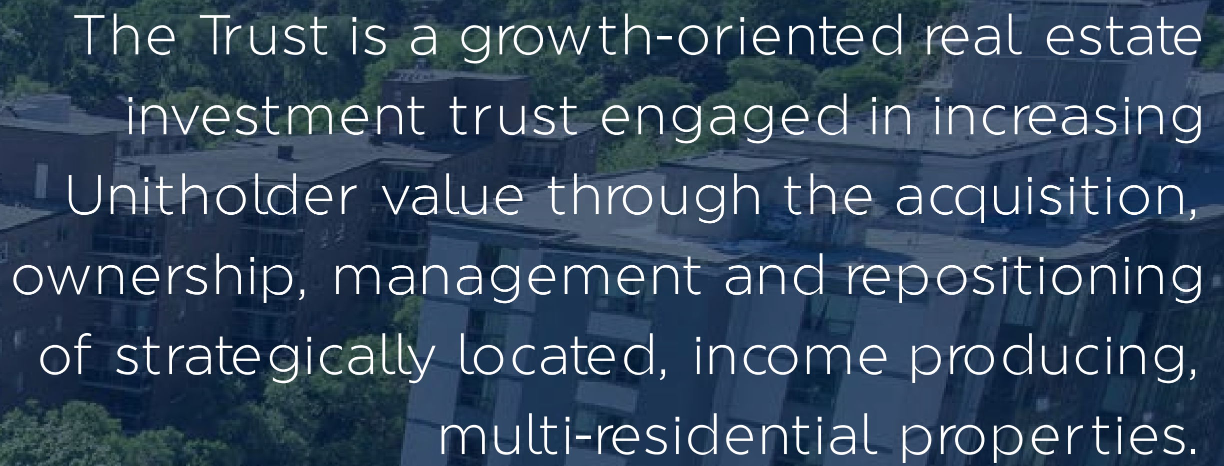
# 2018 | ANNUAL REPORT

# TABLE OF CONTENTS

| | |
|---|---|
| Message to Our Unitholders | 4 |
| Quick Facts | 5 |
| Who We Are | 6 |
| Mission Statement | 6 |
| Company Values | 7 |
| Our Company Culture | 8 |
| Together for a Better Community | 10 |
| Social Media | 11 |
| Value Creation Strategy | 14 |
| Green Initiatives | 15 |
| Creating Value for Our Investors | 16 |
| Case Studies - Value Creation | 18 |
| Financial Information | 20 |
| Multi-Family Market Overviews | |
| Canada | 24 |
| GTA (Including Hamilton) | 26 |
| Montreal | 28 |
| National Capital Region | 30 |
| Portfolio Map | 32 |
| Strategically Growing the Portfolio | 34 |
| Corporate Governance | 36 |
| Management's Discussion and Analysis | 39 |
| Consolidated Financial Statements | 79 |



The Trust is a growth-oriented real estate investment trust engaged in increasing Unitholder value through the acquisition, ownership, management and repositioning of strategically located, income producing, multi-residential properties.

**THE LAKESHORE CLUB**
Burlington, ON

# MESSAGE TO OUR UNITHOLDERS

Mike McGahan, CEO

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

**2018 and A Look Forward**

How time flies! This is the tenth year that many of our management team and myself have been at the helm of the REIT. We have had many interesting twists and turns over the years, especially in the early days. This milestone gives us pause to reflect on where we started, where we are today, and where we still want to go.

In 2007/08 the REIT had undergone many challenges on the backdrop of the credit crisis which had wreaked havoc on many in the industry. Under this environment it was pretty challenging to operate the properties for even the most seasoned team. The size and capital structure of the REIT combined with a lack of operational experience and mounting pressure from the capital markets made them quite vulnerable at the time. The Board of Trustees knew that a change was needed and although we had no capital markets experience, they knew that we were extremely strong on the operational side of the business. The real work to get to where we are today with the REIT began in the fall of 2009 and took many long days and a full team effort to turn things around.

With our lack of public markets experience we have been blessed to have had many positive influential people that helped guide us in the early years. Both Jimmy Shan and Brad Cutsey (now President of the REIT) were the first analysts to cover us. They both gave us the opportunity to show what our Team could do and were the first to sing our praises. Quite frankly along with Onorio Luchesse and Andrew Kiguel, they were our first teachers on how to govern and function in the capital market. We are thankful to have been given the opportunity.

We have also been blessed to have two very influential chairmen along the way. Both Jacie Levinson and Victor Stone were our guideposts and we shall forever be grateful. We also must thank both Paul Bouzanis and Michael Clancy. As a board member and longtime Capital Resource Chair, Paul's knowledge and support with our acquisition and construction programs has been a big part of the REIT's success. As our corporate secretary, Michael was integral from the beginning and still is to this day. All of our Board both past and present have all made a huge impact on the REIT and its success to date. I would be remis if I do not thank the whole of CLV Team for their hard work and dedication. From beginning as our external property manager, the whole team have not skipped a beat since becoming internalized with many becoming significant stakeholders in the REIT.

As we look back on 2018, we see many accomplishments. Our 47% Unitholder return in 2018 was an outperformer and stacked up very favorably against the S&P/TSX Composite Index of -9%. We managed to deliver this return while deleveraging from 47.8% to 38.9% by continuing to deliver industry-leading growth in revenue and NOI. Through the year we also added 638 suites to our portfolio as well as two future class A development sites.

We continue to see much potential in 2019. We have significant upside in our portfolio that will lead to strong organic growth and we are also at the early stages of some exciting new ground up developments. Though the market remains extremely competitive for purchasing properties, with many new and existing players in the multifamily asset class trying to grow their portfolios, we believe there are still significant opportunities to be quite active in growing the REIT. Operationally we have developed an extremely deep group of talented, dedicated team members. We have never had this much bench strength in the REIT's existence and we plan to hopefully leverage this in the future.

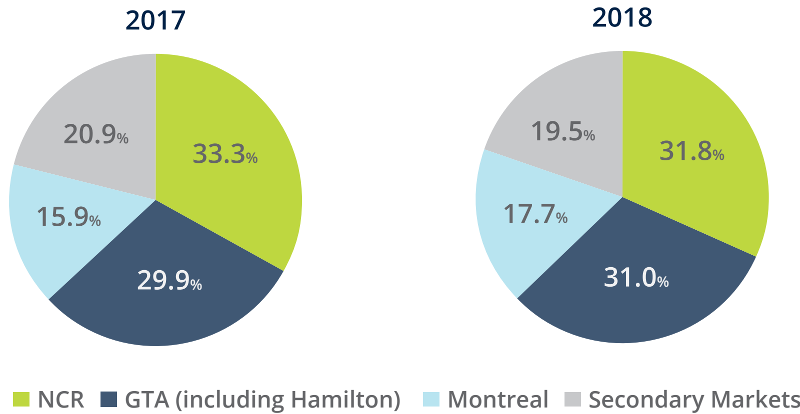
Our future looks bright as we have learned a lot over these past ten years and we also know that in our industry there is always much to learn. We can never be static and we must always be humble as we continually learn from our peers as well as other industries. This is why, even after all these years, we still find this industry so exciting. We have set a solid foundation and now we can continue to build the company for the future.

Sincerely,

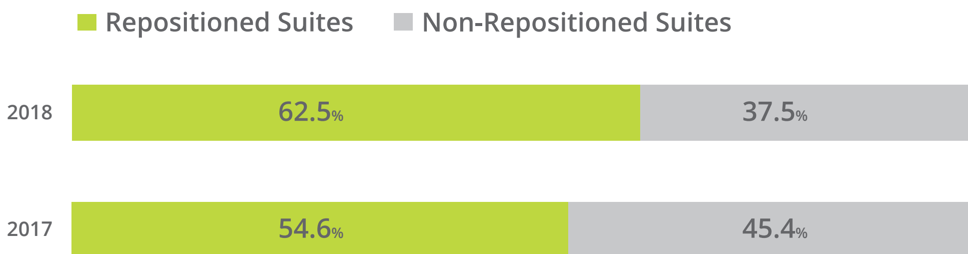
Mike McGahan, CEO

# QUICK FACTS

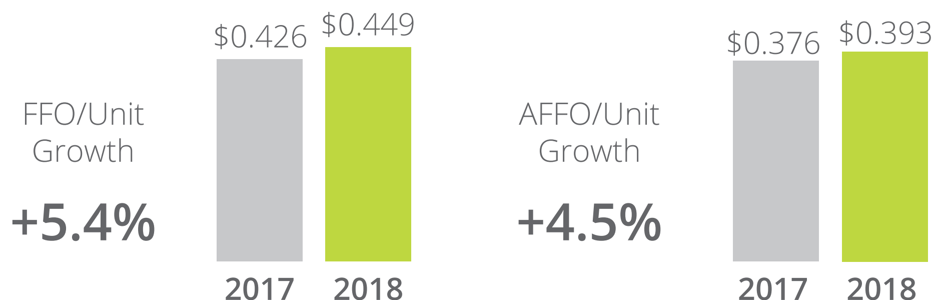
## GEOGRAPHIC EXPOSURE BY SUITE COUNT




## PORTFOLIO BREAKDOWN



## FFO & AFFO PER UNIT - BASIC




**9,299**
TOTAL SUITES

**80**
TOTAL PROPERTIES

**$1,190**
AVERAGE RENT PER SUITE

**96.6%**
OCCUPANCY RATE

**$2.1 BILLION**
TOTAL ASSETS

**185%**
UNITHOLDER 5-YEAR TOTAL RETURN

**38.9%**
DEBT TO GBV

at December 31, 2018

# WHO WE ARE

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

In order to consistently provide exceptional customer service we encourage all team members to think like our residents 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 residents, 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 resident, supplier and stakeholder the same way.

**WEST236**
Ottawa, ON

# COMPANY **VALUES**

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

## QUALITY

Providing the best unmatched results in delivering the highest levels of resident 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 residents and communities through sustainable programs and philanthropic efforts.

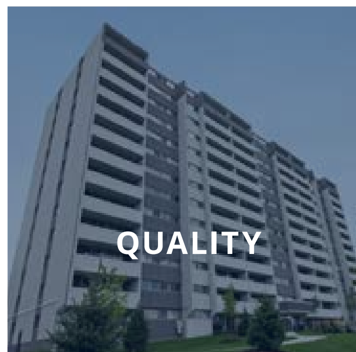
## RESPECT

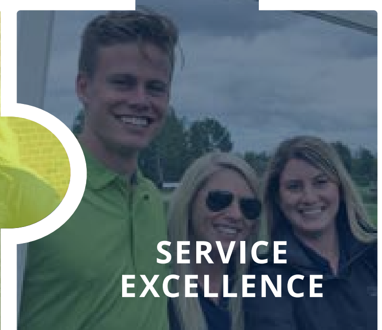
Having and showing respect for our residents, suppliers, Unitholders and communities while maintaining an environment of teamwork and growth.

## SERVICE EXCELLENCE

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

OUR VALUES INCLUDE:





# OUR COMPANY CULTURE

InterRent believes that our people are our greatest strength. A variety of programs are offered to support our team members in both their personal and professional development.

## EDUCATIONAL ASSISTANCE PROGRAM (EAP)

InterRent believes in investing in our employees by assisting with professional courses and certifications.

## RECOGNITION PROGRAM

Our quarterly and annual awards recognize the hard work and dedication of our employees.

## EMPLOYEE CHARITABLE TIME

InterRent allows time off for employees to engage in charitable activities and events of their choosing.

## REFERRAL PROGRAMS

To help grow our talent pool we look to our employees for their recommendations, and award them for their contributions.

## CORPORATE BUDDY PROGRAM

This program helps integrate new employees through support and feedback by pairing them with experienced staff.

## COACHING AND MENTORING

Through continuous feedback and mentorship, employees are supported in their positions at the company.

## INTERRENT SCHOLARSHIP PROGRAM

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

As a family, we get together often to share ideas; support each other and our communities; and celebrate our milestones! Our work life encompasses a variety of activities:

## SPORTS & WELLNESS

With a variety of leisurely and fitness activities, InterRent encourages employees to get active, have fun and bond as a team.

## PHILANTHROPY

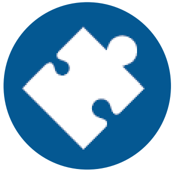
Giving back to our communities is an important mandate at InterRent. Through the efforts of our employees and residents we are able to support a variety of local and regional charities.

## GAMES & CRAFTS

In order to relax and unwind our teams enjoy a variety of different activities including Paint Nights, Game Nights & Trivia.

## TEAM MEALS

Getting together for a meal helps bring people together from different departments, and is an excellent way to share ideas and to get to know your teammates.



## ENTERTAINMENT

Through different events throughout the year, our teams get to know each other by organizing activities outside work hours.

# 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 2018:

JDRF Revolution Ride

Holiday Hampers filled with donations

Staff BBQs at Head Office

Tree of Stars in Head Office

## 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 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.

## 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 HAMPER PROGRAM

Staff of InterRent 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.

## SUMMER FRIDAY BBQS

Every Friday, the staff of InterRent 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 (YOUTH SERVICES BUREAU)

In conjunction with the Youth Services Bureau, the staff of InterRent 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 Montreal Sun Youth Organization

## SUN YOUTH ORGANIZATION

Sun Youth Organization operates throughout Montreal and truly makes a difference in the lives of children and families in need through food and clothing banks, sports and recreation programs, day camps and more.

In 2018, InterRent donated $25,000, from which $15,000 went towards the Sports & Recreation Programs and the remaining $10,000 towards the Food Bank Program.

## FOOD DRIVES

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

InterRent staff deliver donations to the Food Banks

Over the course of 2018 we participated in 3 food drives throughout various cities within our core markets. Combined donations in Ottawa totaled over 1,500 lbs of food.

In addition to the donations provided by employees and residents throughout the year, InterRent REIT donated $25,000 to replenish lost supply and help those who were affected by the tornado that hit Ottawa in September. InterRent also provided short-term housing to many families who lost their home in the tornardo.

## CARING & SHARING EXCHANGE

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

## HOPE VOLLEYBALL

Hope Volleyball SummerFest

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.

## OTTAWA DRAGONBOAT FESTIVAL

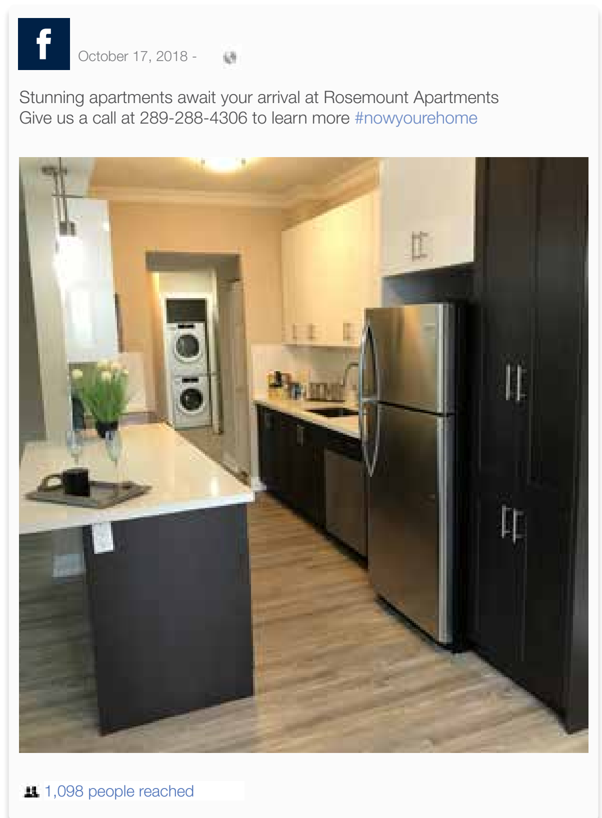
InterRent Staff at the Caring & Sharing Exchange

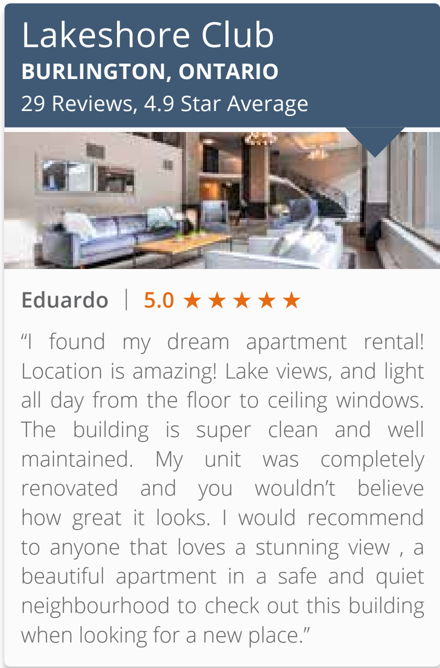
Every year, over 5,000 paddlers race 44ft dragon boats on the Rideau River. Since its inception, Paddlers have helped the Ottawa Dragonboat Foundation raise over $4.3 million in support of 48 charities. InterRent was proud to contribute as a Gold Sponsor for the Festival in 2018.

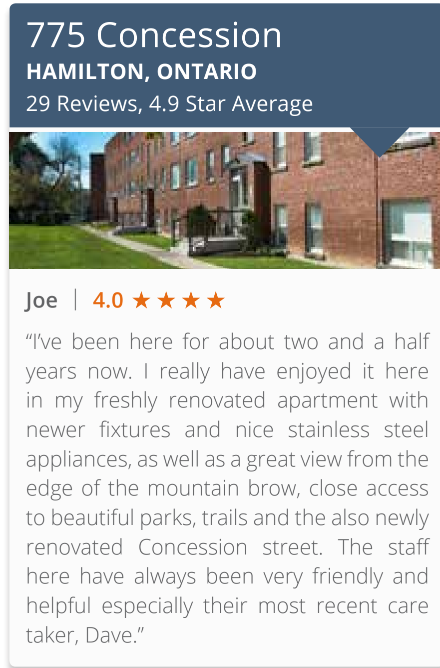
# SOCIAL MEDIA

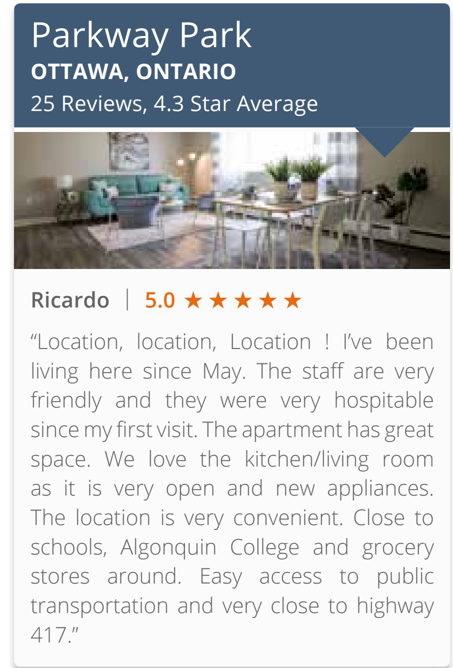
We strive to facilitate a two-way conversation with our residents and actively promote resident retention, brand awareness and lead generation strategies. Through our social media presence, our residents have the freedom to engage with our team, and receive a guaranteed quick response, fostering an open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

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



# LIV APARTMENTS
## 2018 SOCIAL MEDIA

**359K** People Reached

**86,400** Total Impressions

**1,736** Pins

**88K** Searches in Q4 of 2018
**190** Reviews as of Dec 31, 2018

**1,018** Followers

974 posts | 1,018 followers | 903 following

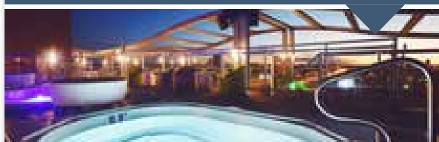
LIV APARTMENTS & EXTENDED STAY

Message

LIV Apartments
Apartment & Condo Building
The next level in apartment living
Location • Lifestyle • Excitement
613.889.5001
#bepartofit
info@livottawa.com
www.livottawa.com/
207 Bell Street N., Ottawa, Ontario

Call | Email | Directions

### LIV Apartments
**OTTAWA, ONTARIO**
191 Reviews, 4.2 Star Average



**Amir** | 5.0 ★★★★★

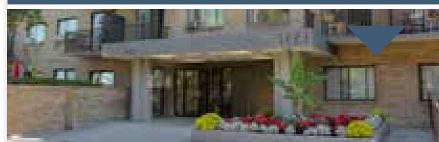
"I have been in this building more than 2 years. This is a place I can call home in Canada because I feel comfortable and has breathtaking view. In my home town, Dubai I used to live in a 5 star luxury high rise which had the same feeling. The staffs are very kind and responsible. I always can see whole building is clean and well maintained. I truly appreciate management team efforts and Ms. Jody and her team."

