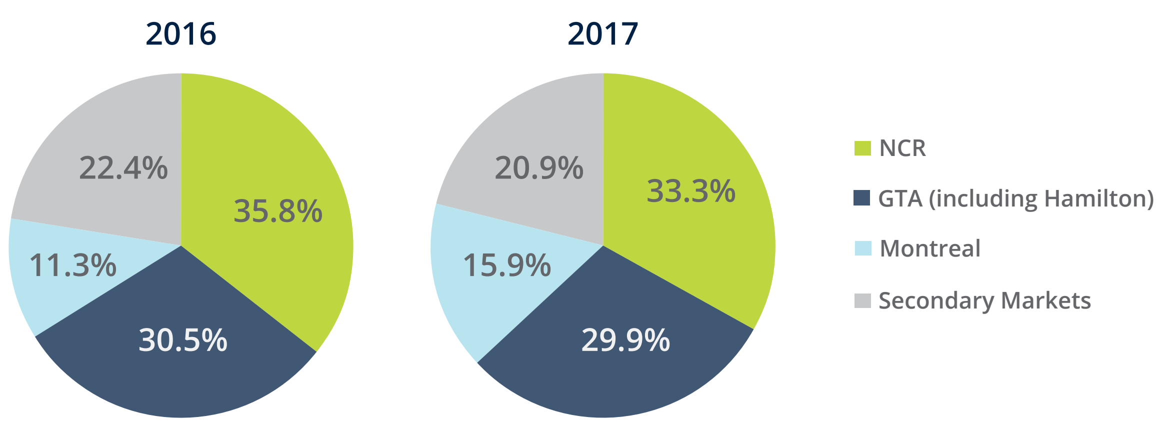
InterRent looks for communities with an economic track record of rising rental rates, preferably where the REIT has experience & success in driving rates up and where existing infrastructure can be leveraged.

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 2017, the REIT acquired 602 suites in its core markets.

Geographic Exposure by Suite Count



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

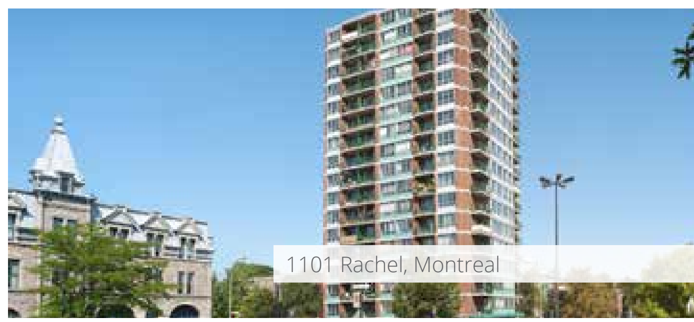
2016 ACQUISITIONS	SUITES
1101 Rachel, Montreal (QC)	127
Parkway Park Ottawa (ON)	418
	545

2017 ACQUISITIONS	SUITES
1111 & 1121 Mistral, Montreal (QC)	224
3 East 37th, Hamilton, (ON)	74
2121 & 2255 Saint Mathieu, Montreal (QC)	249
718 Lawrence, Hamilton (ON)	55
	602
TOTAL	**4,835**

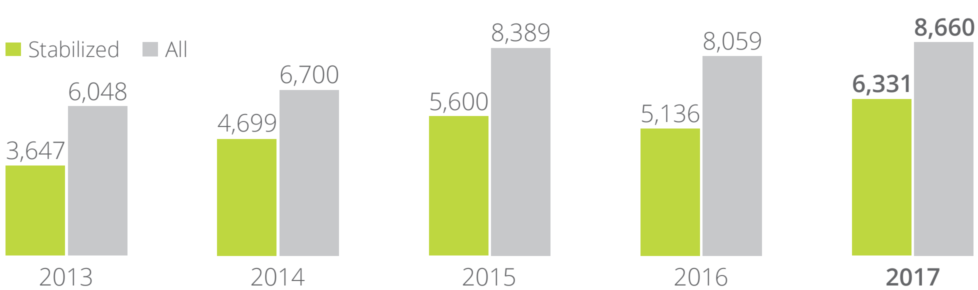

70 Roehampton, St. Catharines


5220 Lakeshore, Burlington


Forest Ridge, Ottawa


1101 Rachel, Montreal

1121 Mistral, Montreal



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.

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.

1101 RACHEL
Montreal, QC

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.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended December 31, 2017

February 22, 2018

614 LAKE
St. Catharines, 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, 2017 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, 2017 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, 2017 and 2016.

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

Gross Rental Revenue, Net Operating Income, Stabilized property results, Funds from Operations, Adjusted Funds from Operations and EBITDA (or, in each case, substantially similar terms) are measures sometimes used by Canadian real estate investment trusts as indicators of 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.

Gross Rental Revenue is the total potential revenue from suite rentals before considering vacancy and rebates and excludes other revenue from ancillary sources.

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.

Stabilized property results are revenues, expenses and NOI from properties owned by the Trust continuously for 24 months prior to the beginning of the period being reported.

Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO") are financial measures commonly used by many Canadian real estate investment trusts 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 and AFFO in accordance with the REALpac White Paper on Funds from Operations revised February 2017. Management considers FFO and AFFO a useful measure of recurring economic earnings. Prior period data has been restated to comply with the new definition of AFFO.

Adjusted Cash Flows from Operations ("ACFO") is an additional financial measure of economic cash flow based on the operating cash flows of a business adjusted for specific items. The Trust presents ACFO in accordance with the REALpac White Paper dated February 2017. Management considers ACFO a useful measure of sustainable cash flow.

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 Gross Rental Revenue, NOI, Stabilized properties, FFO, AFFO, ACFO 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.

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 well located 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. In 2017, the REIT added 473 suites in Montreal and 129 suites in Hamilton for a combined total of 602 suites. 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, 2017, approximately 27% (2,329 suites) of the portfolio was non-stabilized compared to approximately 36% (2,923 suites) at December 31, 2016. Non-stabilized properties in any reporting period are those 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. Purchased a low-rise building of 48 suites for $5.3 million. The property is immediately adjacent to its existing buildings at the corner of Sir Walter Scott Avenue and Kildare Street in the Cote-St-Luc neighborhood of Montreal that closed on January 10, 2018; and,
    b. Committed to purchase 2 buildings in Grimsby (Hamilton area), totalling 172 suites, for $21.1 million. The property is within close proximity of the future Grimsby GO Train Station.
- The REIT, along with its joint venture partners, are continuing to make progress on the overall site design for the 900 Albert Street (Ottawa), which will be one of the first true multi-use developments in the country on a mass transit line. The 3.6 acre site is the only station situated at the intersection of the Trillium Line (the North/South line) and the Confederation Line (the East/West line) of the LRT and is approved for up to three towers including multi-family, retail and office space.

- 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 $0.8 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 $1.1 million in AGIs planned, approximately $0.5 million is scheduled to be rolled out in 2018; $0.3 million in 2019; and, $0.3 million in 2020-21.
- The REIT entered into an agreement with CLV Group Inc. to internalize the REIT's property management function effective February 15, 2018. As a result of the internalization, the property, asset and project management fees payable by the REIT under its existing property management agreement will be eliminated. The internalization is immediately accretive to the REIT with an expected increase in AFFO per Unit exceeding 4%, based on 2018 expectations. Upon closing of the transaction, the current employees of the property manager who are providing property management services for the REIT's properties became employees of the REIT or one of its affiliates. The REIT and CLV Group Inc. have agreed to use commercially reasonable efforts to cooperate for a period of up to 24 months following the closing of the transaction to, among other things, ensure the orderly transition of the REIT-related property management business and to minimize any disruption to either party.

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, 2017 compared to the same period in 2016:

Selected Consolidated Information In $000's, except per Unit amounts and other non-financial data	3 Months Ended December 31, 2017	3 Months Ended December 31, 2016	Change	12 Months Ended December 31, 2017	12 Months Ended December 31, 2016	Change
Total suites	-	-	-	**8,660**	8,059	**+7.5%**
Average rent per suite (December)	-	-	-	**$1,110**	$1,064	**+4.3%**
Occupancy rate (December)	-	-	-	**97.9%**	94.8%	**+310bps**
Operating revenues	**$29,710**	$24,782	**+19.9%**	**$109,004**	$97,466	**+11.8%**
Net operating income (NOI)	**18,356**	14,507	**+26.5%**	**66,166**	56,868	**+16.4%**
NOI %	**61.8%**	58.5%	**+330bps**	**60.7%**	58.3%	**+240bps**
Stabilized average rent per suite (December)	-	-	-	**$1,118**	$1,066	**+4.9%**
Stabilized occupancy rate (December)	-	-	-	**98.4%**	96.6%	**+180bps**
Stabilized NOI	**13,720**	12,332	**+11.3%**	**52,881**	47,926	**+10.3%**
Stabilized NOI %	**62.8%**	60.4%	**+240bps**	**62.7%**	60.5%	**+220bps**
Net Income	**$42,345**	$17,578	**+140.9%**	**$200,980**	$38,614	**+420.5%**
Funds from Operations (FFO)	**$9,645**	$7,335	**+31.5%**	**$34,662**	$27,796	**+24.7%**
FFO per weighted average unit - basic	**$0.115**	$0.102	**+12.7%**	**$0.426**	$0.387	**+10.1%**
FFO per weighted average unit - diluted	**$0.114**	$0.101	**+12.9%**	**$0.424**	$0.385	**+10.1%**
Adjusted Funds from Operations (AFFO)	**$8,502**	$6,526	**+30.3%**	**$30,570**	$24,319	**+25.7%**
AFFO per weighted average unit - basic	**$0.101**	$0.090	**+12.2%**	**$0.376**	$0.339	**+10.9%**
AFFO per weighted average unit - diluted	**$0.101**	$0.090	**+12.2%**	**$0.374**	$0.337	**+11.0%**
Cash distributions per unit	**$0.0653**	$0.0598	**+9.2%**	**$0.2475**	$0.2330	**+6.2%**
AFFO payout ratio	**64.5%**	66.1%	**-160bps**	**65.8%**	68.8%	**-300bps**
Debt to GBV	-	-	-	**47.8%**	55.3%	**-750bps**
Interest coverage (rolling 12 months)	-	-	-	**2.76x**	2.51x	**+0.25x**
Debt service coverage (rolling 12 months)	-	-	-	**1.78x**	1.54x	**+0.24x**

- Overall Portfolio:
  a. Operating revenue for the quarter rose by $4.9 million to $29.7 million, an increase of 19.9% over Q4 2016. Operating revenue for the year ended 2017 increased by $11.5 million, or 11.8% year-over-year, to $109.0 million.
  b. Average monthly rent per suite increased to $1,110 (December 2017) from $1,064 (December 2016), an increase of 4.3%.
  c. Occupancy for December 2017 was 97.9%, up from 97.3% in September 2017 and up 310 bps when compared to December 2016.

d. Net operating income (NOI) for the quarter increased by 26.5%, or $3.8 million, to $18.4 million compared to Q4 2016. For the quarter, NOI as a percentage of revenues was 61.8% and was up by 330 basis points compared to Q4 2016. NOI for the twelve months ended December 31, 2017 was $66.2 million, an increase of $9.3 million, or 16.4%, compared to 2016. NOI margin for the year ended 2017 was 60.7%, an increase of 240 basis points compared to 2016.