### Maison Hamilton
**MONTREAL, QUEBEC**
94 Reviews, 4.5 Star Average

**Spencer** | 5.0 ★★★★★

"I have to say I was quite impressed at the dedication and care exhibited by our guide Robert during our visit of the premises. The staff was friendly, flexible and the apartments were clean and spacious. The facilities were very well kept including the common areas. All in all it's a beautiful location and has management that is clearly above expectations! "

### Le Mistral
**MONTREAL, QUEBEC**
22 Reviews, 4.5 Star Average



**Tanja** | 5.0 ★★★★★

"The building and apartment was just as impressive as the advertisement, the whole process was completed in two to three days. Before the lease was signed every query or issue I had was dealt with immediately, the management were extremely friendly and Julie was exceptional in all ways throughout the entire process. The building is exceptionally well maintained, clean, quiet and has a lot to offer."

# 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 expertise 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 residents. The team also maintains existing residents' homes, and prepares the homes for new residents.

### 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 resident 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 innovative services to our residents.

### 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 residents and promotes energy conservation to directly benefit our communities.

## MICRO COGENERATION

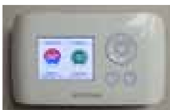
In 2018 InterRent implemented micro cogeneration at its LIV building located at 207 Bell Street in Ottawa, Ontario.

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 $CO_2$ 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. The system began operating in September 2018, and we generated 100,323 kWh of electricity and recovered 512,444 MJ of heat for our domestic hot water. This is equivalent to 13,341 cubic meters of gas. After taking gas consumption into consideration, we saw a savings of over $9,000 during the first 4 months of operation.

High Efficiency Boiler

Variable Speed Booster Pump



Programmable Wi-Fi Thermostat

Programmable Lighting Controls

Energy Star Appliances

Electric Car Charging Station

Submeters

Micro Cogeneration

Solar Lights

# CREATING VALUE FOR OUR INVESTORS

The REIT has continued to invest heavily in improvements such as amenities, infrastructure, security, and energy efficiency. Approximately $66 million was invested in the REIT's income producing properties in 2018 ($50 million in 2017), and InterRent recorded a fair value gain of approximately $196 million ($172 million in 2017). In line with InterRent's overall repositioning strategy, most of this capital investment was in properties that management believes are capable of achieving 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

WEST236, Ottawa

2255 Saint-Mathieu, Montreal

Halstead Gardens, Hamilton

### 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

Hamilton House, Montreal

Halstead Gardens, Hamilton

Auburn Park, London

### Common Area Upgrades

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

Parc Kildare, Montreal

1101 Rachel, Montreal

### Added Amenities

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

2757 Battleford, Mississauga

Forest Ridge, Ottawa

# CASE STUDIES
# VALUE CREATION

## PARKWAY PARK
Ottawa, Ontario

Parkway Park is a multi-family complex consisting of 38 walk-up buildings situated on over 17 acres of land. The site is located approximately 500m from Algonquin College as well as a future LRT station.

Some capital improvements made to this property since acquisition include new landscaping, parking resurfacing, interior and exterior painting, and improvements to the safety and security of the property.

Since acquisition in May 2016, the average rent on suites that have been vacated and subsequently occupied by new residents has increased 40%, while the NOI has increased 32%. The unlevered IRR based on the IFRS value at December 31, 2018, is 18%.

### OVERVIEW

| | |
|---|---|
| Total Suites | 418 |

### INVESTMENT HIGHLIGHTS

| | |
|---|---|
| Investment Timeframe | 32 months |
| Purchase Price | $55.7M |
| Unlevered IRR | 18%* |

*IRR based on the IFRS value at December 31, 2018.

As a result of boiler replacements at this property, **GAS CONSUMPTION DECREASED BY 14%**

## 455 MAPLE

Burlington, Ontario

Located just off the shores of Lake Ontario near Burlington's downtown core, 455 Maple is a 6-storey multi-family building with 57 suites. The property offers residents both a convenient location combined with renovated suites and various property amenities.

The property has received substantial capital improvements since acquisition, including new landscaping, elevator modernization, new balconies and parking resurfacing.

Since acquisition in December 2015, the average rent on suites that have been vacated and subsequently occupied by new residents has increased 71%, while the NOI has increased 62%. The unlevered IRR based on the IFRS value at December 31 is 17%.

### OVERVIEW

| | |
|---|---|
| Total Suites | 57 |

### INVESTMENT HIGHLIGHTS

| | |
|---|---|
| Investment Timeframe | 36 months |
| Purchase Price | $10.0M |
| Unlevered IRR | 17%* |

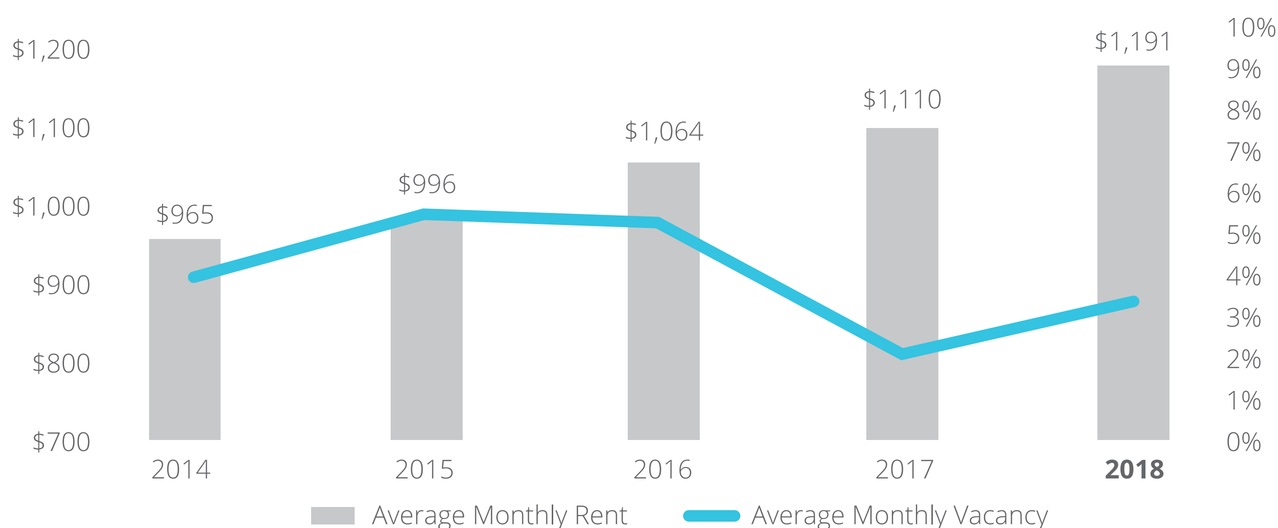
*IRR based on the IFRS value at December 31, 2018.

As a result of submetering investments at this property, **HYDRO CONSUMPTION DECREASED BY 22%.**

# FINANCIAL INFORMATION

InterRent's primary objective is to use the proven industry experience of the trustees, management and operations team to (i) grow both funds from operations per Unit and net asset value per Unit through investments in a diversified portfolio of multi-residential properties; (ii) provide Unitholders with sustainable and growing cash distributions, payable monthly; and (iii) maintain a conservative payout ratio and balance sheet.

## Average Monthly Rent and Average Monthly Vacancy

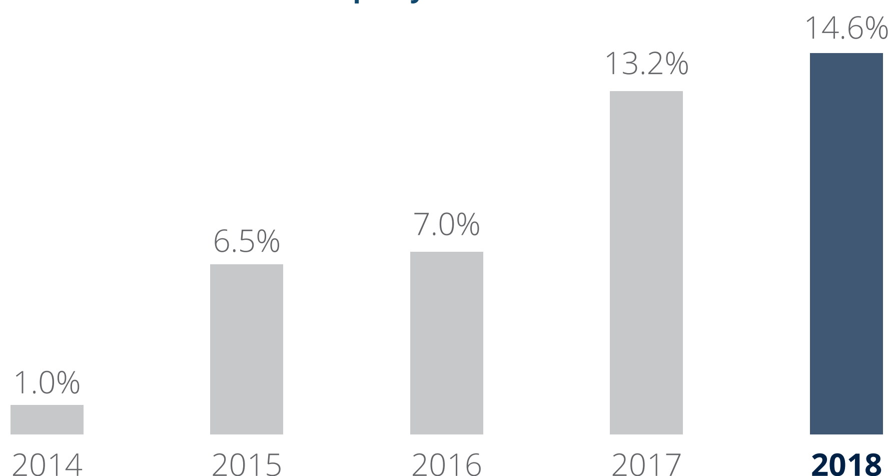



## FIVE Year History

| *In $000s, except as noted* | **2014** | **2015** | **2016** | **2017** | **2018** | **CAGR** |
|---|---|---|---|---|---|---|
| Total Suites | 6,700 | 8,389 | 8,059 | 8,660 | 9,299 | 8.5% |
| Average Rent Per Suite | $965 | $996 | $1,064 | $1,110 | $1,190 | 5.4% |
| Operating Revenues | $65,404 | $82,977 | $97,465 | $109,004 | $127,286 | 18.1% |
| Net Operating Income (NOI) | $37,884 | $48,490 | $56,867 | $66,166 | $82,218 | 21.4% |
| NOI % | 57.9% | 58.4% | 58.3% | 60.7% | 64.6% | 2.8% |
| FFO Per Unit (basic) | $0.33 | $0.35 | $0.39 | $0.43 | $0.45 | 8.0% |

Same Property results are revenues, expenses and NOI from properties owned by the Trust throughout the comparative periods, which removes the impact of situations that result in the comparative period being less meaningful. Some examples include: acquisitions, dispositions, redevelopments or properties going through a lease-up period.

### ▼ Year-Over-Year Same Property NOI Growth




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.

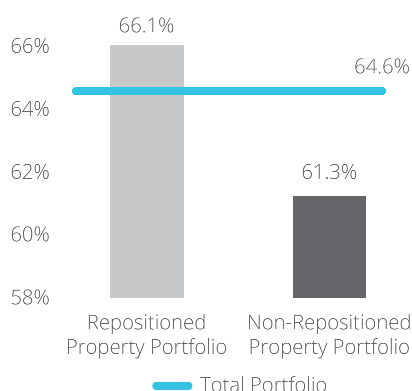
---

Management is also focused on growing the REIT in a strategic and structured manner with continued focus on applying our 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.

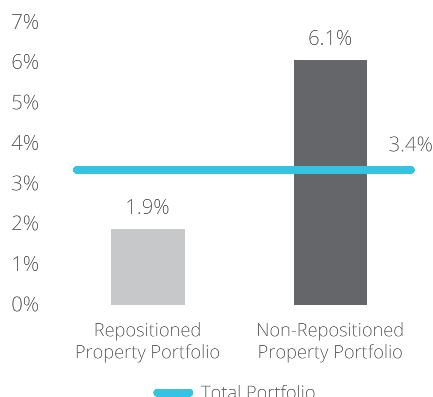
By applying our experience and know how, the REIT has been able to achieve above-average rental rates and NOI growth over the past five years.

Part of the process of deploying capital to improve a property can result in occupancy levels suffering in the short-term. With the acquisition of 1,785 suites from 2016 to 2018 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.

### ▼ Net Operating Income




### ▼ Vacancy




# FINANCING FACTS

**3.04%**
WEIGHTED AVERAGE INTEREST RATE

**6.0 YEARS**
AVERAGE TERM TO MATURITY

**38.9%**
DEBT-TO-GROSS BOOK VALUE

**2.93x**
INTEREST COVERAGE RATIO

**80%**
% OF MORTGAGE DEBT CMHC INSURED

at December 31, 2018

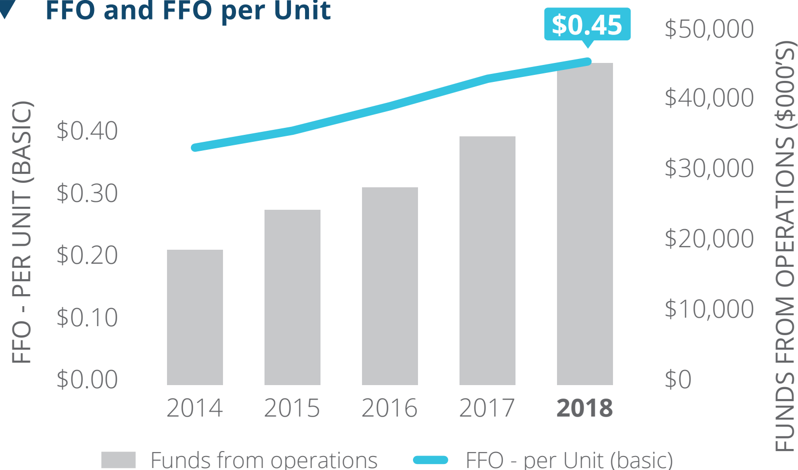
# FINANCIAL INFORMATION

The acquisitions completed in 2013 and 2014 have received substantial capital investment, and now form part of the repositioned 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 3,487 suites acquired in 2015, 2016, 2017 and 2018 were still undergoing various degrees of repositioning initiatives throughout 2018.

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 multifamily sector.

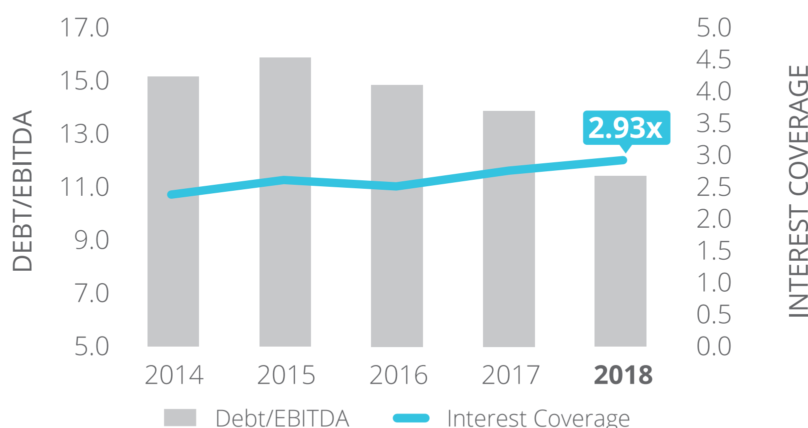
The REIT has experienced signifigant FFO growth in the past five years, both as an absolute and on a per unit basis. This growth can primarily be attributed to the growth in the overall NOI. Management expects that as recently-acquired properties begin to stabilize, the REIT will continue to experience above-average FFO per unit growth.

### FFO and FFO per Unit




The acquisition of 3,487 suites over the last four years has provided the REIT with a well-situated portfolio that has strong organic growth potential. To achieve this bottom-line revenue growth, the REIT has been investing in the properties. These acquisitions and investments have resulted in short-term pressure on the debt-to-EBITDA and interest coverage ratios over this four year period. 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

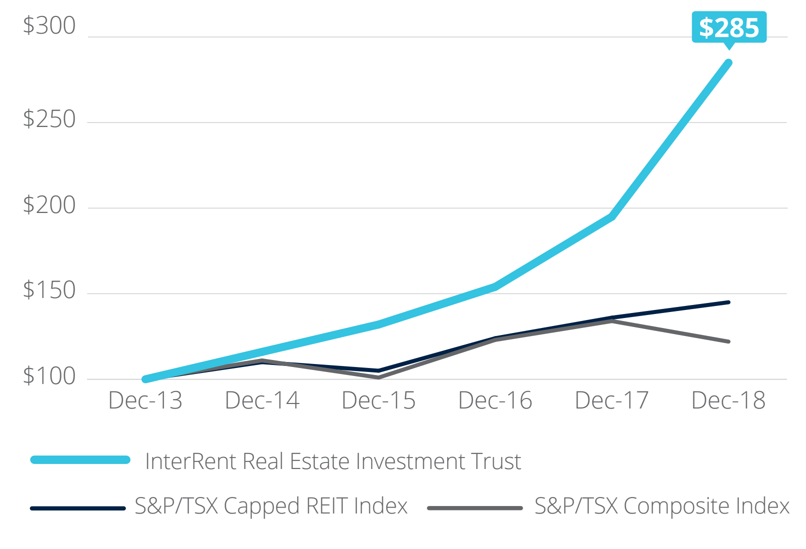
at December 31, 2018

**7.2%**
TOTAL PORTFOLIO RENT GROWTH

**24.3%**
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 2018 InterRent provided Unitholders with a total return of over 46%. 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,* | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total Return |
|---|---|---|---|---|---|---|---|
| InterRent Real Estate Investment Trust | $100 | $116 | $132 | $154 | $195 | $285 | 185% |
| S&P/TSX Composite Index | $100 | $111 | $101 | $123 | $134 | $122 | 22% |
| S&P/TSX Capped REIT Index | $100 | $110 | $105 | $124 | $136 | $145 | 45% |

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

**8.0%**
SAME PROPERTY PORTFOLIO RENT GROWTH

**14.6%**
SAME PROPERTY NOI GROWTH

**5.4%**
FFO/UNIT GROWTH (DILUTED)

# CANADA

## MULTI-FAMILY MARKET OVERVIEW

Throughout 2018, the Canadian rental market has shown solid performance with continued signs of positive growth to come. Provinces throughout the country, especially Ontario and Quebec, have been performing exceedingly well in terms of both economic and rental market growth.

According to CMHC, national vacancy rates for rental apartments fell further from 3% to 2.4% year-over-year, dropping below the 10-year average. The decline in vacancy can be primarily attributed to a steady increase in demand. Apartment supply grew by 37,000 units, or 1.9% during 2018. However, due to demand outpacing supply in the majority of major markets, vacancy remains below its historical long term average.

International migration to Canada was a primary driver in the increased demand for rental apartments across the country. Demand was also supported by growth in youth employment, and an increase in Canada's aging population. According to CMHC, most newcomers to Canada tend to choose the rental market upon arrival given its relative affordability and accessibility. According to the Government of Canada, international migration alone accounted for 79% of population growth over the period of 2017-2018. Estimates suggest international migration to Canada will continue for several years, further supporting the continued growth of the rental market.

Growth in youth employment experienced across most provinces also drove the demand for rental units. As the job market improves for young Canadians aged 15-29, so does the demand for rental housing. Similarly to newcomers to Canada, young Canadians tend to prefer the rental market given its relative affordability and accessibility.

Furthermore, given steady increases in the Canadian population aged 65 and older, the rental market is also seeing an influx of demand from that demographic, who show preferences of renting rather than owning. These shifting demographics show little signs of decelerating from 2019 and beyond, further supporting the favorable rental market for years to come.

**BRITISH COLUMBIA**
VACANCY .................. 1.4%
RENT/GROWTH ..... $1248/6.3%
POP/GROWTH ...5,016,322/1.4%
MF UNITS PC[4] ................ 0.03

**ALBERTA**
VACANCY .................. 5.6%
RENT/GROWTH ...... $1116/1.6%
POP/GROWTH .. 4,330,206/1.6%
MF UNITS PC[4] ................ 0.03

**SASKATCHEWAN**
VACANCY .................. 8.4%
RENT/GROWTH ....... $991/ N/A
POP/GROWTH ...1,165,903/0.9%
MF UNITS PC[4] ................ 0.03

**MANITOBA**
VACANCY .................. 2.9%
RENT/GROWTH ..... $1,008/3.8%
POP/GROWTH... 1,356,836/1.2%
MF UNITS PC[4] ................ 0.05

**ONTARIO**
VACANCY .................. 1.8%
RENT/GROWTH ..... $1,197/4.9%
POP/GROWTH . 14,411,424/1.8%
MF UNITS PC[4] ................ 0.05

Sources: Vacancy, Average Rent/Growth, and Multifamily Universe obtained from CMHC Primary Rental Market Statistics (Oct. 2018). Population data obtained from Statistics Canada (Population Growth from 2017-2018).

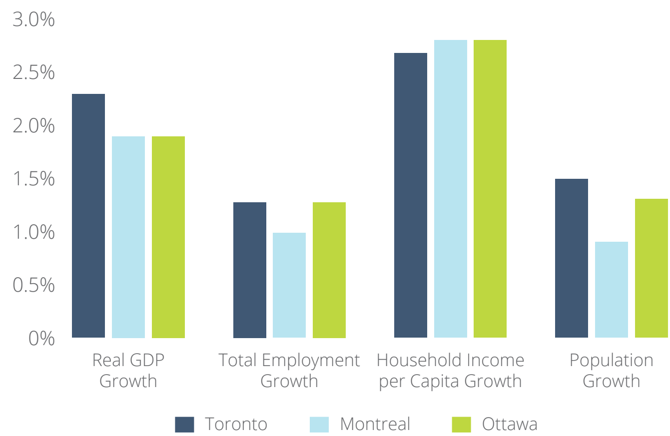
[1] CMHC [2] Statistics Canada [3] OECD [4] Multi-Family Units Per Capita

While the Canadian rental market has been performing well throughout 2018, InterRent remains focused on its core markets in Ontario and Quebec. According to CMHC, Quebec experienced tightening market conditions between 2017-2018 as vacancy fell from 3.4% to 2.3%. In Ontario, rental conditions stayed tight, yet stable, with vacancy resting at a low 1.8%.

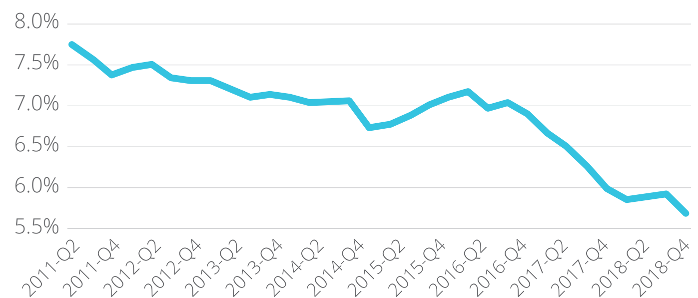
Both provinces have benefitted from increased net migration combined with strong employment growth. Ontario and Quebec further experienced substantial population growth during 2018, with increases of 1.8% and 1.1% respectively. According to the Government of Canada, national unemployment fell year-over-year from 5.9% in 2017 to 5.6% in 2018.

Looking ahead to 2019, Canada shows positive signs of strong rental demand growth, especially in InterRent's core markets throughout Ontario and Quebec. The National Capital Region, the Greater Toronto Area (including Hamilton), and Montreal have all exhibited strong economic growth, and are forecast to continue those positive trends throughout 2019.

### Forecast Economic Indicators (2019)[3]




### Canada Unemployement[3]




**NEWFOUNDLAND**
VACANCY .................. 6.0%
RENT/GROWTH ...... $822/1.3%
POP/GROWTH ... 525,073/-0.6%
MF UNITS PC[4] ................ 0.01

**NEW BRUNSWICK**
VACANCY .................. 3.2%
RENT/GROWTH ...... $765/3.2%
POP/GROWTH .... 772,238/0.5%
MF UNITS PC[4] ................ 0.04

**QUEBEC**
VACANCY .................. 2.3%
RENT/GROWTH ...... $760/2.2%
POP/GROWTH ... 8,421,698/1.1%
MF UNITS PC[4] ................ 0.10

**PRINCE EDWARD ISLAND**
VACANCY ................. 0.3%
RENT/GROWTH ..... $864/2.9%
POP/GROWTH ... 154,750/2.2%
MF UNITS PC[4] .............. 0.04

**OTTAWA**
VACANCY .................. 1.6%
RENT/GROWTH ..... $1,174/5.6%
POP/GROWTH ..... 991,726/1.3%
MF UNITS PC[4] ................ 0.06

**NOVA SCOTIA**
VACANCY .................. 2.0%
RENT/GROWTH ..... $1,018/2.1%
POP/GROWTH ..... 964,693/1.1%
MF UNITS PC[4] ................ 0.06

**MONTREAL**
VACANCY ................. 1.9%
RENT/GROWTH ..... $796/2.5%
POP/GROWTH . 4,098,927/0.9%
MF UNITS PC[4] ............... 0.14

**TORONTO**
VACANCY .................... 1.1%
RENT/GROWTH ..... $1,363/5.5%
POP/GROWTH .. 5,928,040/1.5%
MF UNITS PC[4] ................ 0.05

# GREATER TORONTO AREA (Including Hamilton)

The Greater Toronto Area, including Hamilton, has proven to be one of the most favorable rental markets throughout Canada. InterRent continues to invest in the GTA and Hamilton as we look to grow and strengthen our portfolio.

The rising cost of homeownership throughout the GTA continues to keep individuals[1] preferences on the rental market, as opposed to home ownership. Even as housing prices begin to cool down, they remained near record highs seen the last few years. Additionally, high borrowing costs and stricter lending conditions have kept potential home buyers out of the housing market. As a result, demand for rental units across the GTA has continued to rise, pinning vacancy rates down and driving average rents upwards.

According to the CMHC, average rent in the GTA increased 4.9% in 2018, well above the provincial guideline of 1.8%. Vacancy rates remained low throughout the GTA, with only a slight increase from 1.1% in 2017 to 1.2% in 2018.

In addition to rising housing prices and stricter lending conditions, demographic shifts seen in the GTA are favoring the rental market. CMHC reports that the 25-44 age group, a key demographic of potential renters, increased in population by 3.9% during 2018. Employment growth in the area is also contributing to more individuals entering the rental market earlier than before.

The result of rising demand and low vacancy rates has kept turnover low throughout the area. According to CMHC, the turnover rate decreased substantially from 14.5% in 2017 to 11.2% in 2018. As supply tries to catch up to demand in the GTA, minimal turnover is expected to keep vacancy rates steady and low.

In Hamilton, favorable rental market conditions have also prevailed throughout 2018. CMHC reported that the average rent increased from $1,020 in 2017 to $1,077 in 2018, an increase of 4%. Hamilton has seen significant rent increases across the city the last few years. However, Hamilton is one of the few regions where rental supply is beginning the catch up to demand.

CMHC reported that vacancy rates increased slightly from 2.4% in 2017 to 3.1% in 2018. However, demand for rental units remains relatively high, with little indication of slowing down. Several factors including a greater number of students entering the city, increased immigration, and rising housing costs are all supporting the rental market, spurring both supply and demand for units.

The high demand for rental units in both regions is expected to continue going into 2019 and InterRent remains committed the to GTA (including Hamilton) as one of our core markets in our portfolio.

[1] Source: CMHC

**2,884**
SUITES

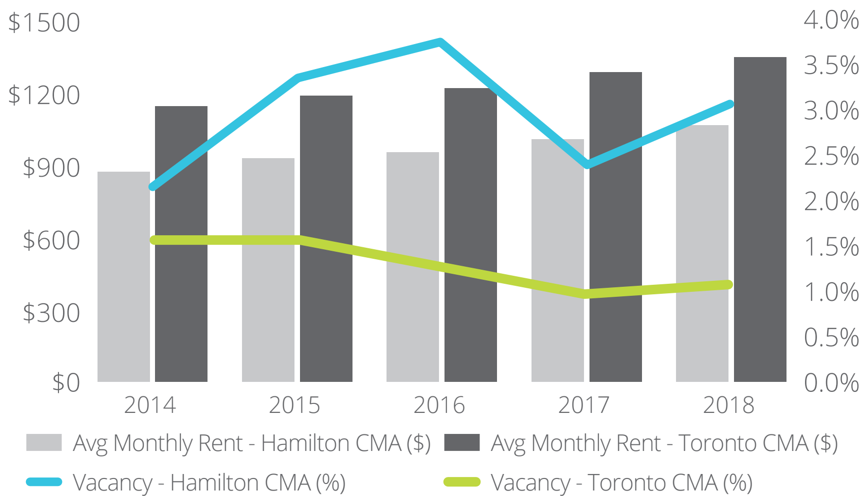
**357,197**
TOTAL SUITES IN MARKET

**23**
PROPERTIES

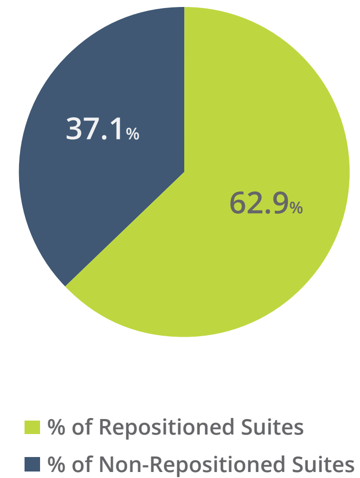
**0.8%**
PENETRATION

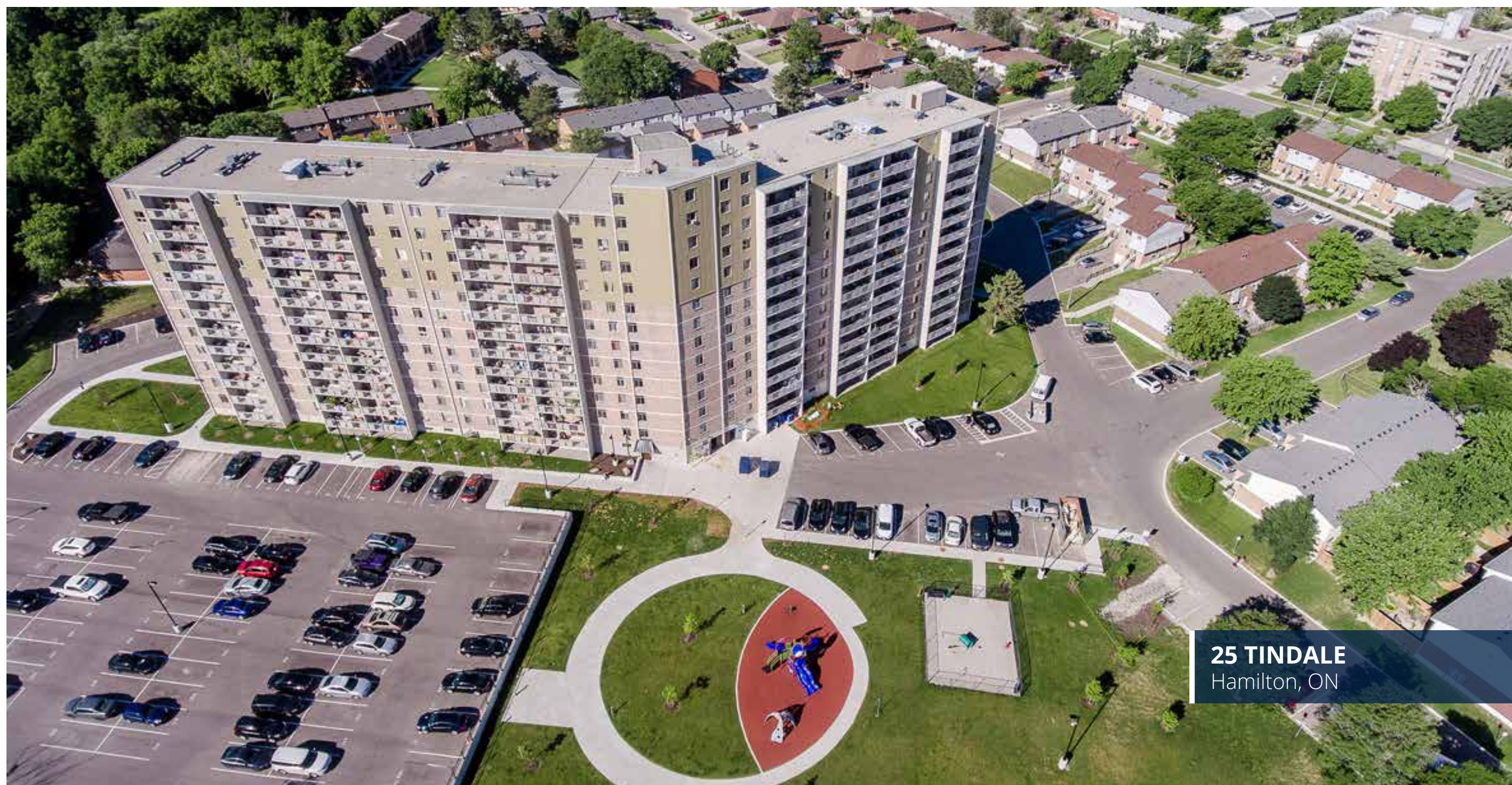
**31.0%**
OF PORTFOLIO

### ▼ Vacancy and Rent Trends[1]




### ▼ Portfolio Breakdown



**25 TINDALE**
Hamilton, ON

# MONTREAL

InterRent continues to target the Montreal region as one of our focused markets. The Montreal rental market has performed exceedingly well over the past few years and is expected to carry this momentum throughout 2019 and 2020.

As reported by CMHC, Montreal continues to experience record low-vacancy rates, falling substantially from 2.8% in 2017 to 1.9% in 2018. Declining vacancy rates represent a second straight year of tightening market conditions. Even though Montreal is home to one of Canada's largest rental markets by unit count, demand continues to outpace new supply and availability.

Several changes in the rental market have attracted InterRent to Montreal as we look to increase our market share throughout the city. Montreal continues to experience favorable net migration to the area, both from inter-provincial and international migration. New employment and educational opportunities are also attracting non-permanent residents, such as temporary workers and students, who tend to favor the rental market upon arrival.

Furthermore, according to CMHC, homeownership among the 15-24 age bracket has been declining, with many of those potential first-time homebuyers preferring the rental market. Similarly, the aging population of Montreal is supporting the rental market, as more individuals are choosing to switch from owning to renting.

While there has been no shortage of demand in the Montreal region, supply has been steadily increasing to keep up. CMHC reported that from October 2017 to October 2018, 7,500 units were added to the rental market, far outpacing the annual average of 1,600 units between 2011 and 2014. However, even as additional supply enters the market, it is unlikely to catch up to the rising demand in 2019.

These tightening rental conditions further increased the average rent in Montreal. According to CMHC, average rent in Montreal rose from $766 in 2017 to $796 in 2018.

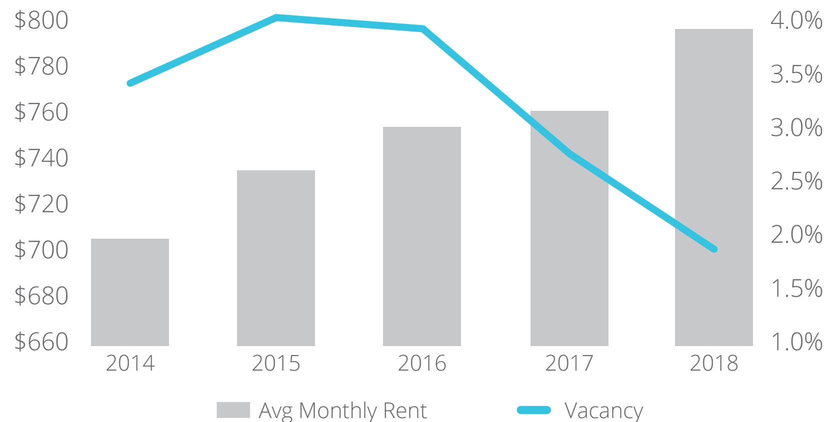
According to the Conference Board of Canada, economic growth in 2018 is estimated to reach 2.2%, and 1.9% in 2019.

**PARC KILDARE**
Montreal, QC

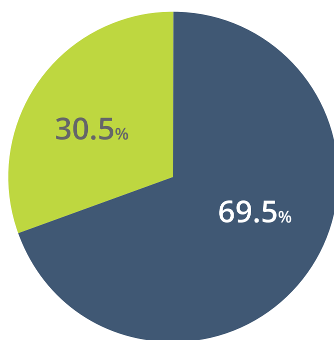
The primary driver of that economic growth will likely come from the construction industry as the city continues to invest in infrastructure projects. The city also continues to invest in improving public transit, with the Réseau Express Métropolitain breaking ground this year, bringing further connectivity and transportation options to residents.

After making several acquisitions in the Montreal area during 2018, InterRent continues to focus on the city in order to grow and strengthen our portfolio.

## Vacancy and Rent Trends[1]




## Portfolio Breakdown




% of Repositioned Suites
% of Non-Repositioned Suites

**1,645**
SUITES

**584,743**
TOTAL SUITES IN MARKET

**10**
PROPERTIES

**0.3%**
PENETRATION

**17.7%**
OF PORTFOLIO

[1] Source: CMHC

The National Capital Region has remained an essential part of InterRent's portfolio. Strong economic conditions and a growing employment base are driving the demand for rental units in the area.

# NATIONAL CAPITAL REGION

According to CMHC, Ottawa's vacancy has begun to stabilize, falling from just 1.7% in 2017 to 1.6% in 2018. Average rents also saw an increase of 5.6% year-over-year, settling at an average rent of $1,174.

The rental market continues to be supported by growing immigration levels to the city, followed by an increased number of students attending one of Ottawa's major universities and colleges. Furthermore, similar to other markets across Canada, rising mortgage rates are delaying entry into homeownership, with buyers shifting their focus to the relatively more affordable and accessible rental market.

The rising demand for rental units and shifting consumer preferences have also caused a decline in turnover along with vacancy. One and two-bedroom units sit at a vacancy rate of just 1.5% and 1.8% respectively, with average vacancy settling at 1.6%.

Ottawa continues to enjoy a positive economic outlook beyond the growing civil service and technology sector. The city also has several major infrastructure projects underway aimed at transforming the city. The 52-acre LeBreton Flats redevelopment is expected to transform the downtown area and bring new economic growth opportunities to the area.

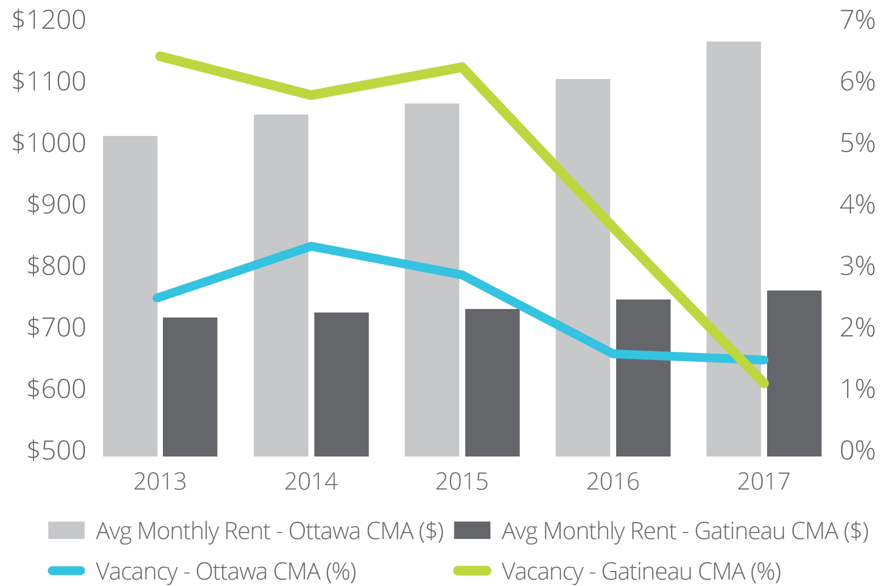
Furthermore, Ottawa's continued investment of $2.1 billion into the new LRT Confederation Line is expected to see Phase I completed in 2019. A transforming city center coupled with an improved transit system will further support economic growth, while also creating employment opportunities in the area.