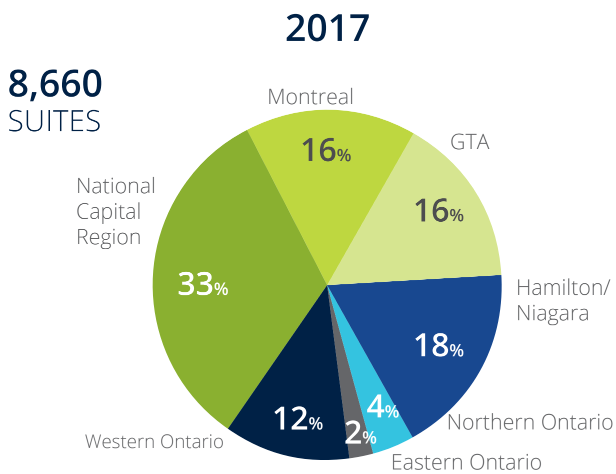
- Stabilized Portfolio:
  a) Operating revenue for the quarter rose by $1.4 million to $21.9 million, an increase of 7.1% over Q4 2016. Operating revenue for the year ended 2017 increased by $5.1 million to $84.4 million, or 6.5%, over 2016.
  b) Average monthly rent per suite increased to $1,118 (December 2017) from $1,066 (December 2016), an increase of 4.9%.
  c) Occupancy increased to 98.4% (December 2017) from 96.6% (December 2016).
  d) NOI for the quarter increased by 11.3%, or $1.4 million, to $13.7 million compared to Q4 2016. For the quarter, NOI as a percentage of revenues was 62.8% and was up by 240 basis points compared to Q4 2016. NOI for the twelve months ended December 31, 2017 was $52.9 million, an increase of $5.0 million, or 10.4%, compared to 2016. NOI margin for the year ended 2017 was 62.7%, an increase of 220 basis points compared to 2016.
- Fair value gain on investment properties in the year of $172.5 million was driven by property level operating improvements as well as a reduction in the overall weighted average capitalization rate to 4.55% compared to 4.96% as at December 31, 2016.
- Net income for the year was $201.0 million, an increase of $162.4 million compared to 2016. The increase was driven primarily by the fair value gain on investment properties as well as rental growth and occupancy improvements.
- Funds from Operations (FFO) for the quarter increased by 31.5% to $9.6 million compared to Q4 2016. FFO for the year increased by 24.7% to $34.7 million compared to 2016.
- FFO per Unit for the quarter increased by 12.7% to $0.115 per Unit compared to $0.102 per Unit for Q4 2016. FFO for the year increased by 10.1% to $0.426 per Unit compared to $0.387 per Unit for 2016.
- Adjusted Funds from Operations (AFFO) for the quarter increased by 30.3% to $8.5 million compared to Q4 2016. AFFO for the year increased by 25.7% to $30.6 million compared to 2016.
- AFFO per Unit for the quarter increased by 12.2% to $0.101 per Unit compared to $0.090 per Unit for Q4 2016. AFFO for the year increased by 10.9% to $0.376 per Unit compared to $0.339 per Unit for 2016.
- Debt to GBV at year end was 47.8%, a decrease of 750 basis points from December 2016.
- The Trust completed the following investment property transactions during the year:

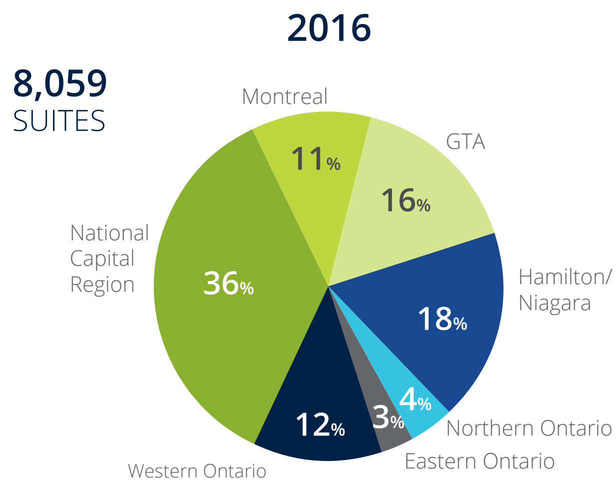
Transaction Date	Property	City	Region	Property Type	# of Suites	Transaction Price	$ / Suite
6-Mar-17	1111 & 1121 Rue Mistral	Montreal	Montreal	Elevator	224	$24,000,000	$107,143
Q1/17 Acquisition					**224**	**$24,000,000**	**$107,143**
28-Aug-17	3 East 37th Street	Hamilton	Hamilton/Niagara	Elevator	74	$11,250,000	$152,027
14-Sep-17	2121 & 2255 St. Mathieu	Montreal	Montreal	Elevator	249	$53,753,725	$215,878
Q3/17 Acquisitions					**323**	**$65,003,725**	**$201,250**
1-Dec-17	718 Lawrence Road	Hamilton	Hamilton/Niagara	Elevator	55	$6,000,000	$109,091
Q4/17 Acquisition					**55**	**$6,000,000**	**$109,091**
Total Acquisitions					**602**	**$95,003,725**	**$157,813**

PORTFOLIO SUMMARY

The Trust started the year with 8,059 suites. During the year ended 2017 the Trust purchased four properties totalling 602 suites and removed 1 suite from LIV to be used as commercial space. At December 31, 2017, the Trust owned 8,660 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 (2,329 suites) and the stabilized portfolio (6,331 suites) to drive rents, reduce operating costs, and streamline operations. At December 31, 2017, approximately 27% of the portfolio was non-stabilized. Management has identified several cities within its geographical clusters for growth, and has been successful in adding 602 suites within these clusters during the year. 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 79% of InterRent's suites now being located in these core markets.

▼ Suite Portfolio By Region





THE LAKESHORE CLUB
Burlington, ON

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 $ 000's	3 Months Ended December 31, 2017		3 Months Ended December 31, 2016		12 Months Ended December 31, 2017		12 Months Ended December 31, 2016	
Gross rental revenue	**$28,977**		$25,097		**$108,462**		$99,476	
Less: vacancy & rebates	**(886)**		(1,722)		**(5,271)**		(7,291)	
Other revenue	**1,619**		1,407		**5,813**		5,281	
Operating revenues	**$29,710**		$24,782		**$109,004**		$97,466	
Expenses								
Property operating costs	**4,996**	**16.8%**	4,523	18.3%	**18,616**	**17.1%**	16,992	17.5%
Property taxes	**3,563**	**12.0%**	3,192	12.9%	**14,305**	**13.1%**	13,548	13.9%
Utilities	**2,795**	**9.4%**	2,560	10.3%	**9,917**	**9.1%**	10,058	10.3%
Operating expenses	**$11,354**	**38.2%**	$10,275	41.5%	**$42,838**	**39.3%**	$40,598	41.7%
Net operating income	**$18,356**		$14,507		**$66,166**		$56,868	
Net operating margin	**61.8%**		58.5%		**60.7%**		58.3%	

REV ENUE

Gross rental revenue for the year ended December 31, 2017 increased 9.0% to $108.5 million compared to $99.5 million for the year ended December 31, 2016. Operating revenue for the year was up $11.5 million to $109.0 million, or 11.8% compared to the prior year. The Trust owned, on a weighted average basis, 8,346 suites throughout 2017 (8,660 suites at the end of 2017) as compared to 8,271 throughout 2016 (8,059 at the end of 2016), an increase of 75 suites from 2016. On a weighted average suite basis, gross rental revenue for 2017 grew by 8.1% over 2016.

The average monthly rent for the month of December 2017 increased to $1,110 per suite from $1,064 (December 2016), an increase of 4.3%. On a stabilized basis, the average rent increased by $52 per suite to $1,118 (or up 4.9%) over December 2016. 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 in 2018.

Region	All Properties		Stabilized Properties		Non-stabilized Properties	
	# of Suites	Average Rent	# of Suites	Average Rent	# of Suites	Average Rent
Eastern Ontario	204	$1,022	204	$1,022	-	-
GTA	1,283	$1,390	1,160	$1,411	123	$1,192
Hamilton/Niagara	1,563	$1,022	816	$1,112	747	$923
Montreal	1,381	$954	781	$937	600	$976
Northern Ontario	349	$918	349	$918	-	-
NCR – Ottawa [(1)]	2,386	$1,221	1,527	$1,174	859	$1,310
NCR - Gatineau	497	$856	497	$856	-	-
Western Ontario	997	$1,056	997	$1,056	-	-
Total	**8,660**	**$1,110**	**6,331**	**$1,118**	**2,329**	**$1,088**

[(1)] The number of suites for the region includes all suites at LIV however extended stay suites have been excluded 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.