Gatineau has also experienced similar rental market trends as seen in Ottawa. According to CMHC, average rent rose to $770, an increase of 2.9% year-over-year. Tightening rental market conditions also caused vacancy to fall further, from 3.8% in 2017 to a low of 1.2% in 2018.

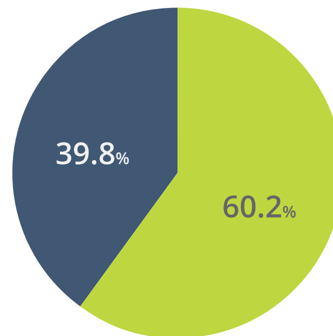
The favorable conditions are likely the result of a strengthening job market in the area, followed by increased net migration to the National Capital Region. With a positive economic outlook across the NCR, the Gatineau rental market is expected to experience further growth in the coming years.

The National Capital Region remains a primary focus for InterRent as we look to grow our portfolio. Both Ottawa and Gatineau have proven to support positive growth over the past few years, with those trends expected to continue going into 2019.

## Vacancy and Rent Trends[1]



## Portfolio Breakdown




% of Repositioned Suites
% of Non-Repositioned Suites

**2,961**
SUITES

**3.5%**
PENETRATION

**84,641**
TOTAL SUITES IN MARKET

**27**
PROPERTIES

**31.8%**
OF PORTFOLIO

# PORTFOLIO **MAP**

## **GTA** (INCLUDING HAMILTON)

2,884 SUITES

357,197
TOTAL SUITES IN MARKET

23
PROPERTIES

0.8%
PENETRATION

31.0%
OF PORTFOLIO

## MONTREAL

1,645 SUITES

584,743
TOTAL SUITES IN MARKET

10
PROPERTIES

0.3%
PENETRATION

17.7%
OF PORTFOLIO

## NATIONAL CAPITAL REGION

2,961 SUITES

84,641
TOTAL SUITES IN MARKET

27
PROPERTIES

3.5%
PENETRATION

31.8%
OF PORTFOLIO

## SECONDARY MARKETS

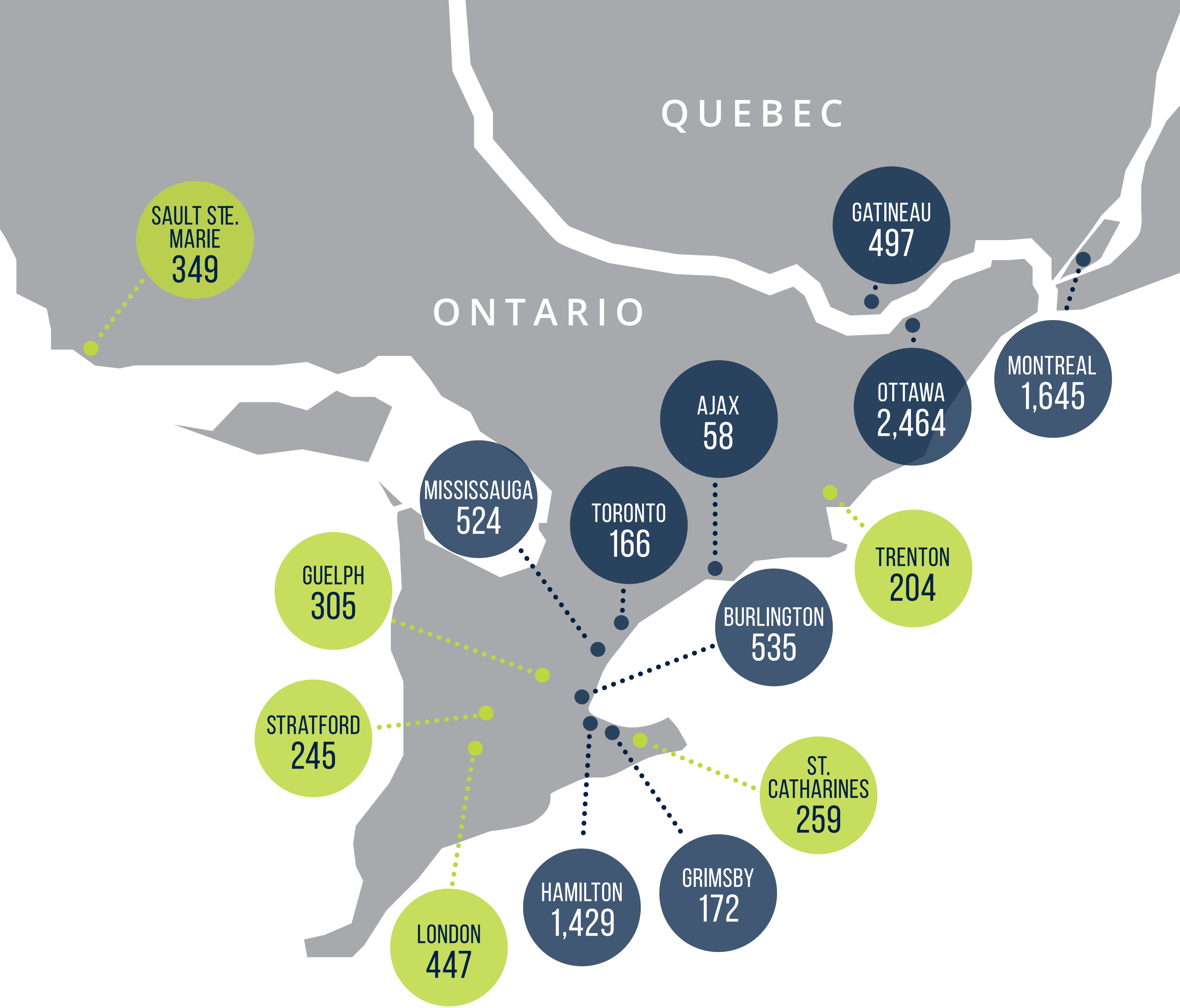
1,809 SUITES

198,227
TOTAL SUITES IN MARKET

20
PROPERTIES

0.9%
PENETRATION

19.5%
OF PORTFOLIO




NUMBER OF PROPERTIES **80**

NUMBER OF SUITES **9,299**

PRIMARY MARKETS

SECONDARY MARKETS

| | 2017 | 2018 |
|---|---|---|
| % OF REPOSITIONED SUITES IN PORTFOLIO | **55%** | **63%** |
| % OF NON-REPOSITIONED SUITES IN PORTFOLIO | **45%** | **37%** |

# 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

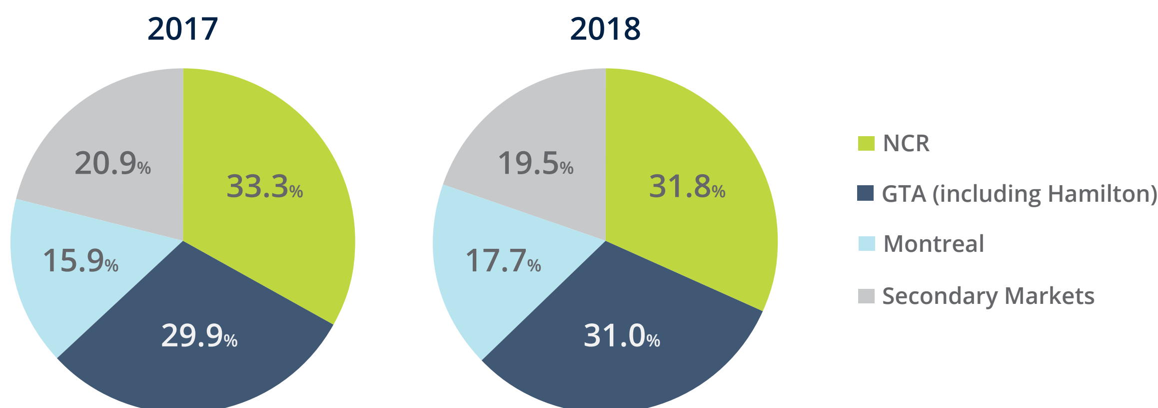
InterRent looks for communities with an existing track record of strong economic growth, preferably where the REIT has experience & success improving rental rates and where existing infrastructure can be leveraged.

### 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 2018, the REIT acquired 638 suites in its core markets.

**Geographic Exposure by Suite Count**



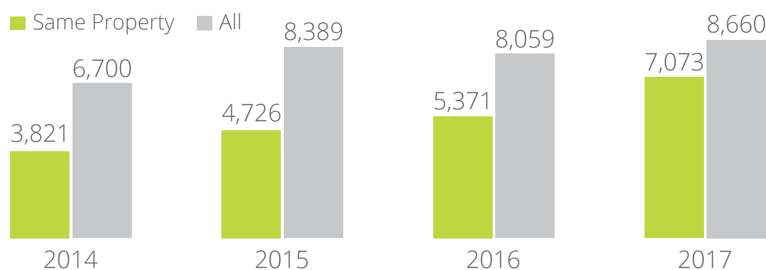
| 2014 ACQUISITIONS | SUITES |
|---|---|
| Crystal Beach East, Ottawa (ON) | 54 |
| 15 Kappele Circle, Stratford (ON) | 23 |
| Tindale Court & Quigley Road, Hamilton (ON) | 334 |
| 6599 Glen Erin, Mississauga (ON) | 232 |
| 15 Louisa, Ottawa (ON) | 2 |
| | **645** |

| 2015 ACQUISITIONS | SUITES |
|---|---|
| 5501 Adalbert, 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** |

| 2018 ACQUISITIONS | SUITES |
|---|---|
| 5775 Sir Walter Scott, Montreal (QC) | 48 |
| 1-3 Slessor, Grimsby (ON) | 172 |
| 236 Richmond, Ottawa (ON) | 72 |
| 381 Churchill, Ottawa (ON) | 6 |
| 10 Ben Lomond, Hamilton (ON) | 62 |
| 625 Milton, Montreal (QC) | 138 |
| 3474 Hutchison, Montreal (QC) | 77 |
| 1170 Fennell, Hamilton (ON) | 63 |
| | **638** |
| **TOTAL** | **4,132** |



Tindale Court, Burlington

Forest Ridge, Ottawa

1101 Rachel, Montreal

1121 Mistral, Montreal

236 Richmond, Ottawa

# 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.

**955 WONDERLAND**
London, ON

## NOMINATIONS AND GOVERNANCE COMMITTEE

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

## COMPENSATION COMMITTEE

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

## CAPITAL RESOURCES COMMITTEE

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

**1101 RACHEL**
Montreal, QC

# MANAGEMENT'S DISCUSSION & ANALYSIS

For the Year Ended December 31, 2018

February 22, 2018

**LAKESHORE CLUB**
Burlington, ON

# MANAGEMENT DISCUSSION & ANALYSIS TABLE OF CONTENTS


**FORWARD-LOOKING STATEMENTS** **41**
**INTERRENT REAL ESTATE INVESTMENT TRUST** **42**
**DECLARATION OF TRUST** **42**

INVESTMENT GUIDELINES 42
OPERATING POLICIES 42
ACCOUNTING POLICIES 43
NON-GAAP MEASURES 44

**OVERVIEW** **45**

BUSINESS OVERVIEW AND STRATEGY 45
OUTLOOK 45

**Q4 AND FULL YEAR PERFORMANCE HIGHLIGHTS** **46**
**PORTFOLIO SUMMARY** **48**
**ANALYSIS OF OPERATING RESULTS** **48**

REVENUE 49
OTHER REVENUE 51
PROPERTY OPERATING COSTS 51
PROPERTY TAXES 51
UTILITY COSTS 52
NET OPERATING INCOME (NOI) 52

**SAME PROPERTY PORTFOLIO PERFORMANCE** **53**

REPOSITIONED PROPERTY PORTFOLIO PERFORMANCE 54

**FINANCING AND ADMINISTRATIVE COSTS** **55**

FINANCING COSTS 55
ADMINISTRATIVE COSTS 56

**OTHER INCOME AND EXPENSES** **56**

PROPERTY MANAGEMENT INTERNALIZATION COST 56
FAIR VALUE ADJUSTMENTS OF INVESTMENT PROPERTIES 56
UNREALIZED FAIR VALUE GAIN/LOSS ON FINANCIAL LIABILITIES 57
DISTRIBUTION EXPENSE 57

**INVESTMENT PROPERTIES** **58**
**UNITHOLDERS' EQUITY** **59**

DISTRIBUTIONS 59
WEIGHTED AVERAGE NUMBER OF UNITS 59

**PERFORMANCE MEASURES** **60**

CASH FROM OPERATING ACTIVITIES AND CASH DISTRIBUTIONS 61
QUARTERLY PERFORMANCE HIGHLIGHTS 62

**LIQUIDITY AND CAPITAL RESOURCES** **62**

INTEREST AND DEBT SERVICE COVERAGE 63
MORTGAGE AND DEBT SCHEDULE 63

**ACCOUNTING** **69**

FUTURE ACCOUNTING CHANGES 69
RISKS AND UNCERTAINTIES 69
OFF-BALANCE SHEET ARRANGEMENTS 75
RELATED PARTY TRANSACTIONS 75

**DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING** **76**
**SUBSEQUENT EVENTS** **76**
**OUTSTANDING SECURITIES DATA** **76**
**ADDITIONAL INFORMATION** **76**

# 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, 2018 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
- Provincial government housing policies

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, 2018 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, 2018 and 2017. The Trust implemented the following accounting standards in 2018:

The Trust adopted IFRS 9 Financial Instruments on January 1, 2018 using the modified retrospective basis with no restatement of comparative periods. The adoption of the new standard by the Trust resulted in no change in measurement or the carrying amount of financial assets and liabilities.

The Trust adopted IFRS 15 Revenue from Contracts with Customers on January 1, 2018 and applied the requirements of the standard using the modified retrospective basis. The adoption of the new standard by the Trust resulted in no change to the pattern of revenue recognition or the measurement of revenue however additional note disclosure has been added to note 15 on the disaggregation of the Trust's revenue streams.

The Trust adopted the amendments to IFRS 2 Share-based Payment on January 1, 2018. The adoption of the amendments by the Trust resulted in no change to the presentation to the Trust's audited consolidated financial statements.

The Trust adopted the amendments to IAS 40 Investment Property on January 1, 2018. The adoption of the amendments by the Trust resulted in no change to the presentation to the Trust's audited consolidated financial statements.

The Trust early adopted IFRS 16 Leases on January 1, 2018 and applied the requirements of the standard retrospectively. The adoption of the new standard by the Trust resulted in no change to the presentation to the Trust's audited consolidated financial statements.

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.

**PLACE KINGSLEY**
Montreal, QC

## NON-GAAP MEASURES

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

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.

Same Property results are revenues, expenses and NOI from properties owned by the Trust throughout the comparative periods, which removes the impact of situations that result in the comparative period being less meaningful. Some examples include: acquisitions, dispositions, redevelopments or properties going through a lease-up period.

Repositioned Property results are revenues, expenses and NOI from properties owned by the Trust prior to January 1, 2015.

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 dated February 2018. Management considers FFO and AFFO a useful measure of recurring economic earnings.

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 2018. 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, Same Property, Repositioned Property, 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 and in 2017, the REIT added 473 suites in Montreal and 129 suites in Hamilton for a combined total of 602 suites. In 2018, the REIT added 263 suites in Montreal, 78 suites in Ottawa and 297 suites in and around Hamilton for a combined total of 575 suites as well as two land sites for future development. 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, 2018, the Trust has 7,619 Same Property suites, which represents 81.9% of the overall portfolio and 5,812 Repositioned Property suites, which represent 62.5% of the overall portfolio, and 3,487 Non-Repositioned Property suites, which represents 37.5% of the overall portfolio.

## 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 repositioning 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; re-deploying capital from areas where management believes that properties have reached their economic peak or that the area will not allow the REIT to reach the desired level of scale; developing purpose built rental on existing sites that have the ability to add more density; and, participating in joint ventures for mixed-use sites where the REIT can add value through its experience and expertise in owning and operating multi-family rentals. In line with this, the REIT has:
    a. Completed the sale of its Sault Ste. Marie portfolio of nine properties, totalling 349 suites, for $35.3 million on January 17, 2019.
    b. Purchased five low-rise buildings in Montreal, totalling 253 suites, for $59 million. The properties are located in the sought-after neighborhoods of Westmount, Hampstead and Notre-Dame-de-Grace of central Montreal that closed on February 12, 2019; and,
    c. Committed to purchase a building with 74 suites in St. Catherine, for $11.2 million, in April 2019.
- The REIT, along with its joint venture partners, are continuing to make progress on the overall site design for the 900 Albert Street (Ottawa). 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.
- Management believes that suite turnovers will reduce in 2019 thereby making it crucial to continue performing the appropriate building and in-suite upgrades so that on turnover the REIT can capture as much of the upside in market rent as possible.

## 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, 2018 compared to the same period in 2017:

| **Selected Consolidated Information**<br>In $000's, except per Unit amounts and other non-financial data | **3 Months Ended December 31, 2018** | **3 Months Ended December 31, 2017** | **Change** | **12 Months Ended December 31, 2018** | **12 Months Ended December 31, 2017** | **Change** |
|---|---|---|---|---|---|---|
| Total suites | - | - | - | **9,299** | 8,660 | **+7.4%** |
| Average rent per suite (December) | - | - | - | **$1,190** | $1,110 | **+7.2%** |
| Occupancy rate (December) | - | - | - | **96.6%** | 97.9% | **-130bps** |
| Operating revenues | **$34,062** | $29,710 | **+14.6%** | **$127,286** | $109,004 | **+16.8%** |
| Net operating income (NOI) | **22,312** | 18,356 | **+21.6%** | **82,218** | 66,166 | **+24.3%** |
| NOI % | **65.5%** | 61.8% | **+370bps** | **64.6%** | 60.7% | **+390bps** |
| Same Property average rent per suite (December) | - | - | - | **$1,191** | $1,103 | **+8.0%** |
| Same Property occupancy rate (December) | - | - | - | **98.0%** | 98.0% | - |
| Same Property NOI | **18,474** | 15,905 | **+16.2%** | **69,621** | 60,771 | **+14.6%** |
| Same Property NOI % | **66.3%** | 61.7% | **+460bps** | **65.4%** | 61.6% | **+380bps** |
| Net Income | **$42,188** | $42,345 | **-0.4%** | **$168,297** | $200,980 | **-16.3%** |
| Funds from Operations (FFO) | **$12,474** | $9,645 | **+29.3%** | **$44,910** | $34,662 | **+29.6%** |
| FFO per weighted average unit – diluted | **$0.114** | $0.114 | - | **$0.447** | $0.424 | **+5.4%** |
| Adjusted Funds from Operations (AFFO) | **$11,066** | $8,502 | **+30.2%** | **$39,294** | $30,570 | **+28.5%** |
| AFFO per weighted average unit – diluted | **$0.101** | $0.101 | - | **$0.391** | $0.374 | **+4.5%** |
| Distributions per unit | **$0.07083** | $0.06525 | **+8.6%** | **$0.27333** | $0.24750 | **+10.4%** |
| Adjusted Cash Flow from Operations (ACFO) | **$15,357** | $12,080 | **+27.1%** | **$46,944** | $38,162 | **+23.0%** |
| Debt to GBV | - | - | - | **38.9%** | 47.8% | **-890bps** |
| Interest coverage (rolling 12 months) | - | - | - | **2.93x** | 2.76x | **+0.17x** |
| Debt service coverage (rolling 12 months) | - | - | - | **1.81x** | 1.78x | **+0.03x** |

- Overall Portfolio:
  a. Operating revenue for the quarter rose by $4.4 million to $34.1 million, an increase of 14.6% over Q4 2017. Operating revenue for the year ended 2018 increased by $18.3 million, or 16.8% year-over-year, to $127.3 million.
  b. Average monthly rent per suite increased to $1,190 (December 2018) from $1,110 (December 2017), an increase of 7.2%.
  c. Occupancy for December 2018 was 96.6%, up from 95.8% in September 2018 and down 130 bps when compared to December 2017.
  d. NOI for the quarter increased by 21.6%, or $3.9 million, to $22.3 million compared to Q4 2017. For the quarter, NOI as a percentage of revenues was 65.5% and was up by 370 basis points compared to Q4 2017. NOI for the twelve months ended December 31, 2018 was $82.2 million, an increase of $16.0 million, or 24.3%, compared to 2017. NOI margin for the year ended 2018 was 64.6%, an increase of 390 basis points compared to 2017.