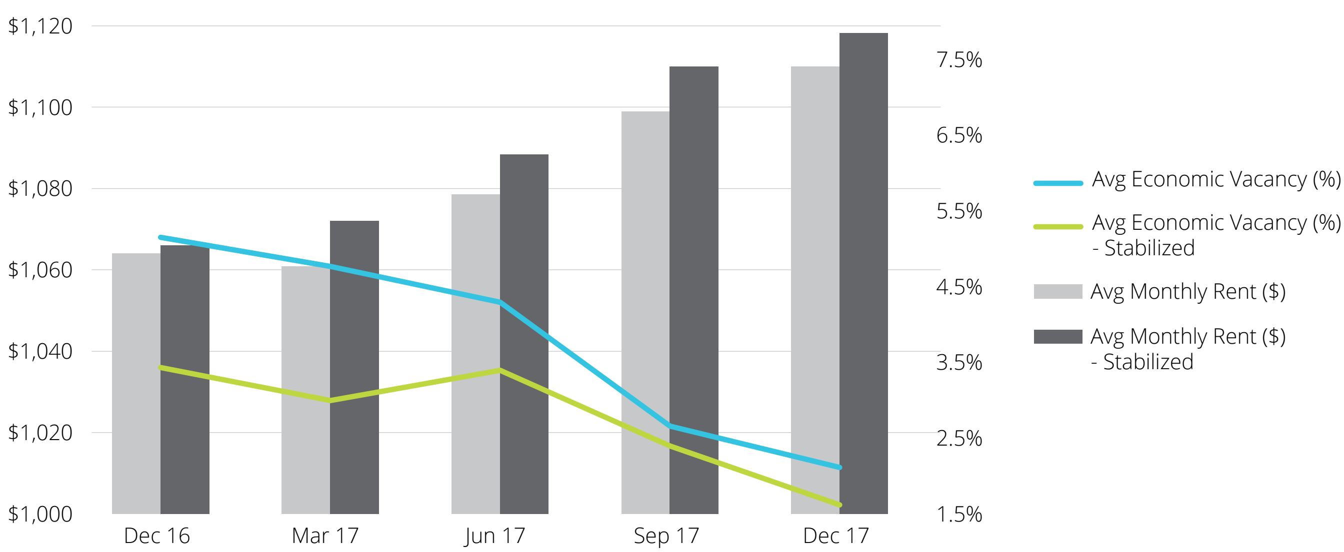
Portfolio Occupancy

As part of the ongoing effort to drive rents throughout the portfolio, the vacancy rate on an annual basis given the current demand with the markets that the REIT operates in is expected to be in the 3% to 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 2016	March 2017	June 2017	September 2017	December 2017
Average monthly rents all properties	$1,064	$1,061	$1,079	$1,099	$1,110
Average monthly rents stabilized properties	$1,066	$1,071	$1,088	$1,110	$1,118

The overall economic vacancy for December 2017 across the entire portfolio was 2.1%, a reduction of 310 basis points as compared to the 5.2% recorded for December 2016. Economic vacancy for the stabilized portfolio for December 2017 was 1.6%, a reduction of 200 basis points as compared to the 3.6% recorded for the month ended December 2016.

Improvements in vacancy were made across all markets with the exception of Northern Ontario. Notable decreases in vacancy, compared to December 2016, were recorded in the National Capital Region (down from 7.2%), Montreal (down from 7.0%) and Hamilton/Niagara (down from 6.0%).

Region	All Properties	Stabilized Properties	Non-Stabilized Properties
Eastern Ontario	0.5%	0.5%	n/a
GTA	0.7%	0.5%	2.6%
Hamilton/Niagara	3.2%	2.2%	4.4%
Montreal	4.0%	1.6%	7.0%
Northern Ontario	6.7%	6.7%	n/a
NCR	1.4%	1.6%	1.1%
Western Ontario	1.1%	1.1%	n/a
Total	2.1%	1.6%	3.5%

Other Revenue

Other rental revenue for the twelve months ended December 31, 2017 increased 10.1% to $5.8 million compared to $5.3 million for 2016. 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, 2017, other revenue represents 5.3% of net revenue as compared to 5.4% for 2016.

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, 2017 amounted to $18.6 million or 17.1% of revenue compared to $17.0 million or 17.5% of revenue for the year ended December 31, 2016. As a percentage of revenue, operating costs decreased by 40 basis points as compared to 2016.

PROPERTY TAXES

Property taxes for the year ended December 31, 2017 amounted to $14.3 million or 13.1% of revenue compared to $13.5 million or 13.9% of revenue for the year ended December 31, 2016. The $1.0 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, 2017 amounted to $9.9 million or 9.1% of revenue compared to $10.1 million or 10.3% of revenue for the year ended December 31, 2016. As a percentage of operating revenues and on a per suite basis, utility costs have decreased over last year.

Across the entire portfolio, the hydro sub-metering initiative reduced electricity costs by 21.1%, or $1.1 million for the year. At December 31, 2017, the REIT had 7,101 suites that had the capability to submeter hydro in order to recover the cost. Of the 7,101 suites that have the infrastructure in place, 5,409 suites were on hydro extra leases whereby the REIT is recovering the cost from the tenant. This represents approximately 76% of the submetered suites or approximately 62% of the total portfolio. The REIT currently has submetering in place for approximately 82% of the suites within the portfolio and plans on continuing to roll this program out to new properties as they are acquired.

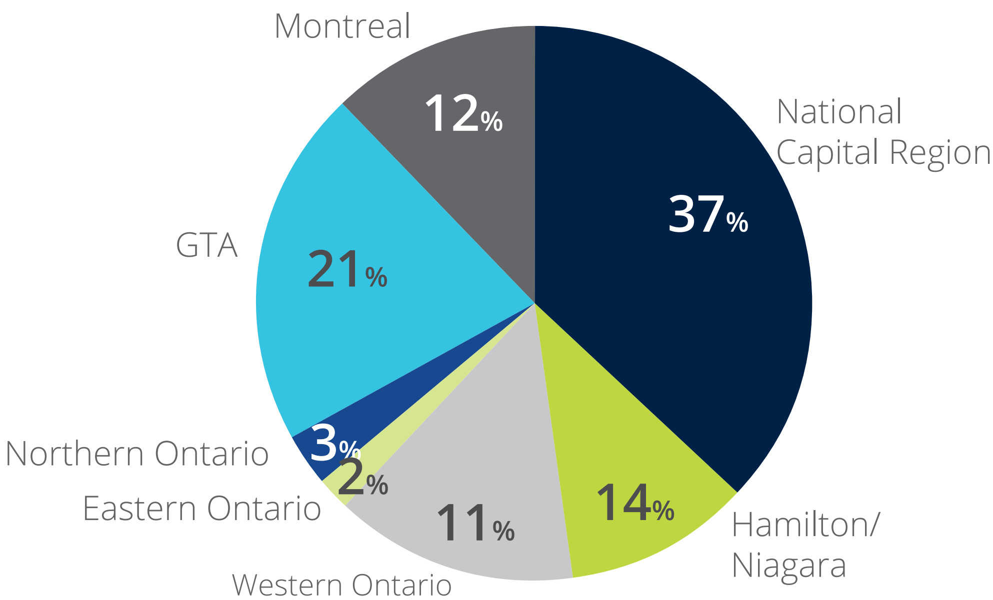
NET OPERATING INCOME (NOI)

NOI for the three months ended December 31, 2017 amounted to $18.4 million or 61.8% of operating revenue compared to $14.5 million or 58.5% of operating revenue for the three months ended December 31, 2016. The $3.8 million increase in the quarter is as a result of growing the portfolio and increasing net revenue by 19.9%.

NOI for the twelve months ended December 31, 2017 amounted to $66.2 million or 60.7% of operating revenue compared to $56.9 million or 58.3% of operating revenue for the twelve months ended December 31, 2016. The $9.3 million increase in the year is as a result of growing the portfolio and increasing net revenue by 11.8%. On a weighted average per suite basis (excluding the un-rented suites at LIV), NOI increased 13.3% from $7,051 per suite in 2016 to $7,992 per suite in 2017.

NOI from stabilized properties was $52.9 million, or 62.7% of revenue, and NOI from non-stabilized properties was $13.3 million, or 53.9% 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).

▼ **NOI by Region - 3 Months Ended December 31, 2017**



STABILIZED PORTFOLIO PERFORMANCE

Stabilized properties for the three and twelve months ended December 31, 2017 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, 2016 to December 31, 2017. As at December 31, 2017, the Trust has 6,331 stabilized suites, which represents 73.1% of the overall portfolio.

In $ 000's	3 Months Ended December 31, 2017		3 Months Ended December 31, 2016		12 Months Ended December 31, 2017		12 Months Ended December 31, 2016	
Gross rental revenue	**$21,204**		$20,222		**$82,978**		$79,479	
Less: vacancy & rebates	**(552)**		(999)		**(3,211)**		(4,624)	
Other revenue	**1,208**		1,196		**4,583**		4,370	
Operating revenues	**$21,860**		$20,419		**$84,350**		$79,225	
Expenses								
Property operating costs	**3,307**	**15.1%**	3,368	16.5%	**12,887**	**15.3%**	12,861	16.2%
Property taxes	**2,725**	**12.5%**	2,629	12.9%	**10,893**	**12.9%**	10,533	13.3%
Utilities	**2,108**	**9.6%**	2,090	10.2%	**7,689**	**9.1%**	7,905	10.0%
Operating expenses	**$8,140**	**37.2%**	$8,087	39.6%	**$31,469**	**37.3%**	$31,299	39.5%
Net operating income	**$13,720**		$12,332		**$52,881**		$47,926	
Net operating margin	**62.8%**		60.4%		**62.7%**		60.5%	

For the three months ended December 31, 2017, operating revenues for stabilized properties increased by 7.1% and operating expenses increased by 0.6% as compared to the same period last year. As a result, stabilized NOI has increased by $1.4 million, or 11.3%, as compared to the same period last year. NOI margin for Q4 2017 was 62.8% as compared to 61.4% for Q4 2016, an increase of 140 basis points. This increase was mainly attributable to higher operating revenue stemming from the 4.9% increase in gross rental revenue and the 44.7% reduction in vacancy and rebates.

For the twelve months ended December 31, 2017, operating revenues from stabilized properties increased by 6.5% and operating expenses increased by 0.5% as compared to the same period last year. As a result, stabilized NOI for 2017 increased by $5.0 million, or 10.3% as compared to 2016. NOI margin for 2017 was 62.7% as compared to 60.5% for 2016, an increase of 220 basis points. Once again, the increase in NOI is mainly attributable to the 4.4% increase in gross rental revenue and the 30.6% reduction in vacancy and rebates.

The average monthly rent for the month of December 2017 for stabilized properties increased to $1,118 per suite from $1,066 (December 2016), an increase of 4.9%. Economic vacancy for the month of December 2017 for stabilized properties was 1.6%, compared to 3.4% for December 2016.

	December 2016	March 2017	June 2017	September 2017	December 2017
Average monthly rents stabilized properties	$1,066	$1,071	$1,088	$1,110	$1,118
Average monthly vacancy stabilized properties	3.4%	3.0%	3.4%	2.4%	1.6%

For the twelve months ended December 31, 2017, property operating costs for stabilized properties remained the same as compared to 2016. Property taxes increased $0.4 million and utility costs decreased by $0.2 million as compared to 2016. As a percentage of revenue, operating costs, property taxes and utilities have all decreased as compared to 2016.