- Same Property Portfolio:
  a. Operating revenue for the quarter rose by $2.1 million to $27.9 million, an increase of 8.1% over Q4 2017. Operating revenue for the year ended 2018 increased by $7.7 million to $106.4 million, or 7.8%, over 2017.
  b. Average monthly rent per suite increased to $1,191 (December 2018) from $1,103 (December 2017), an increase of 8.0%.
  c. Occupancy remained constant at 98.0% for both December 2018 and December 2017.
  d. NOI for the quarter increased by 16.2%, or $2.6 million, to $18.5 million compared to Q4 2017. For the quarter, NOI as a percentage of revenues was 66.3% and was up by 460 basis points compared to Q4 2017. NOI for the twelve months ended December 31, 2018 was $69.6 million, an increase of $8.8 million, or 14.6%, compared to 2017. NOI margin for the year ended 2018 was 65.4%, an increase of 380 basis points compared to 2017.

- Fair value gain on investment properties in the year of $195.7 million was driven by property level operating improvements as well as a reduction in the overall weighted average capitalization rate to 4.38% compared to 4.55% as at December 31, 2017.
- Net income for the year was $168.3 million, a decrease of $32.7 million compared to 2017. The decrease was driven primarily by the property management internalization cost of $44.0 million. Removing this non-recurring event, net income would have been $212.3 million.
- FFO for the quarter increased by 29.3% to $12.5 million compared to Q4 2017. FFO for the year increased by 29.6% to $44.9 million compared to 2017.
- FFO per Unit for the quarter remained constant at $0.114 per Unit compared to $0.114 per Unit for Q4 2017. FFO per Unit for the year increased by 5.4% to $0.447 per Unit compared to $0.424 per Unit for 2017.
- AFFO for the quarter increased by 30.2% to $11.1 million compared to Q4 2017. AFFO for the year increased by 28.5% to $39.3 million compared to 2017.
- AFFO per Unit for the quarter remained constant at $0.101 per Unit compared to $0.101 per Unit for Q4 2017. AFFO per Unit for the year increased by 4.5% to $0.391 per Unit compared to $0.374 per Unit for 2017.
- ACFO for the quarter increased by 27.1% to $15.4 million compared to Q4 2017. ACFO for the year increased by 23.0% to $46.9 million compared to 2017.
- Debt-to-GBV ratio at year end was 38.9%, a decrease of 890 basis points from December 2017.
- The Trust completed the following investment property transactions during the year:

| Transaction Date | Property | Region | Property Type | # of Suites | Transaction Price |
|---|---|---|---|---|---|
| 10-Jan-18 | 5775 Sir Walter Scott | Montreal | Residential | 48 | $5,250,000 |
| 28-Feb-18 | 1-3 Slessor | Hamilton/Niagara | Residential | 172 | $21,075,000 |
| 27-Mar-18 | 236 Richmond | NCR-Ottawa | Residential/Commercial | 72 | $36,250,000 |
| 27-Mar-18 | Richmond and Churchill | NCR-Ottawa | Land/Residential | 6 | $11,000,000 |
| **Q1/18 Acquisitions** | | | | **298** | **$73,575,000** |
| 18-Jun-18 | 10 Ben Lomond | Hamilton/Niagara | Residential | 62 | $10,450,000 |
| **Q2/18 Acquisitions** | | | | **62** | **$10,450,000** |
| 19-Sep-18 | - | GTA | Land | - | $42,000,000 |
| 25-Sep-18 | 625 Milton | Montreal | Residential | 138 | $28,542,068 |
| 25-Sep-18 | 3474 Hutchison | Montreal | Residential | 77 | $15,737,932 |
| **Q3/18 Acquisitions** | | | | **215** | **$86,280,000** |
| 22-Oct-18 | 1170 Fennell | Hamilton/Niagara | Residential | 63 | $7,875,000 |
| **Q4/18 Acquisitions** | | | | **63** | **$7,875,000** |
| **Total 2018 Acquisitions** | | | | **638** | **$178,180,000** |

## PORTFOLIO SUMMARY

The Trust started the year with 8,660 suites. During the year ended 2018 the Trust purchased nine properties totalling 638 suites and added 1 suite to a property in Montreal. At December 31, 2018, the Trust owned 9,299 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 portfolio to drive rents, reduce operating costs, and streamline operations. At December 31, 2018, approximately 82% of the portfolio was Same Property suites and approximately 63% of the portfolio was Repositioned Property suites. Management has identified several cities within its geographical clusters for growth, and has been successful in adding 638 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 table shows our suite mix by region. InterRent's focus on recycling capital and growing its core markets of Greater Toronto Area (GTA), including Hamilton, Ottawa/Gatineau (National Capital Region, or NCR) and Montreal has resulted in approximately 80% of InterRent's suites now being located in these core markets.

### ▼ SUITES BY REGION AT DECEMBER 31, 2018

| Region | Total Portfolio | | Same Property | |
|---|---|---|---|---|
| | # of Suites | Average Rent | # of Suites | Average Rent |
| Eastern Ontario | 204 | 2.2% | 204 | 2.7% |
| GTA | 1,283 | 13.8% | 1,283 | 16.8% |
| Hamilton/Niagara | 1,860 | 20.0% | 1,434 | 18.8% |
| Northern Ontario | 349 | 3.8% | 349 | 4.6% |
| Montreal | 1,645 | 17.7% | 910 | 11.9% |
| Gatineau | 497 | 5.3% | 497 | 6.5% |
| Ottawa | 2,464 | 26.5% | 1,945 | 25.5% |
| Western Ontario | 997 | 10.7% | 997 | 13.1% |
| **Total** | **9,299** | **100.0%** | **7,619** | **100.0%** |

## ANALYSIS OF OPERATING RESULTS

| In $ 000's | 3 Months Ended December 31, 2018 | | 3 Months Ended December 31, 2017 | | 12 Months Ended December 31, 2018 | | 12 Months Ended December 31, 2017 | |
|---|---|---|---|---|---|---|---|---|
| Gross rental revenue | **$33,361** | | $28,977 | | **$125,982** | | $108,462 | |
| Less: vacancy & rebates | **(1,291)** | | (886) | | **(6,043)** | | (5,271) | |
| Other revenue | **1,992** | | 1,619 | | **7,347** | | 5,813 | |
| Operating revenues | **$34,062** | | $29,710 | | **$127,286** | | $109,004 | |
| Expenses | | | | | | | | |
| Property operating costs | **4,772** | **14.0%** | 4,996 | 16.8% | **18,933** | **14.9%** | 18,616 | 17.1% |
| Property taxes | **4,102** | **12.0%** | 3,563 | 12.0% | **16,097** | **12.6%** | 14,305 | 13.1% |
| Utilities | **2,876** | **8.5%** | 2,795 | 9.4% | **10,038** | **7.9%** | 9,917 | 9.1% |
| Operating expenses | **$11,750** | **34.5%** | $11,354 | 38.2% | **$45,068** | **35.4%** | $42,838 | 39.3% |
| Net operating income | **$22,312** | | $18,356 | | **$82,218** | | $66,166 | |
| Net operating margin | **65.5%** | | 61.8% | | **64.6%** | | 60.7% | |

## REVENUE

Gross rental revenue for the year ended December 31, 2018 increased 16.2% to $126.0 million compared to $108.5 million for the year ended December 31, 2017. Operating revenue for the year was up $18.3 million to $127.3 million, or 16.8% compared to the prior year. The Trust owned, on a weighted average basis, 9,014 suites throughout 2018 (9,299 suites at the end of 2018) as compared to 8,346 throughout 2017 (8,660 at the end of 2017), an increase of 668 suites from 2017. On a weighted average suite basis, gross rental revenue for 2018 grew by 7.5% over 2017.

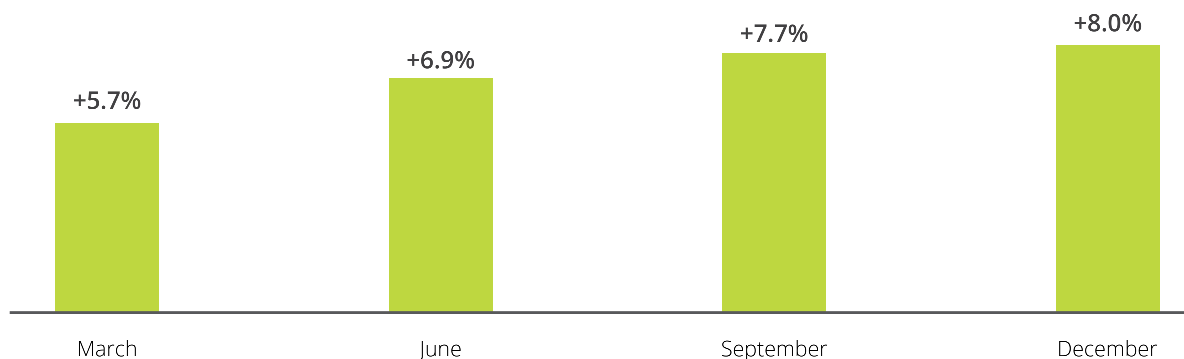
The average monthly rent for the month of December 2018 increased to $1,190 per suite from $1,110 (December 2017), an increase of 7.2%. On a Same Property basis, the average rent increased by $88 per suite to $1,191 (or up 8.0%) over December 2017. The overall increase in average rent is impacted by changes 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 by moving to market rent on suite turnovers, continued roll-out of guideline increases, as well as continuing to drive other ancillary revenue streams such as parking, laundry, locker rentals, and cable and telecom revenue share agreements.

### ▼ AVERAGE RENT BY REGION

| Region | Total Portfolio | | | Same Property | | |
|---|---|---|---|---|---|---|
| | December 2018 | December 2017 | Change | December 2018 | December 2017 | Change |
| Eastern Ontario | $1,117 | $1,022 | +9.3% | $1,117 | $1,022 | +9.3% |
| GTA | $1,490 | $1,390 | +7.2% | $1,490 | $1,390 | +7.2% |
| Hamilton/Niagara | $1,083 | $1,022 | +6.0% | $1,137 | $1,040 | +9.3% |
| Northern Ontario | $963 | $918 | +4.9% | $963 | $918 | +4.9% |
| Montreal | $1,022 | $954 | +7.1% | $1,036 | $974 | +6.4% |
| Gatineau | $919 | $856 | +7.4% | $919 | $856 | +7.4% |
| Ottawa [(1)] | $1,340 | $1,221 | +9.7% | $1,246 | $1,151 | +8.3% |
| Western Ontario | $1,149 | $1,056 | +8.8% | $1,149 | $1,056 | +8.8% |
| **Total** | **$1,190** | **$1,110** | **+7.2%** | **$1,191** | **$1,103** | **+8.0%** |

(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.

### ▼ 2018 VERSUS 2017 SAME PROPERTY AVERAGE RENT GROWTH




InterRent REIT has been successful in increasing rent levels while at the same time reducing hydro consumption and costs by having residents be responsible for the cost associated with their individual consumption. Currently, 83% of the portfolio has submetering capabilities in place.

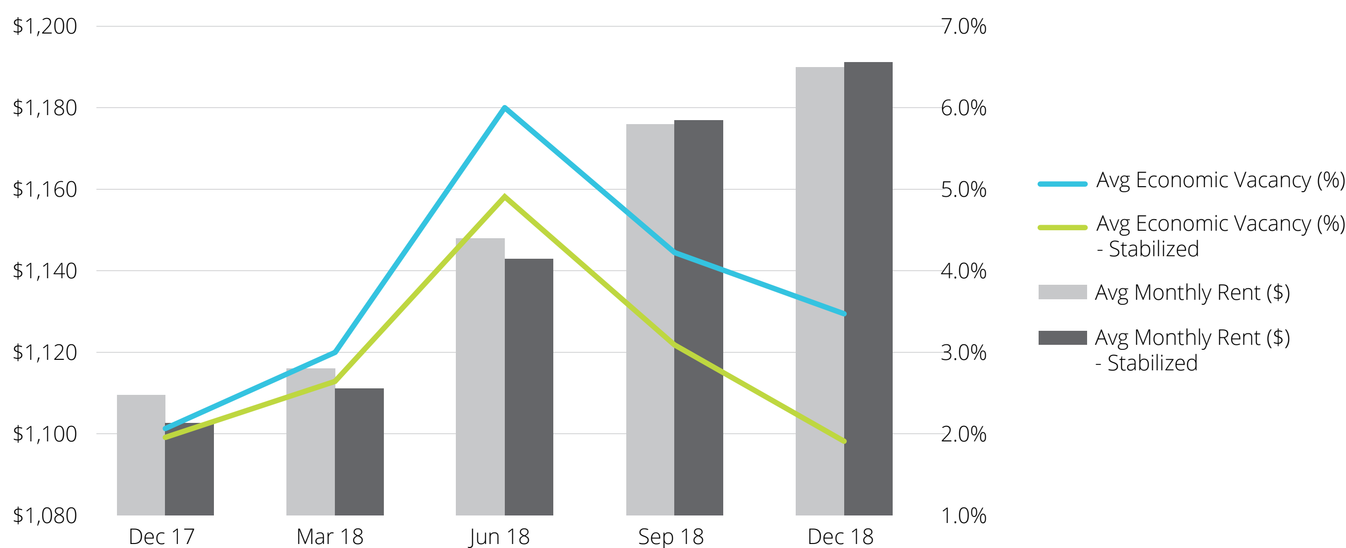
## Portfolio Occupancy

As part of the ongoing effort to drive rents throughout the portfolio, the vacancy rate on an annual basis is expected to be in the 4% range once a property is repositioned. 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 safe, secure and well maintained;
2. ensuring suites are properly repaired and maintained before being rented to new residents;
3. marketing that is tailored to the specific features, location and demographics of each individual property; and,
4. ensuring that operations are running as efficiently and cost effectively as possible to ensure the well-being of residents and resident 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.




| | December 2017 | March 2018 | June 2018 | September 2018 | December 2018 |
|---|---|---|---|---|---|
| Average monthly rents all properties | $1,110 | $1,117 | $1,148 | $1,176 | $1,190 |
| Average monthly rents Same Property | $1,103 | $1,112 | $1,143 | $1,177 | $1,191 |

The overall economic vacancy for December 2018 across the entire portfolio was 3.4%, an increase of 130 basis points as compared to the 2.1% recorded for December 2017. Economic vacancy for the Same Property portfolio for December 2018 was 2.0%, compared to 2.0% at December 2017.

Overall Vacancy is up from the 2.1% recorded in December of 2017 but down from the 4.2% recorded in September of 2018. Given the strong demand and growth in market rents, the REIT has been actively managing asking rents to try and achieve as much of the upside as possible. With turnover in the coming years expected to be lower than normal, the REIT believes that we must capture maximum rent on turnover at this time. The increase in Montreal vacancy was mainly attributable to the ongoing capital work and rehabilitation of newer properties within the region.

## ▼ VACANCY BY REGION

| Region | Total Portfolio | | | Same Property | | |
|---|---|---|---|---|---|---|
| | December 2018 | December 2017 | Change | December 2018 | December 2017 | Change |
| Eastern Ontario | 0.0% | 0.5% | -50 bps | 0.0% | 0.5% | -50 bps |
| GTA | 0.8% | 0.7% | +10 bps | 0.8% | 0.7% | +10 bps |
| Hamilton/Niagara | 4.2% | 3.2% | +100 bps | 4.5% | 2.8% | +170 bps |
| Northern Ontario | 1.7% | 6.7% | -500 bps | 1.7% | 6.7% | -500 bps |
| Montreal | 9.1% | 4.0% | +510 bps | 3.4% | 4.0% | -60 bps |
| Gatineau | 4.0% | 5.4% | -140 bps | 4.0% | 5.4% | -140 bps |
| Ottawa | 2.5% | 0.9% | +160 bps | 1.1% | 0.9% | +20 bps |
| Western Ontario | 1.1% | 1.1% | - | 1.1% | 1.1% | - |
| **Total** | **3.4%** | **2.1%** | **+130 bps** | **2.0%** | **2.0%** | **-** |

### Other Revenue

Other rental revenue for the twelve months ended December 31, 2018 increased 26.4% to $7.3 million compared to $5.8 million for 2017. The increased revenues from commercial space as well as 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, 2018, other revenue represents 5.8% of net revenue as compared to 5.3% for 2017.

## PROPERTY OPERATING COSTS

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

Property operating costs for the year ended December 31, 2018 amounted to $18.9 million or 14.9% of revenue compared to $18.6 million or 17.1% of revenue for the year ended December 31, 2017. As a percentage of revenue, operating costs decreased by 220 basis points as compared to 2017, due in large part to the internalization of the property management function.

## PROPERTY TAXES

Property taxes for the year ended December 31, 2018 amounted to $16.1 million or 12.6% of revenue compared to $14.3 million or 13.1% of revenue for the year ended December 31, 2017. The $1.8 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, 2018 amounted to $10.0 million or 7.9% of revenue compared to $9.9 million or 9.1% of revenue for the year ended December 31, 2017. 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 25.4%, or $1.25 million for the year. At December 31, 2018, the REIT had 7,708 suites that had the capability to submeter hydro in order to recover the cost. Of the 7,708 suites that have the infrastructure in place, 6,161 suites were on hydro extra leases whereby the REIT is recovering the cost from the tenant. This represents approximately 80% of the submetered suites or approximately 66% of the total portfolio. The REIT currently has submetering in place for approximately 83% of the suites within the portfolio and plans on continuing to roll this program out to new properties as they are acquired.

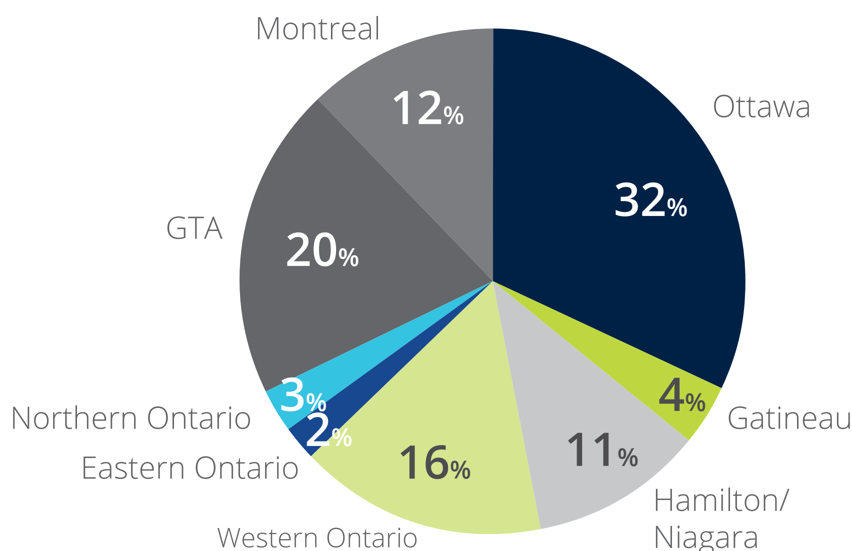
## NET OPERATING INCOME (NOI)

NOI for the three months ended December 31, 2018 amounted to $22.3 million or 65.5% of operating revenue compared to $18.4 million or 61.8% of operating revenue for the three months ended December 31, 2017. The $3.9 million increase in the quarter is as a result of growing the portfolio and increasing net revenue by 14.6%.