FINANCING AND ADMINISTRATIVE COSTS

In $ OOO's	3 Months Ended December 31, 2017	3 Months Ended December 31, 2016	12 Months Ended December 31, 2017	12 Months Ended December 31, 2016
Net operating income	**$18,356**	$14,507	**$66,166**	$56,868
Expenses				
Financing costs	**5,942**	5,150	**21,730**	20,797
Administrative costs	**2,588**	1,877	**9,101**	7,717
Income before other income expenses	**$9,826**	$7,480	**$35,335**	$28,354

FINANCING COSTS

Financing costs amounted to $5.9 million or 20.0% of operating revenue for the three months ended December 31, 2017 compared to $5.1 million or 20.8% of operating revenue for the three months ended December 31, 2016.

In $ OOO's	3 Months Ended December 31, 2017		3 Months Ended December 31, 2016	
	Amount	% of Revenue	Amount	% of Revenue
Cash based:				
Mortgage interest	**$5,276**	**17.8%**	$4,339	17.5%
Credit facilities	**521**	**1.7%**	636	2.6%
Interest income	**(83)**	**(0.3%)**	(51)	(0.2%)
Non Cash based:				
Amortization of deferred finance cost and premiums on assumed debt	**228**	**0.8%**	226	0.9%
Total	**$5,942**	**20.0%**	$5,150	20.8%

Financing costs amounted to $21.7 million or 19.9% of revenue for the twelve months ended December 31, 2017 compared to $20.8 million or 21.3% of revenue for the twelve months ended December 31, 2016. As a percentage of operating revenue, financing costs have historically been in the range of 19% to 22%.

In $ OOO's	12 Months Ended December 31, 2017		12 Months Ended December 31, 2016	
	Amount	% of Revenue	Amount	% of Revenue
Cash based:				
Mortgage interest	**$19,014**	**17.4%**	$17,711	18.2%
Credit facilities	**1,877**	**1.7%**	2,079	2.1%
Interest income	**(239)**	**(0.2%)**	(175)	(0.2%)
Non Cash based:				
Amortization of deferred finance cost and premiums on assumed debt	**1,078**	**1.0%**	1,182	1.2%
Total	**$21,730**	**19.9%**	$20,797	21.3%

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 the overall weighted average. Management has been able to maintain the weighted average rate of mortgage debt within a narrow range over the past year (2.69% at December 31, 2016 and 2.81% at December 31, 2017). Mortgage debt has increased on an overall basis, mainly attributable to up-financing for 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, 2017 amounted to $9.1 million or 8.3% of operating revenue compared to $7.7 million or 7.9% of revenue for the twelve months ended December 31, 2016.

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

In $ OOO's	3 Months Ended December 31, 2017	3 Months Ended December 31, 2016	12 Months Ended December 31, 2017	12 Months Ended December 31, 2016
Income before other income and expenses	**$9,826**	$7,480	**$35,335**	$28,354
Gain/(loss) on sale of assets	**-**	185	**-**	(977)
Fair value adjustments of investment properties	**36,699**	9,637	**172,464**	15,176
Unrealized gain/(loss) on financial liabilities	**(3,987)**	431	**(6,100)**	(3,338)
Distributions expense on units classified as financial liabilities	**(193)**	(155)	**(719)**	(601)
Net income	**$42,345**	$17,578	**$200,980**	$38,614

SALE OF ASSETS

There were no dispositions in the year ended December 31, 2017. 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.

FAIR VALUE ADJUSTMENTS OF INVESTMENT PROPERTIES

The fair value of the portfolio at December 31, 2017 and 2016 was determined internally by the Trust. In order to substantiate management's valuation, approximately 33% of the portfolio was appraised by external valuation professionals throughout 2017 (approximately 30% in 2016). For the twelve month period ended December 31, 2017, a fair value gain of $172.5 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 by improvements in operating results as well as adjustments to capitalization rates in certain geographic markets. The weighted average capitalization rate used across the portfolio at the end of Q4 2017 was 4.55% as compared to 4.96% for Q4 2016 and 4.57% for Q3 2017. The change in the weighted average capitalization rate is a result of acquisitions, the decrease in capitalization rates on properties that have undergone significant repositioning, and the compression of cap rates in Ontario and Quebec that has been driven by continued strong demand for multi-family assets within these markets.

UNREALIZED FAIR VALUE GAIN/LOSS ON FINANCIAL LIABILITIES

The Trust used a closing price of $9.13 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, 2017 was $23.6 million and a corresponding fair value loss of $4.1 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2017.

The Trust determined the fair value of the option plan (unit-based compensation liability) at December 31, 2017 at $3.4 million and a corresponding fair value loss of $1.7 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2017. The intrinsic value of the vested options is $3.8 million.

The Trust used a closing price of $9.13 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, 2017 was $1.7 million and a corresponding fair value loss of $0.3 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2017.

In $ OOO's	3 Months Ended December 31, 2017	3 Months Ended December 31, 2016	12 Months Ended December 31, 2017	12 Months Ended December 31, 2016
Fair value gain/(loss) on financial liabilities:				
Deferred unit compensation plan	**$(2,731)**	$153	**$(4,113)**	$(2,522)
Option plan	**(1,055)**	221	**(1,676)**	(648)
LP Class B unit liability	**(201)**	57	**(311)**	(168)
Fair value gain/(loss) on financial liabilities	**$(3,987)**	$431	**$(6,100)**	$(3,338)

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.

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INVESTMENT PROPERTIES

The following chart shows the changes in investment properties from December 31, 2016 to December 31, 2017.

In $ OOO's	December 31, 2017
Balance, December 31, 2016	$1,308,907
Acquisitions	99,026
Property capital investments	50,427
Fair value gains	172,464
Total investment properties	$1,630,824

The Trust acquired four properties (602 suites) for $99.0 million during the year ended December 31, 2017.

The fair value of the portfolio at December 31, 2017 was determined internally by the Trust. In order to substantiate management's valuation, approximately 32% of the portfolio was appraised by external valuation professionals throughout 2017. For the twelve month period ended December 31, 2017, a fair value gain of $172.5 million was recorded on the financial statements as a result of changes in the fair value of investment properties.

The Trust's repositioning program following the acquisition of a property typically spans 3-4 years, depending on how significant the capital requirements are and what the tenant turnover at the property is like. For the purpose of identifying capital expenditures related to properties being repositioned, for 2017 the REIT uses a cut-off of December 31, 2013. Any property purchased after this date is considered a repositioning property and capital expenditures are all part of the program to improve the property by lowering operating costs and/or enhancing revenue. For properties acquired prior to January 1, 2014, management reviews the capital expenditures to identify and allocate, to the best of its abilities, those that relate to enhancing the value of the property (either through lowering operating costs or increasing revenue) and those expenditures that relate to sustaining and maintaining the existing space. There are 4,725 suites in the REIT's portfolio that were acquired prior January 1, 2014 and are considered repositioned properties for the purpose of calculating maintenance capital investment.

For the twelve month period ended December 31, 2017, the Trust invested $50.4 million (2016 – $76.0 million) in the portfolio. Of the $50.4 million invested in the year, $30.5 million was invested in the repositioning properties. Of the remaining $19.9 million, $15.8 million was invested in value enhancing initiatives and $4.1 million was related to sustaining and maintaining existing spaces.

UNITHOLDERS' EQUITY

The following chart shows the changes in reported Unitholders' equity from December 31, 2016 to December 31, 2017.

Summary of Unitholders' Capital Contributions	Trust Units	Amount (in $'000)
December 31, 2016	72,108,536	$254,777
Units issued under prospectus	10,425,000	80,064
Issue costs	-	(3,661)
Units issued under long-term incentive plan	590,000	4,525
Units issued under the deferred unit plan	89,303	734
Units issued under distribution reinvestment plan	515,353	3,920
Units issued from options exercised	163,325	1,169
December 31, 2017	83,891,517	$341,528

On March 15, 2017 the Trust completed a bought deal prospectus whereby it issued 10,425,000 Trust Units for cash proceeds of $80,064 and incurred $3,661 in issue costs.

As at December 31, 2017 there were 83,891,517 Trust Units issued and outstanding.

DISTRIBUTIONS

The distributions were $0.2475 for 2017 and $0.2330 for 2016. The Trust is currently making monthly distributions of $0.0225 per Unit, which equates to $0.270 per Unit on an annualized basis. For the year ended December 31, 2017, the Trust's FFO and AFFO was $0.43 and $0.38 per unit respectively, compared to $0.39 and $0.34 for the year ended December 31, 2016.

Distributions to Unitholders were as follows:

In $ OOO's	12 Months Ended December 31, 2017	12 Months Ended December 31, 2016
Distributions declared to Unitholders	**$ 20,181**	$ 16,699
Distributions reinvested through DRIP	**(3,920)**	(3,634)
Distributions declared to Unitholders, net of DRIP	**$ 16,261**	$ 13,065
DRIP participation rate	**19.4%**	21.8%

InterRent's Declaration of Trust provides the 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.

WEIGHTED AVERAGE NUMBER OF UNITS

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

	3 Months Ended December 31, 2017	3 Months Ended December 31, 2016	12 Months Ended December 31, 2017	12 Months Ended December 31, 2016
Trust units	**83,817,200**	72,010,431	**81,087,076**	71,611,455
LP Class B units	**186,250**	186,250	**186,250**	186,250
Weighted average units outstanding - Basic	**84,003,450**	72,196,681	**81,273,326**	71,797,705
Unexercised dilutive options (1)	**467,802**	360,231	**467,802**	360,231
Weighted average units outstanding - Diluted	**84,471,252**	72,556,912	**81,741,128**	72,157,936

(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 December 31, 2017	3 Months Ended December 31, 2016	12 Months Ended December 31, 2017	12 Months Ended December 31, 2016
Net income	**$42,345**	$17,578	**$200,980**	$38,614
Add (deduct):				
Fair value adjustments on investment property	**(36,699)**	(9,637)	**(172,464)**	(15,176)
(Gain)/loss on sale of assets	**-**	(185)	**-**	977
Unrealized (gain)/loss on financial instruments	**3,987**	(431)	**6,100**	3,338
Interest expense on puttable units classified as liabilities	**12**	10	**46**	43
Funds from Operations (FFO)	**$9,645**	$7,335	**$34,662**	$27,796
FFO per weighted average unit - basic	**$0.115**	$0.102	**$0.426**	$0.387
FFO per weighted average unit - diluted	**$0.114**	$0.101	**$0.424**	$0.385

AFFO Reconciliation In $000's, except per Unit amounts and Units outstanding	3 Months Ended December 31, 2017	3 Months Ended December 31, 2016	12 Months Ended December 31, 2017	12 Months Ended December 31, 2016
Funds from Operations	**$9,645**	$7,335	**$34,662**	$27,796
Add (deduct):				
Actual maintenance capital investment	**(1,143)**[(1)]	(809)[(2)]	**(4,092)**[(1)]	(3,477)[(3)]
Adjusted Funds from Operations (AFFO)	**$8,502**	$6,526	**$30,570**	$24,319
AFFO per weighted average unit - basic	**$0.101**	$0.090	**$0.376**	$0.339
AFFO per weighted average unit - diluted	**$0.101**	$0.090	**$0.374**	$0.337

[(1)] Maintenance capital investment total is calculated for the 4,725 repositioned suites for 2017

[(2)] Maintenance capital investment total is calculated for the 3,828 repositioned suites for 2016

[(3)] Maintenance capital investment total is calculated for the 4,209 repositioned suites for 2016

Adjusted Cash Flow from Operations ACFO was introduced in February 2017 in REALpac's "White Paper on Adjusted Cashflow from Operations (ACFO) for IFRS" as a sustainable, economic cash flow metric. Management believes ACFO can be a useful measure to evaluate the Trusts ability to fund distributions to unitholders. ACFO should not be construed as an alternative to cash flows provided by or used in operating activities determined in accordance with IFRS. ACFO is calculated in accordance with the REALpac definition but may differ from other REIT's methods and accordingly, may not be comparable to ACFO reported by other issuers.

ACFO Reconciliation In $000's, except per Unit amounts and Units outstanding	3 Months Ended December 31, 2017	3 Months Ended December 31, 2016	12 Months Ended December 31, 2017	12 Months Ended December 31, 2016
Cash generated from operating activities	**$13,452**	$8,506	**$43,332**	$34,373
Add (deduct):				
Interest expense on puttable units classified as liabilities	**(12)**	(10)	**(46)**	(43)
Amortization of finance costs	**(229)**	(226)	**(1,078)**	(1,182)
Actual maintenance capital investment	**(1,143)**	(852)	**(4,092)**	(3,520)
ACFO	**12,068**	7,418	**38,116**	29,628
Distributions declared (1)	**5,483**	4,314	**20,228**	16,742
Excess of ACFO over distributions declared	**6,585**	3,104	**17,888**	12,886
ACFO payout ratio	**45.4%**	58.2%	**53.1%**	56.5%

[(1)] Includes distributions on LP Class B units

For the three and twelve months ended December 31, 2017, ACFO exceeded distributions declared by $6.6 million and $17.9 million, respectively. Amounts retained in excess of the declared distributions are used to fund acquisitions and capital expenditure requirements.

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 December 31, 2017	3 Months Ended December 31, 2016	12 Months Ended December 31, 2017	12 Months Ended December 31, 2016
Net income	**$42,345**	$17,578	**$200,980**	$38,614
Cash flows from operating activities	**13,452**	8,506	**43,332**	34,373
Distributions paid [(1)]	**4,452**	3,376	**15,880**	13,016
Distributions declared [(1)]	**5,483**	4,314	**20,228**	16,742
Excess of net income over distributions paid	**37,893**	14,202	**185,100**	25,598
Excess of net income over distributions declared	**36,862**	13,264	**180,752**	21,872
Excess of cash flows from operations over distributions paid	**9,000**	5,130	**27,452**	21,357
Excess of cash flows from operations over distributions declared	**7,969**	4,192	**23,104**	17,631

[(1)] Includes distributions on LP Class B units

For the three and twelve months ended December 31, 2017, cash flows from operating activities exceeded distributions paid by $9.0 million and $27.5 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.

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	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total suites	8,660	8,605	8,282	8,283	8,059	8,059	8,578	8,362
Average rent per suite (last month of Q)	$1,110	$1,099	$1,079	$1,061	$1,064	$1,055	$1,020	$1,004
Occupancy rate (last month of Q)	97.9%	97.3%	95.7%	95.2%	94.8%	94.2%	94.0%	94.6%
Operating revenues	$29,710	$27,800	$26,361	$25,133	$24,782	$24,099	$24,682	$23,903
Net operating income (NOI)	18,356	17,526	15,978	14,306	14,507	14,677	14,706	12,978
NOI %	61.8%	63.0%	60.6%	56.9%	58.5%	60.9%	59.6%	54.3%
Funds from Operations (FFO)	$9,645	$9,891	$8,344	$6,782	$7,335	$7,393	$7,226	$5,842
FFO per weighted average unit - basic	$0.115	$0.118	$0.100	$0.091	$0.102	$0.103	$0.101	$0.082
FFO per weighted average unit - diluted	$0.114	$0.118	$0.100	$0.091	$0.101	$0.102	$0.100	$0.082
Adjusted Funds from Operations (AFFO)	$8,502	$8,878	$7,379	$5,811	$6,526	$6,582	$6,243	$4,968
AFFO per weighted average unit - basic	$0.101	$0.106	$0.089	$0.078	$0.090	$0.091	$0.087	$0.070
AFFO per weighted average unit - diluted	$0.101	$0.106	$0.089	$0.078	$0.090	$0.091	$0.087	$0.069
Cash distributions per unit	$0.065	$0.061	$0.061	$0.061	$0.060	$0.058	$0.058	$0.058
AFFO payout ratio	65%	57%	68%	78%	66%	63%	66%	83%
Stabilized average rent per suite	$1,118	$1,110	$1,088	$1,071	$1,066	$1,059	$1,044	$1,030
Stabilized NOI %	62.8%	66.1%	62.8%	58.9%	60.4%	63.2%	61.6%	56.7%
Debt to GBV	47.8%	48.5%	49.5%	50.7%	55.3%	54.9%	56.3%	55.0%
Interest coverage (rolling 12 months)	2.76x	2.71x	2.61x	2.53x	2.51x	2.52x	2.57x	2.61x
Debt service coverage (rolling 12 months)	1.78x	1.71x	1.64x	1.58x	1.54x	1.54x	1.53x	1.52x

LIQUIDITY AND CAPITAL RESOURCES

InterRent REIT's overall debt level was at 47.8% of Gross Book Value ("GBV") at December 31, 2017. 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 $ 000's	December 31, 2017	December 31, 2016
Total assets per Balance Sheet	$1,658,445	$1,321,524
Mortgages payable and vendor take-back loans	$733,414	$638,723
Lines of credit	59,130	91,800
Total debt	$792,544	$730,523
Debt to GBV	47.8%	55.3%

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, 2017	12 Months Ended December 31, 2016
NOI	$66,166	$56,868
Less: Administrative costs	9,101	7,717
EBITDA	$57,065	$49,151
Interest expense [1]	20,652	19,615
Interest coverage ratio	**2.76x**	**2.51x**
Contractual principal repayments	11,479	12,395
Total debt service payments	$32,131	$32,010
Debt service coverage ratio	**1.78x**	**1.54x**

[1] Interest expense includes interest on mortgages and credit facilities 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 of InterRent REIT.

Year Maturing	Mortgage Balances At December 31, 2017 (in $ 000's)	Weighted Average by Maturity	Weighted Average Interest Rate
2018	$212,226	28.4%	2.89%
2019	$18,527	2.5%	2.64%
2020	$92,875	12.5%	2.73%
2021	$34,530	4.6%	3.54%
2022	$67,849	9.1%	2.83%
Thereafter	$320,354	42.9%	2.74%
Total	$746,361	100%	2.81%

At December 31, 2017, the average term to maturity of the mortgage debt was approximately 4.9 years and the weighted average cost of mortgage debt was 2.81%. At December 31, 2017, approximately 67% of InterRent REIT's mortgage debt was backed by CMHC insurance.

During the quarter the Trust, re-financed four properties which increased mortgage debt by $19.0 million and paid down $2.9 million in mortgage principal. The net result at December 31, 2017 compared to September 30, 2017 was:

- An increase in average term to maturity of the mortgage debt to 4.9 years from 4.8 years;
- A decrease in the weighted average cost of mortgage debt to 2.81% from 2.83% ; and,
- An increase in the mortgage debt backed by CMHC insurance to 67% from 53%.

During the year the Trust assumed two mortgages and added two mortgages for the four properties that were acquired in the year for a combined amount of $55.4 million, re-financed fourteen properties which increased mortgage debt by $57.7 million, paid off two mortgages at maturity for $2.9 million, paid off one vendor take-back loan at maturity for $0.5 million and paid down $11.5 million in mortgage principal. The net result at December 31, 2017 compared to December 31, 2016 was:

- An increase in average term to maturity of the mortgage debt to 4.9 years from 4.2 years;
- An increase in the weighted average cost of mortgage debt to 2.81% from 2.69% ; and,
- An increase in the mortgage debt backed by CMHC insurance to 67% from 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, 2017, the Trust had no balance outstanding under this facility.
- A $35.0 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, 2017, the Trust had no balance outstanding under 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 two of the Trust's properties and second collateral mortgages on two of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. As at December 31, 2017, the Trust had utilized $4.1 million of this facility.
- A $60.0 million term credit facility, maturing in 2020, with a Canadian chartered bank secured by a general security agreement, first mortgages on two 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, 2017, the Trust had utilized $55.0 million of this facility.

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London, ON

ACCOUNTING

FUTURE ACCOUNTING CHANGES

IFRS 2 Share-based Payment

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Trust intends to adopt the amendments to IFRS 2 for the annual period beginning on January 1, 2018. The Trust does not expect any impact to its consolidated financial statements as the amendments are in line with the Trust's current policy.

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.

The Trust has assessed the impact of IFRS 9 and does not expect a material impact on its consolidated financial statements upon adoption. The Trust intends to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers

IFRS 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.

The Trust has assessed the impact of IFRS 15 and has determined the pattern of revenue recognition will remain unchanged upon the adoption of the standard. The Trust 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.

The Trust intends to early adopt IFRS 16 for the annual period beginning on January 1, 2018. Based on its assessment of the standard, the Trust does not expect the standard to have a material impact on the financial statements of the Trust.

IAS 40 Investment Property

On December 8, 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment requires an asset to be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The Trust will adopt these amendments and clarifications in its financial statements for the annual period beginning on January 1, 2018.

RISKS AND UNCERTAINTIES

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 Act or the Units are listed on a designated stock exchange (which includes the TSX).