NOI for the twelve months ended December 31, 2018 amounted to $82.2 million or 64.6% of operating revenue compared to $66.2 million or 60.7% of operating revenue for the twelve months ended December 31, 2017. The $16.0 million increase in the year is as a result of growing the portfolio and increasing net revenue by 16.8%. On a weighted average per suite basis, NOI increased 15.1% from $7,928 per suite in 2017 to $9,121 per suite in 2018.

NOI for the twelve months ended December 31, 2018 from the Same Property portfolio was $69.6 million, or 65.4% of operating revenue. Management continues to focus on top line revenue growth through acquisitions, suite additions 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, 2018



## SAME PROPERTY PORTFOLIO PERFORMANCE

Same Property results for the three and twelve months ended December 31, 2018 are defined as all properties owned and operated by the Trust throughout the comparative periods being reported, and therefore do not take into account the impact on performance of acquisitions, dispositions or properties going through a lease-up period completed during the period from January 1, 2017 to December 31, 2018. As at December 31, 2018, the Trust has 7,619 suites in the Same Property portfolio, which excludes LIV because the property went through a lease-up period during 2017. The Same Property portfolio represents 81.9% of the overall portfolio.

| In $ 000's | 3 Months Ended December 31, 2018 | | 3 Months Ended December 31, 2017 | | 12 Months Ended December 31, 2018 | | 12 Months Ended December 31, 2017 | |
|---|---|---|---|---|---|---|---|---|
| Gross rental revenue | $27,122 | | $25,159 | | $104,935 | | $98,211 | |
| Less: vacancy & rebates | (726) | | (770) | | (4,157) | | (4,683) | |
| Other revenue | 1,455 | | 1,372 | | 5,610 | | 5,169 | |
| Operating revenues | $27,851 | | $25,761 | | $106,388 | | $98,697 | |
| Expenses | | | | | | | | |
| Property operating costs | 3,500 | 12.6% | 4,012 | 15.6% | 14,464 | 13.6% | 15,386 | 15.6% |
| Property taxes | 3,391 | 12.2% | 3,317 | 12.9% | 13,560 | 12.8% | 13,263 | 13.4% |
| Utilities | 2,486 | 8.9% | 2,527 | 9.8% | 8,743 | 8.2% | 9,277 | 9.4% |
| Operating expenses | $9,377 | 33.7% | $9,856 | 38.3% | $36,767 | 34.6% | $37,926 | 38.4% |
| Net operating income | $18,474 | | $15,905 | | $69,621 | | $60,771 | |
| Net operating margin | 66.3% | | 61.7% | | 65.4% | | 61.6% | |

For the three months ended December 31, 2018, operating revenues for Same Property increased by 8.1% and operating expenses decreased by 4.9% as compared to the same period last year. As a result, Same Property NOI has increased by $2.6 million, or 16.2%, as compared to the same period last year. NOI margin for Q4 2018 was 66.3% as compared to 61.7% for Q4 2017, an increase of 460 basis points. This increase was mainly attributable to higher operating revenue stemming from the 7.8% increase in gross rental revenue and a 12.7% reduction in property operating costs due in large part to the internalization of the property management function.

For the twelve months ended December 31, 2018, operating revenues from Same Property increased by 7.8% and operating expenses decreased by 3.1% as compared to the same period last year. As a result, Same Property NOI for 2018 increased by $8.8 million, or 14.6% as compared to 2017. NOI margin for 2018 was 65.4% as compared to 61.6% for 2017, an increase of 380 basis points. This increase in NOI is mainly attributable to the 7.8% increase in operating revenue, a 6.0% reduction in property operating costs and a reduction of 5.8% in utilities. As a percentage of revenue, operating costs, property taxes and utilities have all decreased as compared to 2017.

The average monthly rent for the month of December 2018 for Same Property increased to $1,191 per suite from $1,103 (December 2017), an increase of 8.0%. Economic vacancy for the month of December 2017 for Same Property was 2.0%, compared to 2.0% for December 2017.

| | December 2017 | March 2018 | June 2018 | September 2018 | December 2018 |
|---|---|---|---|---|---|
| Average monthly rents Same Property portfolio | $1,103 | $1,112 | $1,143 | $1,177 | $1,191 |
| Average monthly vacancy Same Property portfolio | 2.0% | 2.8% | 4.9% | 3.2% | 2.0% |

## REPOSITIONED PROPERTY PORTFOLIO PERFORMANCE

The Trust's repositioning program following the acquisition of a property typically spans 3 to 4 years, depending on how significant the capital requirements are in order to ensure the property is clean, safe and well maintained. Repositioned Property suites for the three and twelve months ended December 31, 2018 are defined as all properties owned and operated by the Trust prior to January 1, 2015. As at December 31, 2018, the Trust has 5,812 Repositioned Property suites, which represents 62.5% of the overall portfolio.

| In $ 000's | 3 Months Ended December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Repositioned Property Portfolio | | Non-Repositioned Property Portfolio | | Total Portfolio | |
| Gross rental revenue | $21,893 | | $11,468 | | $33,361 | |
| Less: vacancy & rebates | (554) | | (737) | | (1,291) | |
| Other revenue | 1,300 | | 692 | | 1,992 | |
| Operating revenues | $22,639 | | $11,423 | | $34,062 | |
| Expenses | | | | | | |
| Property operating costs | 3,071 | 13.6% | 1,701 | 14.9% | 4,772 | 14.0% |
| Property taxes | 2,633 | 11.6% | 1,469 | 12.9% | 4,102 | 12.0% |
| Utilities | 1,813 | 8.0% | 1,063 | 9.3% | 2,876 | 8.5% |
| Operating expenses | $7,517 | 33.2% | $4,233 | 37.1% | $11,750 | 34.5% |
| Net operating income | $15,122 | | $7,190 | | $22,312 | |
| Net operating margin | 66.8% | | 62.9% | | 65.5% | |

| In $ 000's | 12 Months Ended December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Repositioned Property Portfolio | | Non-Repositioned Property Portfolio | | Total Portfolio | |
| Gross rental revenue | $84,884 | | $41,098 | | $125,982 | |
| Less: vacancy & rebates | (3,002) | | (3,041) | | (6,043) | |
| Other revenue | 5,019 | | 2,328 | | 7,347 | |
| Operating revenues | $86,901 | | $40,385 | | $127,286 | |
| Expenses | | | | | | |
| Property operating costs | 12,502 | 14.4% | 6,431 | 15.9% | 18,933 | 14.9% |
| Property taxes | 10,527 | 12.1% | 5,570 | 13.8% | 16,097 | 12.6% |
| Utilities | 6,415 | 7.4% | 3,623 | 9.0% | 10,038 | 7.9% |
| Operating expenses | $29,444 | 33.9% | $15,624 | 38.7% | $45,068 | 35.4% |
| Net operating income | $57,457 | | $24,761 | | $82,218 | |
| Net operating margin | 66.1% | | 61.3% | | 64.6% | |

The average monthly rent for December 2018 for the Repositioned Property portfolio was $1,240 per suite and the economic vacancy for December 2018 was 1.9% whereas the non-repositioned properties had an average monthly rent of $1,108 per suite and an economic vacancy of 6.1% for December 2018.

| Region | Repositioned Property Portfolio | | | Non-Repositioned Property Portfolio | | |
|---|---|---|---|---|---|---|
| | Suites | Average Rent | Vacancy | Suites | Average Rent | Vacancy |
| Eastern Ontario | 204 | $1,117 | 0.0% | - | - | - |
| GTA | 1,160 | $1,515 | 0.8% | 123 | $1,263 | 0.5% |
| Hamilton/Niagara | 816 | $1,205 | 2.9% | 1,044 | $989 | 5.5% |
| Northern Ontario | 349 | $963 | 1.7% | - | - | - |
| Montreal | 502 | $988 | 2.5% | 1,143 | $1,036 | 11.9% |
| Gatineau | 497 | $919 | 4.0% | - | - | - |
| Ottawa | 1,287 | $1,410 | 2.5% | 1,177 | $1,267 | 2.5% |
| Western Ontario | 997 | $1,149 | 1.1% | - | - | - |
| **Total** | **5,812** | **$1,240** | **1.9%** | **3,487** | **$1,108** | **6.1%** |

## FINANCING AND ADMINISTRATIVE COSTS

| In $ 000's | 3 Months Ended December 31, 2018 | 3 Months Ended December 31, 2017 | 12 Months Ended December 31, 2018 | 12 Months Ended December 31, 2017 |
|---|---|---|---|---|
| Net operating income | **$22,312** | $18,356 | **$82,218** | $66,166 |
| Expenses | | | | |
| Financing costs | **6,591** | 5,942 | **25,565** | 21,730 |
| Administrative costs | **2,976** | 2,588 | **10,772** | 9,101 |
| Income before other income expenses | **$12,745** | $9,826 | **$45,881** | $35,335 |

### FINANCING COSTS

Financing costs amounted to $6.6 million or 19.3% of operating revenue for the three months ended December 31, 2018 compared to $5.9 million or 20.0% of operating revenue for the three months ended December 31, 2017.

| In $ 000's | 3 Months Ended December 31, 2018 | | 3 Months Ended December 31, 2017 | |
|---|---|---|---|---|
| | Amount | % of Revenue | Amount | % of Revenue |
| Cash based: | | | | |
| Mortgage interest | **$6,147** | **18.0%** | $5,276 | 17.8% |
| Credit facilities | **277** | **0.8%** | 521 | 1.7% |
| Interest income | **(128)** | **(0.4%)** | (83) | (0.3%) |
| Non Cash based: | | | | |
| Amortization of deferred finance cost and premiums on assumed debt | **295** | **0.9%** | 228 | 0.8% |
| Total | **$6,591** | **19.3%** | $5,942 | 20.0% |

Financing costs amounted to $25.6 million or 20.1% of revenue for the twelve months ended December 31, 2018 compared to $21.7 million or 19.9% of revenue for the twelve months ended December 31, 2017. As a percentage of operating revenue, financing costs have historically been in the range of 19% to 22%.

| In $ 000's | 12 Months Ended December 31, 2018 | | 12 Months Ended December 31, 2017 | |
|---|---|---|---|---|
| | Amount | % of Revenue | Amount | % of Revenue |
| Cash based: | | | | |
| Mortgage interest | **$23,585** | **18.6%** | $19,014 | 17.4% |
| Credit facilities | **1,414** | **1.1%** | 1,877 | 1.7% |
| Interest income | **(606)** | **(0.5%)** | (239) | (0.2%) |
| Non Cash based: | | | | |
| Amortization of deferred finance cost and premiums on assumed debt | **1,172** | **0.9%** | 1,078 | 1.0% |
| Total | **$25,565** | **20.1%** | $21,730 | 19.9% |

#### Mortgage Interest

Mortgage interest 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 up-coming mortgage maturities. 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, other professional fees; and, amortization on corporate assets.

Administrative costs for the twelve months ended December 31, 2018 amounted to $10.8 million or 8.5% of operating revenue compared to $9.1 million or 8.3% of revenue for the twelve months ended December 31, 2017.

## OTHER INCOME AND EXPENSES

| In $ 000's | 3 Months Ended December 31, 2018 | 3 Months Ended December 31, 2017 | 12 Months Ended December 31, 2018 | 12 Months Ended December 31, 2017 |
|---|---|---|---|---|
| Income before other income and expenses | **$12,745** | $9,826 | **$45,881** | $35,335 |
| Property management internalization cost | **-** | - | **(43,993)** | - |
| Fair value adjustments of investment properties | **39,580** | 36,699 | **195,651** | 172,464 |
| Unrealized gain/(loss) on financial liabilities | **(9,624)** | (3,987) | **(27,411)** | (6,100) |
| Distributions expense on units classified as financial liabilities | **(513)** | (193) | **(1,831)** | (719) |
| Net income | **$42,188** | $42,345 | **$168,297** | $200,980 |

### PROPERTY MANAGEMENT INTERNALIZATION COSTS

On February 15, 2018, the REIT entered into an agreement with CLV Group Inc. (the "Property Manager") to internalize the REIT's property management function. Upon closing of the transaction, a subsidiary of the REIT acquired 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 total consideration, including all future vesting of deferred units, is approximately $44.1 million. The REIT also incurred approximately $2.0 million in transaction related costs.

For the year ended December 31, 2018, the REIT recorded $44.0 million in property management internalization costs. The remaining $2.1 million relating to the future vesting of the matched portion of the retention bonuses to employees will be expensed over the next 5 years as administrative costs.

### FAIR VALUE ADJUSTMENTS OF INVESTMENT PROPERTIES

The fair value of the portfolio at December 31, 2018 and 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 2018 (approximately 32% in 2017). For the twelve month period ended December 31, 2018, a fair value gain of $195.7 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 2018 was 4.38% as compared to 4.55% for Q4 2017 and 4.41% for Q3 2018. 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 $13.05 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, 2018 was $42.6 million and a corresponding fair value loss of $11.4 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2018.

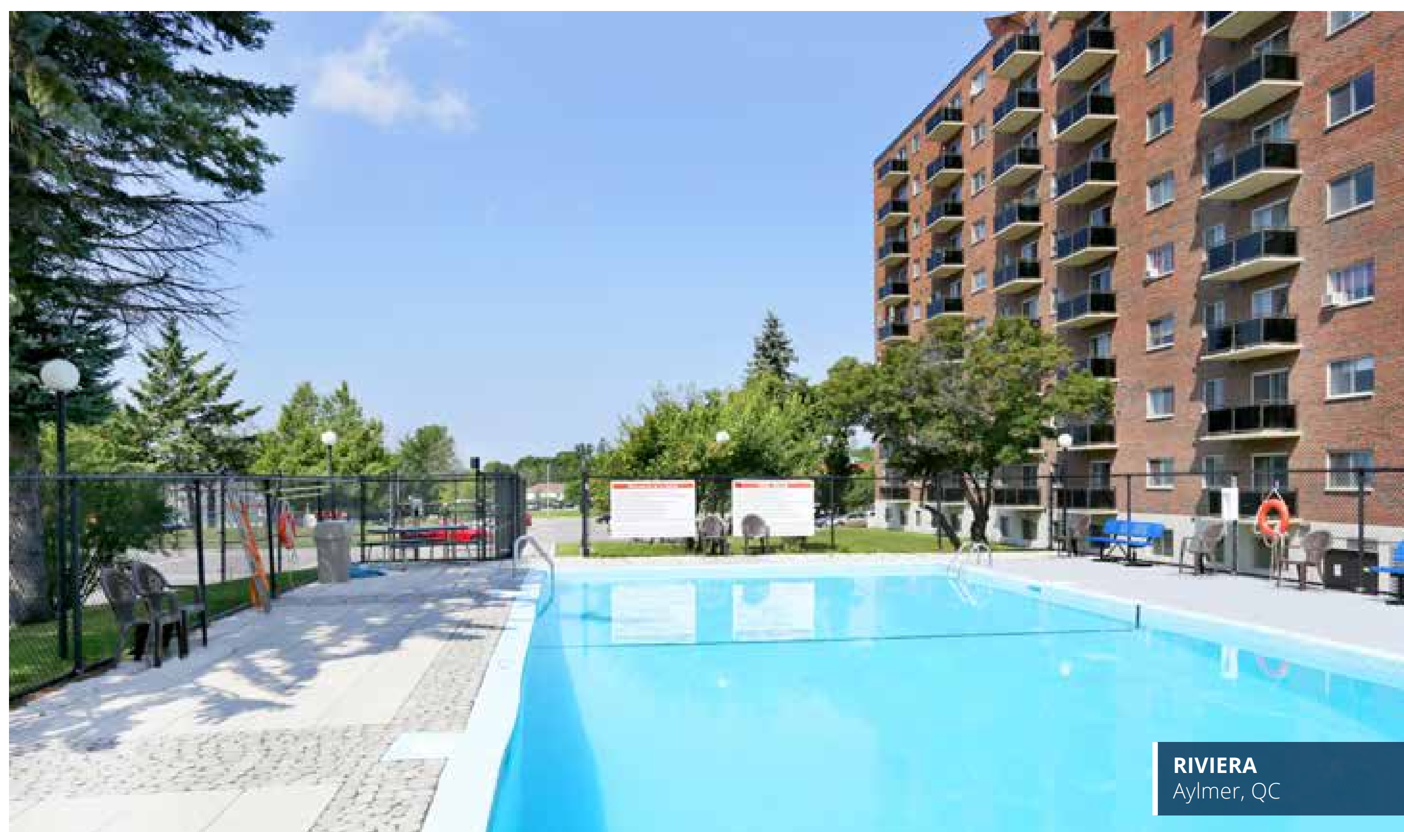
The Trust determined the fair value of the option plan (unit-based compensation liability) at December 31, 2018 at $5.8 million and a corresponding fair value loss of $3.6 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2018.

The Trust used a closing price of $13.05 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, 2018 was $44.5 million and a corresponding fair value loss of $12.4 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2018.

| In $ 000's | 3 Months Ended December 31, 2018 | 3 Months Ended December 31, 2017 | 12 Months Ended December 31, 2018 | 12 Months Ended December 31, 2017 |
|---|---|---|---|---|
| Fair value gain/(loss) on financial liabilities: | | | | |
| Deferred unit compensation plan | **$(4,069)** | $(2,731) | **$(11,386)** | $(4,113) |
| Option plan | **(1,121)** | (1,055) | **(3,579)** | (1,676) |
| LP Class B unit liability | **(4,434)** | (201) | **(12,446)** | (311) |
| Fair value gain/(loss) on financial liabilities | **$(9,624)** | $(3,987) | **$(27,411)** | $(6,100) |

## 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.



**RIVIERA**
Aylmer, QC

## INVESTMENT PROPERTIES

The following chart shows the changes in investment properties from December 31, 2017 to December 31, 2018.

| In $ 000's | December 31, 2018 |
|---|---|
| Balance, December 31, 2017 | $1,630,824 |
| Acquisitions | 184,211 |
| Property capital investments | 66,365 |
| Fair value gains | 195,651 |
| Total investment properties | $2,077,051 |

The Trust acquired nine properties (638 suites), which included two parcels of land which may be used for future development, for $184.2 million during the year ended December 31, 2018.

The fair value of the portfolio at December 31, 2018 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 2018. For the twelve month period ended December 31, 2018, a fair value gain of $195.7 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 to 4 years, depending on how significant the capital requirements are in order to ensure the property is clean, safe and well maintained. For the purpose of identifying capital expenditures related to properties being repositioned, for 2018 the REIT uses a cut-off of December 31, 2014. Any property purchased after this date is considered a non-repositioned 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, 2015, 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 5,812 suites in the REIT's portfolio that were acquired prior January 1, 2015 and are considered repositioned properties for the purpose of calculating maintenance capital investment.

For the twelve month period ended December 31, 2018, the Trust invested $66.4 million (2017 – $50.4 million) in the portfolio. Of the $66.4 million invested in the year, $37.8 million was invested in the non-repositioned portfolio. Of the remaining $28.6 million, $23.0 million was invested in value enhancing initiatives and $5.6 million was related to sustaining and maintaining existing spaces.