Notwithstanding the foregoing, the holder of a tax free savings account ("TFSA") or an registered disability savings account ("RDSP"), a subscriber of an registered education savings plan ("RESP") or an annuitant under a registered retirement savings plan ("RRSP") or registered retirement income fund ("RRIF")(collectively "Subject Plans"), as the case may be, (the "Controlling Individual") will be subject to a penalty tax in respect of the Units held in such Subject Plan if such Units are a "prohibited investment" (as defined in the Tax Act) for the particular Subject Plan. A Unit will generally not be a "prohibited investment" for a Subject Plan unless the Controlling Individual does not deal at arm's length with the Trust for the purposes of the Tax Act or the Controlling Individual has a "significant interest" (as defined in subsection 207.01(4) 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).

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 2018 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.

On July 18, 2017, the Minister of Finance (Canada) released a consultation paper that included an announcement of the Government's intention to amend the Tax Act to, among other things, increase the amount of tax applicable to certain investment income earned through a private corporation (the "July 2017 Proposed Amendments"). On October 18, 2017, the Government of Canada announced its intention to move forward with these passive investment measures, which are expected to be introduced in the 2018 Federal Budget. Holders who are (or are deemed to be) resident in Canada for the purposes of the Tax Act should consult their tax advisors with respect to the implications of the July 2017 Proposed Amendments as they relate to the acquisition, holding and disposition of Units.

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, 2017, the Trust had past due rents and other receivables of $1.9 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, 2017 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. In addition, liquidity and capital availability risks are mitigated by diversifying the Trust's sources of funding, maintaining a staggered debt maturity profile and actively monitoring market conditions

As at December 31, 2017, the Trust had credit facilities as described in note 10 in the December 31, 2017 audited consolidated financial statements.

Note 9 in the December 31, 2017 audited consolidated financial statements reflects the contractual maturities for mortgage and loans payable of the Trust at December 31, 2017, excluding interest payments. The Trust continues to refinance the outstanding debts as they mature. Given the Trust's available credit and its available liquid resources from both financial assets and on going operations, management assesses the Trust's liquidity risk to be low.

D. **Fair Value**

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

The fair value of the mortgages and loans payable has been determined by discounting the cash flows using current market rates of similar instruments. These estimates are subjective in nature and therefore cannot be determined with precision. The fair value of mortgages and loans payable and credit facilities is approximately $805 million as at December 31, 2017 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, 2017, approximately 28% 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 $2.3 million for the year ended December 31, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2017 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, 2017, $1.1 million (December 31, 2016 - $1.1 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, 2017 the Trust incurred $7.9 million (December 31, 2016 - $8.9 million) in services from companies controlled by an officer of the Trust. Of the services received approximately $2.4 million (December 31, 2016 - $3.8 million) has been capitalized to the investment properties and the remaining amounts are included in operating and administrative costs.

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, 2017 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, 2017, 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, 2017, which have materially affected, or are reasonably likely to materially affect, the Trust's internal controls over financial reporting.

SUBSEQUENT EVENT

The Trust purchased one property with 48 suites that closed on January 10, 2018 for a purchase price of approximately $5.3 million and is committed to purchase a property (172 suites) in February 2018 for a purchase price of approximately $21.5 million.

The REIT entered into an agreement with CLV Group Inc. (the "Property Manager") to internalize the REIT's property management function effective February 15, 2018. Upon closing of the transaction, a subsidiary of the REIT will acquire the Property Manager's REIT-related property management business for a total consideration of $38.0 million to the Property Manager (3,224,516 Class B LP limited partnership units (exchangeable on a one-for-one basis) at a value of approximately $9.42 per unit, or $30.4 million and $7.6 million in cash) and $3.1 million in deferred units as retention bonuses to employees being transferred to InterRent (to be matched and vest over a period of up to 5 years in accordance with the Deferred Unit Plan). The initial consideration payable on closing is approximately $42.0 million. The total consideration, including all future vesting of deferred units, is approximately $44.2 million.

OUTSTANDING SECURITIES DATA

As of February 22, 2018, the Trust had issued and outstanding: (i) 84,093,848 units; (ii) LP Class B Units that are exchangeable for 3,410,766 units of the Trust; (iii) options exercisable to acquire 1,208,485 units of the Trust; and (iv) deferred units that are redeemable for 3,351,995 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.

CONSOLIDATED FINANCIAL STATEMENTS

For The Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of InterRent Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of InterRent Real Estate Investment Trust, and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 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 judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of InterRent Real Estate Investment Trust and its subsidiaries, as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
February 22, 2018
Toronto, Ontario

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Consolidated Balance Sheets
(Cdn $ Thousands)

	Note	**December 31, 2017**	December 31, 2016
Assets			
Investment properties	4	**$ 1,630,824**	$ 1,308,907
Investment in joint venture	7	**11,140**	-
Prepaids and deposits		**2,913**	1,784
Receivables and other assets	8	**13,183**	10,342
Cash		**385**	491
Total assets		**$ 1,658,445**	$ 1,321,524
Liabilities			
Mortgages and loans payable	9	**$ 733,414**	$ 638,723
Credit facilities	10	**59,130**	91,800
LP Class B unit liability	12	**1,701**	1,390
Unit-based compensation liabilities	13	**27,017**	18,425
Tenant rental deposits		**9,400**	8,304
Accounts payable and accrued liabilities	11	**23,683**	26,331
Total liabilities		**854,345**	784,973
Unitholders' equity			
Unit capital	15	**341,528**	254,777
Retained earnings		**462,572**	281,774
Total unitholders' equity		**804,100**	536,551
Total liabilities and unitholders' equity		**$ 1,658,445**	$ 1,321,524

Commitments and contingencies (note 24)

Subsequent events (note 25)

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	2017	2016
Operating revenues			
Revenue from investment properties		**$ 109,004**	$ 97,466
Operating expenses			
Property operating costs		**18,616**	16,992
Property taxes		**14,305**	13,548
Utilities		**9,917**	10,058
Total operating expenses		**42,838**	40,598
Net operating income		**66,166**	56,868
Financing costs	16	**21,730**	20,797
Administrative costs		**9,101**	7,717
Income before other income and expenses		**35,335**	28,354
Other income and expenses			
Loss on disposition of assets	6	**-**	(977)
Fair value adjustments of investment properties	4	**172,464**	15,176
Other fair value losses	17	**(6,100)**	(3,338)
Interest on units classified as financial liabilities	18	**(719)**	(601)
Net income for the year		**$ 200,980**	$ 38,614

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, 2016	$ 247,043	$ 307,647	$ (47,788)	$ 259,859	$ 506,902
Units issued (note 15)	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**
Balance, January 1, 2017	$ 254,777	$ 346,261	$ (64,487)	$ 281,774	$ 536,551
Units issued (note 15)	86,751	-	-	-	86,751
Net income for the year	-	200,980	-	200,980	200,980
Distributions declared to Unitholders	-	-	(20,182)	(20,182)	(20,182)
Balance, December 31, 2017	**$ 341,528**	**$547,241**	**$ (84,669)**	**$ 462,572**	**$ 804,100**

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	2017	2016
Cash flows from (used in) operating activities			
Net income for the year		**$ 200,980**	$ 38,614
Add items not affecting cash			
Amortization		**312**	211
Loss on disposition of investment property	6	**-**	977
Fair value adjustments on investment properties	4	**(172,464)**	(15,176)
Other fair value losses	17	**6,100**	3,338
Unit-based compensation expense	13	**4,313**	4,047
Financing costs	16	**21,730**	20,797
Interest expense	16	**(20,652)**	(19,615)
Tenant inducements		**1,190**	1,582
		41,509	34,775
Net income items related to financing activities	18	**46**	43
Changes in non-cash operating assets and liabilities	19	**1,777**	(445)
Cash from operating activities		**43,332**	34,373
Cash flows from (used in) investing activities			
Acquisition of investment properties	5	**(85,253)**	(79,732)
Investment in joint venture	7	**(11,140)**	-
Proceeds from sale of investment properties	6	**-**	81,911
Additions to investment properties	4	**(55,569)**	(84,086)
Cash used in investing activities		**(151,962)**	(81,907)
Cash flows from (used in) financing activities			
Mortgage and loan repayments		**(209,271)**	(124,759)
Mortgage advances		**294,104**	156,451
Financing fees		**(4,783)**	(2,390)
Credit facility advances (repayments)		**(32,670)**	31,675
Trust units issued, net of issue costs	15	**77,255**	958
Deferred units purchased and cancelled	13	**(231)**	(1,665)
Interest paid on units classified as financial liabilities	18	**(46)**	(43)
Distributions paid	19	**(15,834)**	(12,973)
Cash from financing activities		**108,524**	47,254
Increase/(decrease) in cash during the year		**(106)**	(280)
Cash at the beginning of year		**491**	771
Cash at end of year		**$ 385**	$ 491

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

1. ORGANIZATIONAL INFORMATION

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

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

These consolidated financial statements were authorized for issuance by the Trustees of the Trust on February 22, 2018.

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)

Application of new IFRS requirements

The Trust adopted the amendments to IAS 7 Statement of Cash Flows on January 1, 2017. The adoption of the amendments by the Trust resulted in supplemental disclosure regarding changes in liabilities arising from financing activities (note 19) to the Trust's consolidated financial statements.

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)

Investment in Joint Venture

Joint arrangements that involve the establishment of a separate entity in which parties to the arrangement have joint control over the economic activity of the entity and rights to the net assets are referred to as a joint venture.

Joint control exists when the joint arrangements require the unanimous consent of the parties sharing control for decisions about relevant activities.

The Trust's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost, which includes cost directly attributable to the acquisition. The carrying amount of the investment is adjusted to recognize changes in the Trust's share of net assets of the joint venture since the acquisition date less any identified impairment loss. Distributions received from a joint venture reduce the carrying amount of the investment. The consolidated statement of income reflects the Trust's share of the results of operations of the joint venture. If the Trust's share of losses of a joint venture exceeds the Trust's interest in that joint venture, the Trust discontinues recognizing its share of further losses, unless it has undertaken obligations or made payments on behalf of the joint venture.

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.

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 either directly or indirectly observable market data
- Level 3: Valuation techniques for which any significant input is unobservable

Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the change occurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trust units

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

LP Class B unit liability

The LP Class B units are exchangeable on demand for trust units, which in turn are redeemable into cash at the option of the holder. As such, the LP Class B units are classified as a liability. Management has designated the 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 2016 and 2017, 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.

Investment in joint venture

Management makes judgments to determine whether a joint arrangement should be classified as a joint venture and in determining whether there is any objective evidence of impairment and if so, estimating the amount of loss.

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.

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.

The Trust has assessed the impact of IFRS 9 and does not expect a material impact on its consolidated financial statements upon adoption. The Trust intends to adopt the new standard on the required effective date.

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.

The Trust has assessed the impact of IFRS 15 and has determined the pattern of revenue recognition will remain unchanged upon the adoption of the standard. The Trust intends to adopt the new standard on the required effective date.

IFRS 2 Share-based Payment

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Trust intends to adopt the amendments to IFRS 2 for the annual period beginning on January 1, 2018. The Trust does not expect any impact to its consolidated financial statements as the amendments are in line with the Trust’s current policy.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Trust intends to early adopt IFRS 16 for the annual period beginning on January 1, 2018. Based on its assessment of the standard, the Trust does not expect the standard to have a material impact on the financial statements of the Trust.

IAS 40 Investment Property

On December 8, 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment requires an asset to be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The Trust will adopt these amendments and clarifications in its financial statements for the annual period beginning on January 1, 2018.

(Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTIES

Investment properties include income properties, redevelopment properties and development properties. Currently the Trust has only income properties.

	December 31, 2017	December 31, 2016
Balance, beginning of period	**$ 1,308,907**	$ 1,220,213
Acquisitions (note 5)	**99,026**	79,732
Property capital investments	**50,427**	75,965
Fair value adjustments	**172,464**	15,176
Dispositions	**-**	(82,179)
	$ 1,630,824	$ 1,308,907

The fair value of the income properties at December 31, 2017 and 2016 was determined internally by the Trust. The fair value methodology of the Trust's investment properties is considered a level 3 valuation 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 32% of the portfolio, representing 2,562 suites, was appraised by external valuation professionals throughout the year (2016 – 30% of the portfolio representing 2,034 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.

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

	December 31, 2017		**December 31, 2016**	
	Range	**Weighted average**	**Range**	**Weighted average**
Capitalization rate	3.88% - 6.75%	4.55%	4.25% - 6.75%	4.96%

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:

As at December 31, 2017

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 71,976	$ 73,460	**$ 74,202**	$ 74,944	$ 76,428
Capitalization rate						
-0.25%	4.30%	$ 1,673,859	$ 1,708,372	$ 1,725,628	$ 1,742,884	$ 1,777,397
Cap rate used	**4.55%**	$ 1,581,889	$ 1,614,505	**$ 1,630,824**	$ 1,647,121	$ 1,679,738
+0.25%	4.80%	$ 1,499,499	$ 1,530,416	$ 1,545,875	$ 1,561,334	$ 1,592,251

As at December 31, 2016

Net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 62,974	$ 64,273	**$ 64,922**	$ 65,571	$ 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

(Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTIES (Continued)

Cash outflow used for additions to investment properties:

	December 31, 2017	December 31, 2016
Property capital investments	**$ (50,427)**	$ (75,965)
Changes in non-cash investing accounts payable and accrued liabilities	**(5,142)**	(8,121)
	$ (55,569)	$ (84,086)

5. INVESTMENT PROPERTY ACQUISITIONS

During the year ended December 31, 2017, 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 6, 2017	224	$ 25,477	$ 17,085	3.165% & 2.24%	September 1, 2023 & June 1, 2022
August 28, 2017	74	$ 11,819	$ 3,341	3.11%	March 1, 2022
September 14, 2017	249	$ 55,382	$ 35,000	BA +1.70%	September 14, 2020
December 1, 2017	55	$ 6,348	-	-%	n/a
	602	**$ 99,026**	**$ 55,426**		

During the year ended December 31, 2016, the Trust completed the following investment property acquisitions:

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		

Cash outflow used for investment property acquisitions:

	December 31, 2017	December 31, 2016
Total acquisition costs	**$ (99,026)**	$ (79,732)
Fair value adjustment of assumed debt	**372**	-
Assumed debt	**13,401**	-
	$ (85,253)	$ (79,732)

(Cdn $ Thousands except unit amounts)

6. INVESTMENT PROPERTY DISPOSITIONS

No investment properties were disposed of during the year ended December 31, 2017.

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.

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

	December 31, 2017	December 31, 2016
Proceeds	**$ -**	$ 81,202
Vendor take-back mortgage issued	**-**	(300)
Non-cash closing costs	**-**	1,009
	$ -	$ 81,911

(Cdn $ Thousands except unit amounts)

7. INVESTMENT IN JOINT VENTURE

The Trust owns a 33.3% interest in a limited partnership joint venture (TIP Albert Limited Partnership) developing one investment property located in Ottawa Canada.

The Trust accounts for its joint venture interest using the equity method. The joint venture was established to develop, construct, lease, operate and manage an investment property.

The Trust is contingently liable for certain obligations of the joint venture, up to the Trust's 33.3% interest. All of the net assets of the joint venture are available for the purpose of satisfying such obligations and guarantees.

The Trust is responsible to fund its total investment in the joint venture for the development of the investment property.

The following table shows the changes in the carrying value of the investment in joint venture:

	December 31, 2017	December 31, 2016
Balance, beginning of period	**$ -**	$ -
Additions	**10,867**	-
Share of net income	**-**	-
Distributions	**-**	-
	$ 10,867	$ -
Transaction costs	**$ 273**	-
Carrying value of the investment in joint venture	**$ 11,140**	$ -

The following tables shows the summarized financial information of the Trust's joint venture:

	December 31, 2017	December 31, 2016
Current assets	**$ 1,237**	$ -
Non-current assets	**49,780**	-
Current liabilities	**(2,916)**	-
Non-current liabilities	**(15,500)**	-
Net assets	**$ 32,601**	-
Trust's share (33.3%)	**$ 10,867**	$ -

The joint venture had no operating results during the reporting periods.

(Cdn $ Thousands except unit amounts)

8. RECEIVABLES AND OTHER ASSETS

	December 31, 2017	December 31, 2016
Current:		
Rents and other receivables, net of allowance for uncollectable amounts	**$ 1,177**	$ 2,105
Tenant inducements [(2)]	**494**	738
Mortgage receivable [(1)]	**-**	308
	$ 1,671	$ 3,151
Non-current:		
Automobiles, software, equipment and furniture and fixtures, net of accumulated amortization of $539 (2016 - $462)	**$ 1,280**	$ 1,243
Deferred finance fees on credit facilities, net of accumulated amortization of $1,160 (2016 - $951)	**351**	286
Loan receivable long-term incentive plan (note 14)	**9,881**	5,662
	$ 11,512	$ 7,191
	$ 13,183	$ 10,342

(1) At December 31, 2016, the balance is comprised of one mortgage with a maturity date of 7 months at an interest rate of 2%. The mortgage is 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.

9. 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 2.81% (December 31, 2016 – 2.69%).

The mortgages and vendor take-back loans mature at various dates between the years 2018 and 2028.

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

2018	$ 212,226
2019	18,528
2020	92,875
2021	34,530
2022	67,849
Thereafter	320,354
	746,361
Less: Deferred finance costs and mortgage premiums	12,947
	$ 733,414

(Cdn $ Thousands except unit amounts)

10. CREDIT FACILITIES

	December 31, 2017	December 31, 2016
Demand credit facility (i)	**$ -**	$ -
Term credit facility (ii)	**-**	23,450
Term credit facility (iii)	**4,130**	14,850
Term credit facility (iv)	**55,000**	53,500
	$ 59,130	$ 91,800

(i) The Trust has a $500 (2016 - $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, 2017 was 3.40% (2016 – 3.20%).

(ii) The Trust has a $35,000 (2016 - $25,000) term credit facility, maturing in 2019, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on ten (2016 – ten) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. The weighted average interest rate on amounts drawn during the year ended December 31, 2017 was 3.60% (2016 – 3.43%).

(iii) The Trust has a $25,000 (2016 - $25,000) term credit facility, maturing in 2018, with a Canadian chartered bank secured by a general security agreement, first mortgage on two (2016 – one) of the Trust's properties and second collateral mortgages on two (2016 – 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, 2017 was 3.60% (2016 – 3.40%).

(iv) The Trust has a $60,000 (2016 - $60,000) term credit facility, maturing in 2020, with a Canadian chartered bank secured by a general security agreement, first mortgages on two (2016 – one) of the Trust's properties and second collateral mortgages on five (2016 – 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. The weighted average interest rate on amounts drawn during the year ended December 31, 2017 was 2.83% (2016 – 2.73%).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2017	December 31, 2016
Accounts payable	**$ 5,371**	$ 7,473
Accrued liabilities	**15,327**	16,206
Accrued distributions	**1,892**	1,464
Mortgage interest payable	**1,093**	1,188
	$ 23,683	$ 26,331

(Cdn $ Thousands except unit amounts)

12. LP CLASS B UNIT LIABILITY

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

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

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

Number of Units	
Balance – December 31, 2015	**186,250**
Units issued	-
Balance - December 31, 2016	**186,250**
Units issued	-
Balance – December 31, 2017	**186,250**

The LP Class B Units represented an aggregate fair value of $1,701 at December 31, 2017 (December 31, 2016 - $1,390). 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.

13. UNIT-BASED COMPENSATION LIABILITIES

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

	December 31, 2017	December 31, 2016
Unit-based liabilities, beginning of period	**$ 18,425**	$ 13,858
Compensation expense – deferred unit plan	**3,530**	3,413
Compensation expense – unit option plan	**110**	76
DRIP[(1)] expense – deferred unit plan	**673**	558
DUP units converted, cancelled and forfeited	**(966)**	(2,300)
Unit options exercised and expired	**(544)**	(350)
Loss on fair value of liability (note 17)	**5,789**	3,170
Unit-based liabilities, end of period	**$ 27,017**	$ 18,425

(1) Distribution reinvestment plan

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

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 14) is 10% of the issued and outstanding Trust Units.

(Cdn $ Thousands except unit amounts)

13. UNIT-BASED COMPENSATION LIABILITIES (Continued)

(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, 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**
Units issued under deferred unit plan	517,380
Reinvested distributions on deferred units	87,552
Deferred units exercised into Trust Units (note 14)	(89,303)
Deferred units purchased and cancelled	(27,026)
Deferred units cancelled	(4,946)
Balance – December 31, 2017	**2,888,623**

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, 2017, the 1,334,488 deferred units, which represent the vested portion, have an intrinsic value of $12,184 (December 31, 2016 – 1,104,596 deferred units had an intrinsic value of $8,240).

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.

(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.