## UNITHOLDERS' EQUITY

The following chart shows the changes in reported Unitholders' equity from December 31, 2017 to December 31, 2018.

| Summary of Unitholders' Capital Contributions | Trust Units | Amount (in $'000) |
|---|---|---|
| December 31, 2017 | 83,891,517 | $341,528 |
| Units issued under prospectuses | 20,803,500 | 212,853 |
| Issue costs | - | (9,358) |
| Units redeemed and cancelled | (510) | (5) |
| Units issued under long-term incentive plan | 335,000 | 3,226 |
| Units issued under the deferred unit plan | 148,794 | 1,610 |
| Units issued under distribution reinvestment plan | 524,461 | 5,627 |
| Units issued from options exercised | 329,265 | 3,134 |
| December 31, 2018 | 106,032,017 | $558,615 |

On August 9, 2018 the Trust completed a bought deal prospectus whereby it issued 10,798,500 Trust Units for cash proceeds of $115,004 and incurred $5,032 in issue cost.

On March 28, 2018 the Trust completed a bought deal prospectus whereby it issued 10,005,000 Trust Units for cash proceeds of $97,849 and incurred $4,326 in issue cost.

As at December 31, 2018 there were 106,032,017 Trust Units issued and outstanding.

### DISTRIBUTIONS

The distributions were $0.2733 for 2018 and $0.2475 for 2017. The Trust is currently making monthly distributions of $0.024167 per Unit, which equates to $0.290 per Unit on an annualized basis. For the year ended December 31, 2018, the Trust's FFO and AFFO was $0.45 and $0.39 per unit respectively, compared to $0.43 and $0.38 for the year ended December 31, 2017.

Distributions to Unitholders were as follows:

| In $ 000's | 12 Months Ended December 31, 2018 | 12 Months Ended December 31, 2017 |
|---|---|---|
| Distributions declared to Unitholders | $ 26,696 | $ 20,181 |
| Distributions reinvested through DRIP | (5,627) | (3,920) |
| Distributions declared to Unitholders, net of DRIP | $ 21,069 | $ 16,261 |
| DRIP participation rate | 21.1% | 19.4% |

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, 2018 | 3 Months Ended December 31, 2017 | 12 Months Ended Decmber 31, 2018 | 12 Months Ended December 31, 2017 |
|---|---|---|---|---|
| Trust units | **105,929,183** | 83,817,200 | **96,956,296** | 81,087,076 |
| LP Class B units | **3,410,766** | 186,250 | **3,013,223** | 186,250 |
| Weighted average units outstanding - Basic | **109,339,949** | 84,003,450 | **99,969,519** | 81,273,326 |
| Unexercised dilutive options [(1)] | **535,444** | 467,802 | **535,444** | 467,802 |
| Weighted average units outstanding - Diluted | **109,875,393** | 84,471,252 | **100,504,963** | 81,741,128 |

(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, 2018** | **3 Months Ended December 31, 2017** | **12 Months Ended December 31, 2018** | **12 Months Ended December 31, 2017** |
|---|---|---|---|---|
| Net income | **$42,188** | $42,345 | **$168,297** | $200,980 |
| Add (deduct): | | | | |
| Fair value adjustments on investment property | **(39,580)** | (36,699) | **(195,651)** | (172,464) |
| Property management internalization cost [1] | **-** | - | **43,993** | - |
| Unrealized loss on financial instruments | **9,624** | 3,987 | **27,411** | 6,100 |
| Interest expense on puttable units classified as liabilities | **242** | 12 | **860** | 46 |
| Funds from Operations (FFO) | **$12,474** | $9,645 | **$44,910** | $34,662 |
| FFO per weighted average unit - basic | **$0.114** | $0.115 | **$0.449** | $0426 |
| FFO per weighted average unit - diluted | **$0.114** | $0.114 | **$0.447** | $0.424 |

(1) Property management internalization costs are added back to Net income in determining FFO as it represents a one-time transaction event that is not indicative our normal operations and helpful as a useful measure of recurring economic earnings.

| **AFFO Reconciliation** In $000's, except per Unit amounts and Units outstanding | **3 Months Ended December 31, 2018** | **3 Months Ended December 31, 2017** | **12 Months Ended December 31, 2018** | **12 Months Ended December 31, 2017** |
|---|---|---|---|---|
| Funds from Operations | **$12,474** | $9,645 | **$44,910** | $34,662 |
| Add (deduct): | | | | |
| Actual maintenance capital investment | **(1,408)[1]** | (1,143)[1] | **(5,616)[1]** | (4,092)[1] |
| Adjusted Funds from Operations (AFFO) | **$11,066** | $8,502 | **$39,294** | $30,570 |
| AFFO per weighted average unit - basic | **$0.101** | $0.101 | **$0.393** | $0.376 |
| AFFO per weighted average unit - diluted | **$0.101** | $0.101 | **$0.391** | $0.374 |

(1) Maintenance capital investment total is calculated for the 5,812 repositioned suites for 2018

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

In 2018, the Trust completed two public offerings for a total of 20,803,500 Trust Units from treasury. Despite the increase in units, FFO and AFFO per unit remained at the same level for Q4 2018 and 2017. For the full year, FFO and AFFO per unit increased 5.4% and 4.5% respectively over 2017. The public offerings contributed significantly to the Trust being able to lower its debt-to-GBV ratio from 47.8% at the end of 2017 to 38.9% at the end of 2018.

Adjusted Cash Flow from Operations (ACFO) was introduced in February 2017, and updated February 2018, 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**<br>In $000's, except per Unit amounts and Units outstanding | **3 Months Ended December 31, 2018** | **3 Months Ended December 31, 2017** | **12 Months Ended December 31, 2018** | **12 Months Ended December 31, 2017** |
|---|---|---|---|---|
| Cash generated from operating activities | **$12,060** | $13,452 | **$40,126** | $43,332 |
| Add (deduct): | | | | |
| Property management internalization cost [(1)] | **-** | - | **8,606** | - |
| Changes in non-cash working capital not indicative of sustainable cash flows | **5,000** | - | **5,000** | - |
| Amortization of finance costs | **(295)** | (229) | **(1,172)** | (1,078) |
| Actual maintenance capital investment | **(1,408)** | (1,143) | **(5,616)** | (4,092) |
| ACFO | **15,357** | 12,080 | **46,944** | 38,162 |
| Distributions declared [(2)] | **7,748** | 5,483 | **27,556** | 20,228 |
| Excess of ACFO over distributions declared | **7,609** | 6,597 | **19,388** | 17,934 |
| ACFO payout ratio | **50.5%** | 45.4% | **58.7%** | 53.0% |

(1) The cash effect of the property management internalization costs are added back to Cash from operating activities in determining ACFO as it represents a one-time transaction event that is not indicative our normal operations and helpful as a useful measure of sustainable cash flow.

(2) Includes distributions on LP Class B units

For the three and twelve months ended December 31, 2018, ACFO exceeded distributions declared by $7.6 million and $19.4 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, 2018** | **3 Months Ended December 31, 2017** | **12 Months Ended December 31, 2018** | **12 Months Ended December 31, 2017** |
|---|---|---|---|---|
| Net income | **$42,188** | $42,345 | **$168,297** | $200,980 |
| Cash flows from operating activities | **12,060** | 13,452 | **40,126** | 43,332 |
| Distributions paid [(1)] | **5,419** | 4,452 | **21,254** | 15,880 |
| Distributions declared [(1)] | **7,748** | 5,483 | **27,556** | 20,228 |
| | | | | |
| Excess of net income over distributions paid | **36,769** | 37,893 | **147,043** | 185,100 |
| Excess of net income over distributions declared | **34,440** | 36,862 | **140,741** | 180,752 |
| Excess of cash flows from operations over distributions paid | **6,641** | 9,000 | **18,872** | 27,452 |
| Excess of cash flows from operations over distributions declared | **4,312** | 7,969 | **12,570** | 23,104 |

(1) Includes distributions on LP Class B units

For the three and twelve months ended December 31, 2018, cash flows from operating activities exceeded distributions paid by $6.6 million and $18.9 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 | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Total Suites | 9,299 | 9,235 | 9,021 | 8,959 | 8,660 | 8,605 | 8,282 | 8,283 |
| Average rent per suite (last month of Q) | $1,190 | $1,176 | $1,148 | $1,117 | $1,110 | $1,099 | $1,079 | $1,061 |
| Occupancy rate (last month of Q) | 96.6% | 95.8% | 94.0% | 96.7% | 97.9% | 97.3% | 95.7% | 95.2% |
| Operating revenues | $34,062 | $32,149 | $30,914 | $30,161 | $29,710 | $27,800 | $26,361 | $25,133 |
| NOI | 22,312 | 21,562 | 19,994 | 18,350 | 18,356 | 17,526 | 15,978 | 14,306 |
| NOI % | 65.5% | 67.1% | 64.7% | 60.8% | 61.8% | 63.0% | 60.6% | 56.9% |
| Same Property average rent per suite | $1,191 | $1,177 | $1,143 | $1,112 | $1,103 | $1,093 | $1,069 | $1,052 |
| Same Property Occupancy rate | 98.0% | 96.8% | 95.1% | 97.2% | 98.0% | 97.1% | 95.6% | 95.5% |
| Same Property NOI | 18,474 | 18,252 | 16,942 | 15,952 | 15,905 | 16,235 | 14,928 | 13,704 |
| Same Property NOI % | 66.3% | 68.2% | 65.5% | 61.6% | 61.7% | 65.2% | 61.6% | 57.6% |
| FFO | $12,474 | $12,246 | 10,917 | $9,273 | $9,645 | $9,891 | $8,344 | $6,782 |
| FFO per weighted average unit - diluted | $0.114 | $0.117 | $0.111 | $0.105 | $0.114 | $0.118 | $0.100 | $0.091 |
| AFFO | $11,066 | $10,724 | $9,406 | $8,098 | $8,502 | $8,878 | $7,380 | $5,811 |
| AFFO per weighted average unit - diluted | $0.101 | $0.102 | $0.095 | $0.092 | $0.101 | $0.106 | $0.088 | $0.078 |
| Distributions per unit | $0.0708 | $0.0675 | $0.0675 | $0.0675 | $0.0653 | $0.0608 | $0.0608 | $0.0608 |
| ACFO | $15,357 | $13,588 | $8,396 | $9,603 | $12,080 | $11,908 | $8,242 | $5,932 |
| Debt to GBV | 38.9% | 39.1% | 43.5% | 44.4% | 47.8% | 48.5% | 49.5% | 50.7% |
| Interest coverage (rolling 12 months) | 2.93x | 2.85x | 2.81x | 2.80x | 2.76x | 2.71x | 2.61x | 2.53x |
| Debt service coverage (rolling 12 months) | 1.81x | 1.80x | 1.80x | 1.81x | 1.78x | 1.71x | 1.64x | 1.58x |

## LIQUIDITY AND CAPITAL RESOURCES

InterRent REIT's overall debt level was at 38.9% of Gross Book Value ("GBV") at December 31, 2018. 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, 2018 | December 31, 2017 |
|---|---|---|
| Total assets per Balance Sheet | $2,117,992 | $1,658,445 |
| Mortgages payable and vendor take-back loans | $799,571 | $733,414 |
| Lines of credit | 23,550 | 59,130 |
| Total debt | $823,121 | $792,544 |
| Debt to GBV | 38.9% | 47.8% |

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 12month periods ending December 31st:

| In $000's | 12 Months Ended December 31, 2018 | 12 Months Ended December 31, 2017 |
|---|---|---|
| NOI | $82,218 | $66,166 |
| Less: Administrative costs | 10,772 | 9,101 |
| EBITDA | $71,446 | $57,065 |
| Interest expense [(1)] | 24,393 | 20,652 |
| **Interest coverage ratio** | **2.93x** | **2.76x** |
| Contractual principal repayments | 14,987 | 11,479 |
| Total debt service payments | $39,380 | $32,131 |
| **Debt service coverage ratio** | **1.81x** | **1.78x** |

(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, 2018 (in $ 000's) | Weighted Average by Maturity | Weighted Average Interest Rate |
|---|---|---|---|
| 2019 | $91,789 | 11.2% | 3.80% |
| 2020 | $96,573 | 11.8% | 3.10% |
| 2021 | $52,950 | 6.5% | 3.65% |
| 2022 | $71,897 | 8.8% | 2.83% |
| 2023 | $69,494 | 8.5% | 2.73% |
| Thereafter | $434,809 | 53.2% | 2.93% |
| Total | $817,512 | 100% | 3.04% |

- At December 31, 2018, the average term to maturity of the mortgage debt was approximately 6.0 years and the weighted average cost of mortgage debt was 3.04%. At December 31, 2018, approximately 80% of InterRent REIT's mortgage debt was backed by CMHC insurance.
- During the quarter the Trust assumed one mortgage on a property acquired in the quarter for $2.0 million and paid down $4.2 million in mortgage principal. The net result at December 31, 2018 compared to September 30, 2018 was:
- An decrease in average term to maturity of the mortgage debt to 6.0 years from 6.2 years;
- An increase in the weighted average cost of mortgage debt to 3.04% from 2.97% ; and,
- No change in the mortgage debt backed by CMHC insurance at approximately 80%.

During the year the Trust assumed two mortgages and added three mortgages for five properties that were acquired in the year for a combined amount of $49.1 million, re-financed three properties which increased mortgage debt by $41.7 million, paid off five mortgages at maturity for $4.7 million and paid down $14.9 million in mortgage principal. The net result at December 31, 2018 compared to December 31, 2017 was:

- An increase in average term to maturity of the mortgage debt to 6.0 years from 4.9 years;
- An increase in the weighted average cost of mortgage debt to 3.04% from 2.81% ; and,
- An increase in the mortgage debt backed by CMHC insurance to 80% from 67%.

As at December 31, 2018, 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, 2018, 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, 2018, the Trust had no balance outstanding under this facility.
- A $25.0 million term credit facility, maturing in 2021, with a Canadian chartered bank secured by a general security agreement, a first mortgage on one of the Trust's properties and second collateral mortgages on two of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. As at December 31, 2018, the Trust had utilized $23.6 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, 2018, the Trust had no balance outstanding under this facility.

**718 LAWRENCE**
Hamilton, ON

# ACCOUNTING

## FUTURE ACCOUNTING CHANGES

*Amendments to IFRS 3 Business Combinations*

The amendments to IFRS 3 clarify whether a transaction meets the definition of a business combination. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after January 1, 2020 with earlier application permitted. There will be no impact on transition since the amendments are effective for business combinations for which the acquisition date is on or after the transition date.

## RISKS AND UNCERTAINTIES

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

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

### Current Ecomonic 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 SIFT trusts (as defined below) will not be changed in a manner which adversely affects the Trust or Unitholders.

## Investment Eligibility

There can be no assurance that income tax laws and the treatment of mutual fund trusts will not be changed in a manner which adversely affects holders of Units. If the Trust ceases to qualify as a “mutual fund trust” under the Tax Act and the units thereof cease to be listed on a designated stock exchange (which currently includes the TSX), Units will cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income funds, registered education savings plans, registered disability savings plans and tax-free savings accounts. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

## 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. Subject to the SIFT rules a SIFT trust is itself liable to pay income tax on certain income 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. 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”).

## The REIT Exception

Based on a review of the Trusts assets and revenues management believes that the Trust satisfied the tests to 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. However, as the REIT exemption includes complex revenue and asset tests no assurances can be provided that the Trust will continue to qualify for any subsequent year.

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 which are not taxed and instead reduce the adjusted cost base of the Unitholder's Units.

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

## Other Canadian Tax Matters

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

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

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

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

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

## Unitholders Limited Liability

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

## Structural Subordination of Debt

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

## Statutory Remedies

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

## Outstanding Indebtedness

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

## Dependence on Key Personnel

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

## Potential Conflicts of Interest

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

## Dilution

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

## Restrictions on Potential Growth and Reliance on Credit Facilities

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

## Proposed Property Acquisitions

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

## Property Acquisition Risks

An important factor in the success of the Trust is the ability of the management of the combined entities to coexist and, if appropriate, integrate 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 Amended and Restated 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**

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

Credit risk arises from the possibility that: (i) tenants may experience financial difficulty and be unable to fulfil their lease commitments; and (ii) a party defaults on the repayment of their debt causing a financial loss to the Trust.

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 Trust monitors its collection process on a monthly basis and all receivables from past tenants and tenant receivables over 30 days are provided for in allowances for doubtful accounts. 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.

Credit risk relating to other receivables and loan receivable long-term incentive plan is mitigated through recourse against such parties and/or the underlying security. These receivables are considered to have low credit risk

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. At December 31, 2018, the Trust had past due rents and other receivables of $2.9 million net of an allowance for doubtful accounts of $1.0 million which adequately reflects the Trust's credit risk.

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 22 in the December 31, 2018 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, 2018, the Trust had credit facilities as described in note 9 in the December 31, 2018 audited consolidated financial statements.

Note 8 in the December 31, 2018 audited consolidated financial statements reflects the contractual maturities for mortgage and loans payable of the Trust at December 31, 2018, 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 $833 million as at December 31, 2018 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, 2018, approximately 13% (December 31, 2017 – 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 $1.5 million for the year ended December 31, 2018.

## OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2018 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, 2018, $nil (December 31, 2017 - $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, 2018 the Trust incurred $1.0 million (December 31, 2017 - $7.9 million) in services from companies controlled by an officer of the Trust. Of the services received approximately $0.2 million (December 31, 2017 - $2.4 million) has been capitalized to the investment properties and the remaining amounts are included in operating and administrative costs.

iii. Property Management Internalization

On February 15, 2018, the REIT entered into an agreement with CLV Group Inc. (the "Property Manager") to internalize the REIT's property management function. Upon closing of the transaction, a subsidiary of the REIT acquired 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 total consideration, including all future vesting of deferred units, is approximately $44.1 million. The REIT also incurred approximately $2.0 million in transaction related costs.

For the year ended December 31, 2018, the REIT recorded $44.0 million in property management internalization costs. The remaining $2.1 million relating to the future vesting of the matched portion of the retention bonuses to employees will be expensed over the next 5 years as 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, 2018 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, 2018, 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, 2018, which have materially affected, or are reasonably likely to materially affect, the Trust's internal controls over financial reporting.

## SUBSEQUENT EVENTS

The Trust purchased five properties with 253 suites that closed on February 12, 2019 for a purchase price of approximately $59.0 million and is committed to purchase a property (74 suites) in April 2019 for a purchase price of approximately $11.2 million.

The Trust completed the sale of nine properties (349 suites) on January 17, 2019 for a combined sale price of $35.3 million.

## OUTSTANDING SECURITIES DATA

As of February 25, 2019, the Trust had issued and outstanding: (i) 106,218,106 units; (ii) LP Class B Units that are exchangeable for 3,410,766 units of the Trust; (iii) options exercisable to acquire 997,645 units of the Trust; and (iv) deferred units that are redeemable for 3,873,817 units of the Trust.