(Cdn $ Thousands except unit amounts)

13. UNIT-BASED COMPENSATION LIABILITIES (Continued)

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

	2017		2016	
	Number of units	**Weighted average exercise price**	**Number of units**	**Weighted average exercise price**
Balance, beginning of period	1,180,175	$ 5.18	1,350,680	$ 5.16
Granted	330,000	$ 7.67	-	-
Exercised (note 14)	(163,325)	$ 3.83	(169,005)	$ 5.00
Expired	(1,000)	$ 5.81	(1,500)	$ 5.81
Balance, end of period	**1,345,850**	**$ 5.96**	**1,180,175**	**$ 5.18**

Options outstanding at December 31, 2017:

Exercise price	Number of units	Remaining life in years	Number of units exercisable
$ 2.13	84,000	3.48	84,000
$ 5.50	95,575	4.68	95,575
$ 5.65	486,650	5.45	486,650
$ 5.81	349,625	6.96	349,625
$ 7.67	330,000	9.58	-
	1,345,850		**1,015,850**

Total compensation expense for the year was $66 (2016 - $76). 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 2017 grant: market price of unit $7.86, expected option life 6 years, risk-free interest rate 1.67%, expected volatility, based on historical, 25% and expected distribution yield 5.0% (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, 2017 was $7.81 (2016 - $7.69).

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, 2017	December 31, 2016
Market price of Unit	$ 9.13	$ 7.46
Expected option life	2.7 years	2.7 years
Risk-free interest rate	1.73%	0.85%
Expected volatility (based on historical)	18%	18%
Expected distribution yield	5.0%	5.0%

(Cdn $ Thousands except unit amounts)

14. LONG-TERM INCENTIVE PLAN

The Board of Trustees may award long-term incentive plan (“LTIP”) units to certain officers and key employees, collectively the "Participants". 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 13) 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 8) 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%	$ 5
March 8, 2012	250,000	3.57%	834
June 29, 2012	50,000	3.35%	180
September 11, 2012	100,000	3.35%	487
June 27, 2013	187,500	3.85%	951
December 16, 2014	100,000	3.27%	536
June 9, 2015	75,000	3.44%	447
June 30, 2016	290,000	2.82%	2,144
July 28, 2017	590,000	3.09%	4,297
	1,657,500		$ 9,881

(Cdn $ Thousands except unit amounts)

15. TRUST UNITS

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

	Trust Units	Amount
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 13(i))	84,440	635
Units Issued under distribution reinvestment plan	519,608	3,634
Units Issued from options exercised (note 13(ii))	169,005	1,194
Balance – December 31, 2016	**72,108,536**	**$ 254,777**
Issued from prospectus	10,425,000	80,064
Unit issue costs	-	(3,661)
Units Issued under long-term incentive plan	590,000	4,525
Units Issued under the deferred unit plan (note 13(i))	89,303	734
Units Issued under distribution reinvestment plan	515,353	3,920
Units Issued from options exercised (note 13(ii))	163,325	1,169
Balance – December 31, 2017	**83,891,517**	**$ 341,528**

On March 15, 2017 the Trust completed a bought deal prospectus whereby it issued 10,425,000 Trust Units for cash proceeds of $80,064 and incurred $3,661 in issue costs.

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.

(Cdn $ Thousands except unit amounts)

15. TRUST UNITS (Continued)

(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.

16. FINANCING COSTS

	2017	2016
Mortgages and loans payable	**$ 19,014**	$ 17,711
Credit facilities	**1,877**	2,079
Interest income	**(239)**	(175)
Interest expense	**20,652**	19,615
Amortization of deferred finance costs on mortgages	**1,058**	1,085
Amortization of deferred finance costs on credit facilities	**209**	234
Amortization of fair value on assumed debt	**(189)**	(137)
	$ 21,730	$ 20,797

17. OTHER FAIR VALUE GAINS/(LOSSES)

	2017	2016
LP Class B unit liability	**$ (311)**	$ (168)
Unit-based compensation liability (deferred unit plan)	**(4,113)**	(2,522)
Unit-based compensation liability (option plan)	**(1,676)**	(648)
	$ (6,100)	$ (3,338)

18. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	2017	2016
LP Class B unit liability	**$ 46**	$ 43
Unit-based compensation liability (deferred unit plan)	**673**	558
	$ 719	$ 601

(Cdn $ Thousands except unit amounts)

19. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2017	2016
Receivables and other assets	**$ (253)**	$ (2,239)
Prepaid and deposits	**(1,129)**	1,213
Accounts payable and accrued liabilities	**2,063**	(131)
Tenant rental deposits	**1,096**	712
	$ 1,777	$ (445)

(b) Net cash distributions to unitholders

	2017	2016
Distributions declared to unitholders	**$ 20,182**	$ 16,699
Add: Distributions payable at beginning of period	**1,460**	1,368
Less: Distributions payable at end of period	**(1,888)**	(1,460)
Less: Distributions to participants in the DRIP	**(3,920)**	(3,634)
	$ 15,834	$ 12,973

(c) Interest paid

	2017	2016
Interest expense	**$ 20,652**	$ 19,615
Add: Mortgage interest payable at beginning of period	**1,188**	1,025
Less: Mortgage interest payable at end of period	**(1,093)**	(1,188)
Add: Interest income received	**239**	175
	$ 20,986	$ 19,627

(d) Reconciliation of liabilities arising from financing activities

	Mortgages and loans payable	Credit Facilities
Balance, beginning of year	$ 648,127	$ 91,800
Mortgage advances	294,104	-
Assumed mortgages	13,401	-
Repayment of mortgages	(209,271)	-
Repayment of credit facilities	-	(32,670)
Balance, end of year	$ 746,361	$ 59,130

(Cdn $ Thousands except unit amounts)

20. 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, 2017, $1,074 (December 31, 2016 - $1,129) 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, 2017, the Trust incurred $7,858 (2016 - $8,873) 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 $2,445 (2016 - $3,792) 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.

	2017	2016
Salaries and other short-term employee benefits	**$ 1,169**	$ 1,008
Deferred unit plan	**2,390**	1,799
Gain on fair value of unit-based compensation liabilities	**6,341**	4,039
	$ 9,900	$ 6,846

Loans outstanding from key management for indebtedness relating to the LTIP at December 31, 2017 were $9,498 (December 31, 2016 - $5,587). Deferred unit plan includes accrued compensation for key management at December 31, 2017 for $2,090 (December 31, 2016 - $1,548).

21. CAPITAL RISK MANAGEMENT

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

The Trust manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Trust's working capital requirements. In order to maintain or adjust its capital structure, the Trust, upon approval from its Board of Trustees, may issue or repay long-term debt, issue units, repurchase units through a normal course issuer bid, pay distributions or undertake other activities as deemed appropriate under the specific circumstances. The Board of Trustees reviews and approves any material transactions out of the ordinary course of business, including approval of all acquisitions of investment properties, as well as capital and operating budgets. There have been no changes to the Trust's capital risk management policies for the years ended December 31, 2017 and 2016.

21. CAPITAL RISK MANAGEMENT (Continued)

The Trust monitors capital using a debt to gross book value ratio, as defined in the Declaration of Trust which requires the Trust to maintain a debt-to-gross book value ratio below 75%. As at December 31, 2017, the debt-to-gross book value ratio is 47.8% (December 31, 2016 – 55.3%).

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, 2017 and 2016.

22. 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, 2017, the Trust had past due rents and other receivables of $1,886 (December 31, 2016 - $2,808), net of an allowance for doubtful accounts of $709 (December 31, 2016 - $703) which adequately reflects the Trust's credit risk.

(Cdn $ Thousands except unit amounts)

22. 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 21 to the consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities (excluding derivative and other financial instruments reported as liabilities at fair value) when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust's reputation. In addition, liquidity and capital availability risks are mitigated by diversifying the Trust's sources of funding, maintaining a staggered debt maturity profile and actively monitoring market conditions.

As at December 31, 2017 and 2016, the Trust had credit facilities as described in note 10.

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, 2017 are as follows:

Year	Mortgages and loans payable	Mortgage and loan interest [(1)]	Credit facilities	Accounts payable and accrued liabilities	Total
2018	$ 212,226	$ 17,722	$ 4,130	$ 23,683	$ 257,761
2019	18,527	13,582	-	-	32,109
2020	92,875	12,567	55,000	-	160,442
2021	34,530	11,243	-	-	45,773
2022	67,849	10,087	-	-	77,936
Thereafter	320,354	25,423	-	-	345,777
	$ 746,361	**$ 90,624**	**$ 59,130**	**$ 23,683**	**$ 919,798**

(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, 2017, approximately 28% (December 31, 2016 – 29%) 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 $2,304 for the year ended December 31, 2017 (2016 - $1,607).

(Cdn $ Thousands except unit amounts)

23. 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 and credit facilities, which are measured at a fair value level 2, is approximately $805,119 (December 31, 2016 - $744,909) excluding any deferred financing costs.

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

December 31, 2017	**Level 1**	**Level 2**	**Level 3**
Assets			
Investment properties	-	-	$ 1,630,824
Liabilities			
Unit-based compensation liability	-	$ 27,017	-
LP Class B unit liability	-	1,701	-

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	-

24. COMMITMENTS AND CONTINGENCIES

The Trust is committed to purchase a property (172 suites) in February 2018 for a purchase price of approximately $21,500.

As at December 31, 2017, the Trust has approximately $3,100 of commitments relating to the TIP Albert Limited Partnership joint venture.

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.

25. SUBSEQUENT EVENTS

The Trust purchased one property with 48 suites that closed on January 10, 2018 for a purchase price of approximately $5,250.

The REIT entered into an agreement with CLV Group Inc. (the "Property Manager") to internalize the REIT's property management function effective February 15, 2018. Upon closing of the transaction, a subsidiary of the REIT will acquire the Property Manager's REIT-related property management business for a total consideration of $37,955 to the Property Manager (3,224,516 Class B LP limited partnership units (exchangeable on a one-for-one basis) at a value of approximately $9.42 per unit, or $30,364 and $7,591 in cash) and $3,098 in deferred units as retention bonuses to employees being transferred to InterRent (to be matched and vest over a period of up to 5 years in accordance with the Deferred Unit Plan). The initial consideration payable on closing is approximately $42,000. The total consideration, including all future vesting of deferred units, is approximately $44,200.

THE LAKESHORE CLUB
Burlington, ON

EXCHANGE AND SYMBOL

TSX: IIP.UN

UNITS OUTSTANDING

83,891,517
(as at December 31, 2017)

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ANNUAL MEETING

Wednesday May 9, 2018
At 11:00 ET
160 Elgin Street, Suite 2600
Ottawa, Ontario K1P 1C3

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