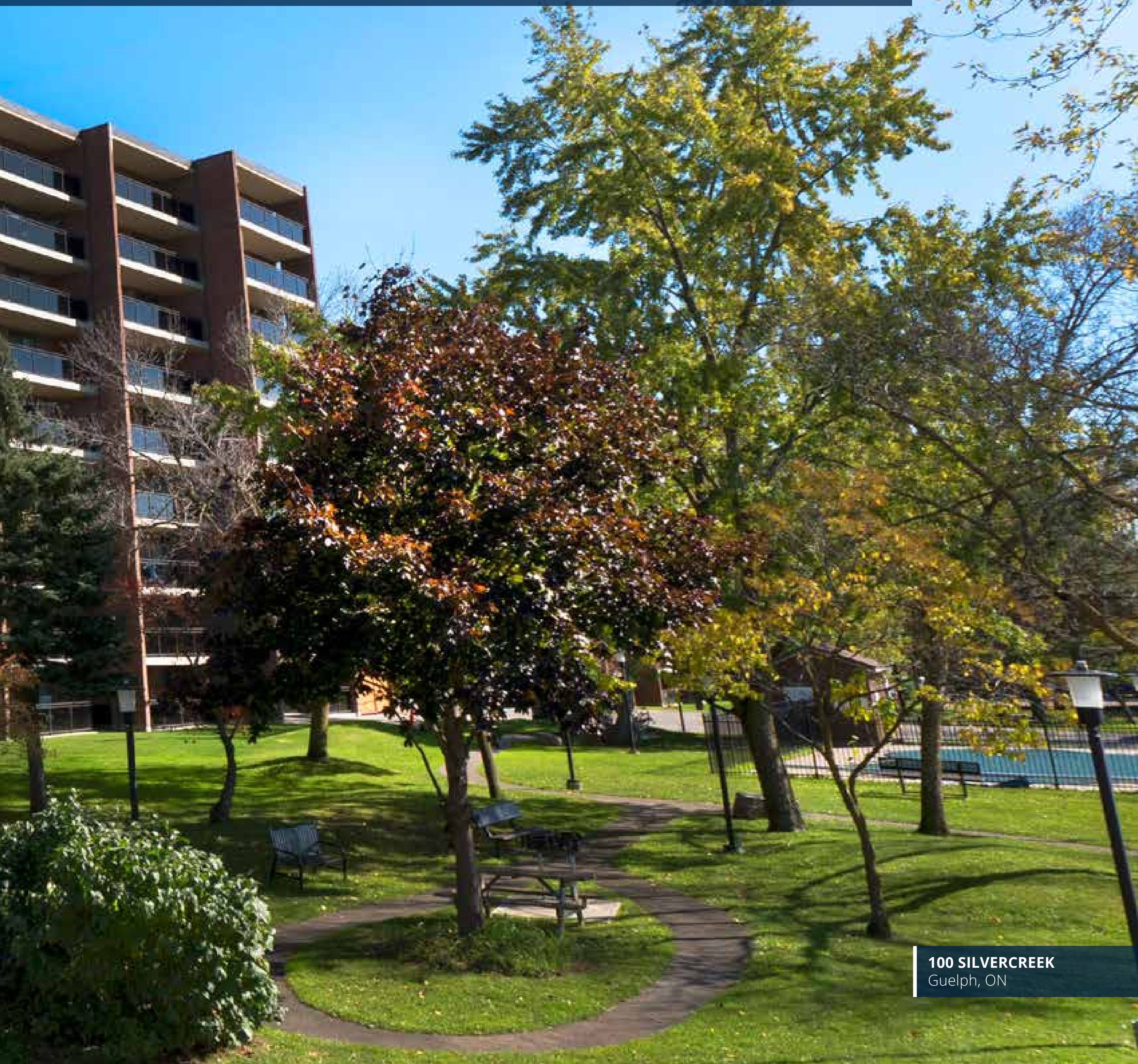
## ADDITIONAL INFORMATION

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

**LIV APARTMENTS**
Ottawa, ON

# CONSOLIDATED
# FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017



**100 SILVERCREEK**
Guelph, ON

RSM

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of InterRent Real Estate Investment Trust

*Opinion*

We have audited the consolidated financial statements of InterRent Real Estate Investment Trust and its subsidiaries (the "Trust"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Trust as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and December 31, 2017 in accordance with International Financial Reporting Standards ("IFRS").

*Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Other information*

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

*Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Canada LLP is a limited liability partnership that provides public accounting services and is the Canadian member firm of RSM International, a global network of independent audit, tax, and consulting firms. Visit rsmcanada.com/aboutus for more information regarding RSM Canada LLP and RSM International.

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Trust’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust’ ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Grand Lui.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
February 25, 2019
Toronto, Ontario

**Consolidated Balance Sheets**
(Cdn $ Thousands)

| | Note | **December 31, 2018** | December 31, 2017 |
|---|---|---|---|
| **Assets** | | | |
| Investment properties | 4 | **$ 2,077,051** | $ 1,630,824 |
| Investment in joint venture | 6 | **17,337** | 11,140 |
| Prepaids and deposits | | **6,334** | 2,913 |
| Receivables and other assets | 7 | **16,747** | 13,183 |
| Cash | | **523** | 385 |
| **Total assets** | | **$ 2,117,992** | $ 1,658,445 |
| **Liabilities** | | | |
| Mortgages and loans payable | 8 | **$ 799,571** | $ 733,414 |
| Credit facilities | 9 | **23,550** | 59,130 |
| LP Class B unit liability | 11 | **44,511** | 1,701 |
| Unit-based compensation liabilities | 12 | **48,392** | 27,017 |
| Tenant rental deposits | | **10,609** | 9,400 |
| Accounts payable and accrued liabilities | 10 | **28,571** | 23,683 |
| **Total liabilities** | | **955,204** | 854,345 |
| **Unitholders' equity** | | | |
| Unit capital | 14 | **558,615** | 341,528 |
| Retained earnings | | **604,173** | 462,572 |
| **Total unitholders' equity** | | **1,162,788** | 804,100 |
| **Total liabilities and unitholders' equity** | | **$ 2,117,992** | $ 1,658,445 |

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 | 2018 | 2017 |
|---|---|---|---|
| **Operating revenues** | | | |
| Revenue from investment properties | 15 | **$ 127,286** | $ 109,004 |
| **Operating expenses** | | | |
| Property operating costs | | **18,933** | 18,616 |
| Property taxes | | **16,097** | 14,305 |
| Utilities | | **10,038** | 9,917 |
| Total operating expenses | | **45,068** | 42,838 |
| **Net operating income** | | **82,218** | 66,166 |
| Financing costs | 16 | **25,565** | 21,730 |
| Administrative costs | | **10,772** | 9,101 |
| **Income before other income and expenses** | | **45,881** | 35,335 |
| **Other income and expenses** | | | |
| Property management internalization cost | 20 | **(43,993)** | - |
| Fair value adjustments of investment properties | 4 | **195,651** | 172,464 |
| Other fair value losses | 17 | **(27,411)** | (6,100) |
| Interest on units classified as financial liabilities | 18 | **(1,831)** | (719) |
| **Net income for the year** | | **$ 168,297** | $ 200,980 |

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, 2017 | $ 254,777 | $ 346,261 | $ (64,487) | $ 281,774 | $ 536,551 |
| Units issued (note 14) | 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** |
| Balance, January 1, 2018 | $ 341,528 | $ 547,241 | $ (84,669) | $ 462,572 | $ 804,100 |
| Units issued (note 14) | 217,087 | - | - | - | 217,087 |
| Net income for the year | - | 168,297 | - | 168,297 | 168,297 |
| Distributions declared to Unitholders | - | - | (26,696) | (26,696) | (26,696) |
| **Balance, December 31, 2018** | **$ 558,615** | **715,538** | **$ (111,365)** | **$ 604,173** | **$ 1,162,788** |

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 | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from (used in) operating activities** | | | |
| Net income for the year | | **$ 168,297** | $ 200,980 |
| Add items not affecting cash | | | |
| Amortization | | **459** | 312 |
| Property management internalization cost | 20 | **35,387** | - |
| Fair value adjustments on investment properties | 4 | **(195,651)** | (172,464) |
| Other fair value losses | 17 | **27,411** | 6,100 |
| Unit-based compensation expense | 12 | **5,805** | 4,313 |
| Financing costs | 16 | **25,565** | 21,730 |
| Interest expense | 16 | **(24,393)** | (20,652) |
| Tenant inducements | | **730** | 1,190 |
| | | **43,610** | 41,509 |
| Net income items related to financing activities | 18 | **860** | 46 |
| Changes in non-cash operating assets and liabilities | 19 | **(4,344)** | 1,777 |
| **Cash from operating activities** | | **40,126** | 43,332 |
| **Cash flows from (used in) investing activities** | | | |
| Acquisition of investment properties | 5 | **(179,578)** | (85,253) |
| Investment in joint venture | 6 | **(6,197)** | (11,140) |
| Additions to investment properties | 4 | **(62,084)** | (55,569) |
| **Cash used in investing activities** | | **(247,859)** | (151,962) |
| **Cash flows from (used in) financing activities** | | | |
| Mortgage and loan repayments | | **(152,746)** | (209,271) |
| Mortgage advances | | **219,264** | 294,104 |
| Financing fees | | **(6,060)** | (4,783) |
| Credit facility advances (repayments) | | **(35,580)** | (32,670) |
| Trust units issued, net of issue costs | 14 | **205,447** | 77,255 |
| Trust units cancelled | 14 | **(5)** | - |
| Deferred units purchased and cancelled | 12 | **(1,195)** | (231) |
| Interest paid on units classified as financial liabilities | 18 | **(860)** | (46) |
| Distributions paid | 19 | **(20,394)** | (15,834) |
| **Cash from financing activities** | | **207,871** | 108,524 |
| Increase/(decrease) in cash during the year | | **138** | (106) |
| Cash at the beginning of year | | **385** | 491 |
| **Cash at end of year** | | **$ 523** | $ 385 |

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 25, 2019.

## 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)

### Accounting standards implemented in 2018

*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 adopted IFRS 9 Financial Instruments on January 1, 2018 using the modified retrospective basis with no restatement of comparative periods. The adoption of the new standard by the Trust resulted in no change in measurement or the carrying amount of financial assets and liabilities however the classification of financial assets and financial liabilities changed as follows:

- Cash, rents and other receivables and loan receivable long-term incentive plan, that were classified as loans and receivables are now classified as amortized cost.
- Mortgages and loans payable, credit facilities, tenant rental deposits and accounts payable and accrued liabilities that were classified as other financial liabilities are now classified as amortized cost.
- Class B LP unit liability and unit-based compensation liabilities remain unchanged and continue as fair value through profit and loss.

IFRS 9 utilizes a forward-looking expected credit loss model (ECL). The ECL model requires a more timely recognition of expected credit losses using judgement determined on a probability-weighting basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost.

*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.

The Trust adopted IFRS 15 Revenue from Contracts with Customers on January 1, 2018 and applied the requirements of the standard using the modified retrospective basis. The adoption of the new standard by the Trust resulted in no change to the pattern of revenue recognition or the measurement of revenue. Additional note disclosure has been added to note 15 on the disaggregation of the Trust’s revenue streams.

## 2. BASIS OF PRESENTATION (Continued)

*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 adopted the amendments to IFRS 2 Share-based Payment on January 1, 2018. The adoption of the amendments by the Trust resulted in no change to the presentation to the Trust's consolidated financial statements.

*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 adopted the amendments to IAS 40 Investment Property on January 1, 2018. The adoption of the amendments by the Trust resulted in no change to the presentation to the Trust's consolidated financial statements.

*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").

Lessor accounting is substantially unchanged from IAS 17 or previous requirements. Lessors will continue to classify all leases using the same classification principles and distinguish between operating and finance leases. Consistent with IAS 17, leases with tenants continue to be accounted for as operating leases.

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. The most significant effect of the new standard was the lessee's recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position, including those for most leases that would be currently accounted for as operating leases. Both leases with durations of 12 months or less and leases for low-value assets may be exempted.

The Trust early adopted IFRS 16 Leases on January 1, 2018 using the modified retrospective basis. The adoption of the new standard by the Trust resulted in no change to the presentation to the Trust's consolidated financial statements.

## 2. BASIS OF PRESENTATION (Continued)

### Critical accounting estimates

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

#### Investment properties

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

#### Financial liabilities

The fair value 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, property management internalization cost 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

### Property asset acquisitions

At the time of acquisition of a property or a portfolio of investment properties, the Trust evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, Business Combinations ("IFRS 3") is only applicable if it is considered that a business has been acquired. A business, according to IFRS 3, is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to the Trust. When an acquisition does not represent a business as defined under IFRS 3, the Trust classifies these properties or a portfolio of properties as an asset acquisition. Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at their relative fair values at the acquisition date. Acquisition-related transaction costs are capitalized to the property.

### Investment properties

The Trust uses the fair value method to account for real estate classified as investment properties. The Trust's investment properties include multi-family residential properties that are held to earn rental income, capital appreciation, or both or properties (including land) that are being developed or 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.

Investment 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 investment properties are recorded in the consolidated statement of income in the period in which they arise. Investment properties are not amortized.

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition

Revenue from investment properties includes rents from tenants under leases, parking, laundry and other ancillary revenues. Most leases are for one-year terms or less; consequently, the Trust accounts for leases with its tenants as operating leases as the Trust has retained substantially all of the risks and benefits of ownership of its investment properties. Lease revenue earned directly from leasing the asset is recognized and measured in accordance with IFRS 16 – Leases. In addition to revenue generated directly from the operating lease, rental revenue includes non-lease revenue earned from the tenant, which is recognized and measured under IFRS 15. Non-lease revenue includes laundry, income earned from telephone and cable providers, commercial common area maintenance and ancillary services. These revenues are recognized when earned.

Any gain or loss from the sale of an investment property is recognized when the significant risks and rewards have been transferred to the buyer (usually at the time when title passes to the purchaser).

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.

IFRS 15 requires revenue recognized from customer contracts (non-lease components) to be disclosed separately from its other sources of revenue (note 15).

### 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 or minus transaction costs on initial recognition. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

The following summarizes the Trust's classification and measurement of financial assets and financial liabilities:

- Cash, rents and other receivables and loan receivable long-term incentive plan, are classified as amortized cost.
- Mortgages and loans payable, credit facilities, tenant rental deposits and accounts payable and accrued liabilities are classified as amortized cost.
- Class B LP unit liability and unit-based compensation liabilities remain unchanged and continue as fair value through profit and loss.

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

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial assets at amortized cost**

Cash, rents and other receivables and loan receivable long-term incentive plan, mortgage holdbacks and mortgages receivable are held with the objective of collecting contractual cash flows and classified as amortized cost.

Subsequent to initial recognition, these assets are carried at amortized cost, using the effective interest method, less any impairment loss. 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.

The Trust does not currently hold any derivative assets.

**Financial liabilities at amortized cost**

Credit facilities, accounts payable and accrued liabilities, tenant rental deposits and mortgages and loans payable are classified as amortized cost.

Subsequent to initial recognition, these liabilities are carried at amortized cost, using the effective interest method. 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.

**Financial liabilities at FVTPL**

Financial liabilities are classified as FVTPL if it is classified as held for trading, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statement of income.

The LP Class B unit liability and unit-based compensation liability are measured at FVTPL.

**Impairment of financial assets**

At each reporting date, each financial asset measured at amortized cost is assessed for impairment under an expected credit loss (ECL) model. The Trust applies the simplified approach which uses lifetime ECLs for contractual rents receivable and the general approach for other and loans receivable.

The Trust uses an accounts receivable aging provision matrix to measure the ECL for contractual rents receivable and applies loss factors to aging categories greater than 30 days past due.

Other receivables and loans receivables are classified as impaired when there is objective evidence that the full carrying amount of the loan or mortgage receivable is not collectible.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### Trust units

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### LP Class B unit liability

The LP Class B units are exchangeable on demand for trust units, which in turn are redeemable into cash at the option of the holder. As such, the LP Class B units are classified as a liability. Management has designated the LP Class B unit liability as FVTPL, and the LP Class B unit liability is re-measured to fair value at each reporting date with changes recorded in the consolidated statements 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 statements 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 2017 and 2018, 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. 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.

#### Property asset acquisitions

Management is required to apply judgment as to whether or not transactions should be accounted for as an asset acquisition or business combination. IFRS 3 Business Combinations is only applicable if it is considered that a business has been acquired. When an acquisition does not represent a business as defined under IFRS 3, the Trust classifies the transaction as an asset acquisition. All of the Trust's property acquisitions as well as the property management internalization have been accounted for as asset acquisitions.

#### 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.

### Future accounting changes

*IFRS 3 Business Combinations*

The amendments to IFRS 3 clarify whether a transaction meets the definition of a business combination. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after January 1, 2020 with earlier application permitted. There will be no impact on transition since the amendments are effective for business combinations for which the acquisition date is on or after the transition date.

## 4. INVESTMENT PROPERTIES

Investment properties include income properties, redevelopment properties, development properties and land held for development.

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Balance, beginning of period | **$ 1,630,824** | $ 1,308,907 |
| Acquisitions (note 5) | **184,211** | 99,026 |
| Property capital investments | **66,365** | 50,427 |
| Fair value adjustments | **195,651** | 172,464 |
| | **$ 2,077,051** | $ 1,630,824 |

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Income properties | **$ 2,021,874** | $ 1,630,824 |
| Land held for development | **55,177** | - |
| | **$ 2,077,051** | $ 1,630,824 |

The fair value of the investment properties at December 31, 2018 and 2017 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 2,741 suites and the land held for development, was appraised by external valuation professionals throughout the year (2017 – 32% of the portfolio representing 2,562 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, 2018** | | **December 31, 2017** | |
|---|---|---|---|---|
| | **Range** | **Weighted average** | **Range** | **Weighted average** |
| **Capitalization rate** | 3.50% - 6.75% | 4.38% | 3.88% - 6.75% | 4.55% |

## 4. INVESTMENT PROPERTIES (Continued)

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, 2018**

| **Net operating income** | | -3% | -1% | As estimated | +1% | +3% |
|---|---|---|---|---|---|---|
| | | $ 85,901 | $ 87,672 | **$ 88,558** | $ 89,444 | $ 91,215 |
| **Capitalization rate** | | | | | | |
| -0.25% | 4.13% | $ 2,079,934 | $ 2,122,819 | $ 2,144,262 | $ 2,165,704 | $ 2,208,589 |
| Cap rate used | **4.38%** | $ 1,961,216 | $ 2,001,653 | **$ 2,021,874** | $ 2,042,091 | $ 2,082,528 |
| +0.25% | 4.63% | $ 1,855,319 | $ 1,893,573 | $ 1,912,700 | $ 1,931,827 | $ 1,970,081 |

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 |

Land held for development is measured initially at cost, including transaction costs and subsequently measured at fair value.

Cash outflow used for additions to investment properties:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Property capital investments | **$ (66,365)** | $ (50,427) |
| Changes in non-cash investing accounts payable and accrued liabilities | **4,281** | (5,142) |
| | **$ (62,084)** | $ (55,569) |

## 5. INVESTMENT PROPERTY ACQUISITIONS

During the year ended December 31, 2018, the Trust completed the following investment property acquisitions, which have contributed to the operating results effective from the acquisition date:

| Acquisition Date | Suite Count | Total Acquisition Costs | Mortgage Funding | Interest Rate | Maturity Date |
|---|---|---|---|---|---|
| January 10, 2018 | 48 | $ 5,444 | $ 2,618 | 2.882% | May 15, 2025 |
| February 28, 2018 | 172 | 21,994 | 14,500 | BA + 1.70% | March 1, 2021 |
| March 27, 2018 | 72 (1) | 37,143 | 23,000 | 3.974% | March 27, 2028 |
| March 27, 2018 | 6 (2) | 11,252 | - | -% | n/a |
| June 18, 2018 | 62 | 10,741 | 7,000 | 3.20% | September 15, 2019 |
| September 19, 2018 | n/a (3) | 44,061 | - | -% | n/a |
| September 25, 2018 | 138 | 29,368 | - | -% | n/a |
| September 25, 2018 | 77 | 16,122 | - | -% | n/a |
| October 22, 2018 | 63 | 8,086 | 2,015 | 2.55% | December 1, 2019 |
| | **638** | **$ 184,211** | **$ 49,133** | | |

(1) Includes 8,489 sq ft of leasable commercial space.
(2) Includes a parcel of land (0.70 acres) which may be used for future development.
(3) Represents a parcel of land (6.3 acres) which may be used for future development.

During the year ended December 31, 2017, the Trust completed the following investment property acquisitions:

| 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** | | |

Cash outflow used for investment property acquisitions:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Total acquisition costs | **$ (184,211)** | $ (99,026) |
| Fair value adjustment of assumed debt | **-** | 372 |
| Assumed debt | **4,633** | 13,401 |
| | **$ (179,578)** | $ (85,253) |

## 6. 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, 2018** | December 31, 2017 |
|---|---|---|
| Balance, beginning of period | **$ 10,867** | $ - |
| Additions | **6,197** | 10,867 |
| Share of net income | **-** | - |
| Distributions | **-** | - |
| | **$ 17,064** | $ 10,867 |
| Total transaction costs | **$ 273** | $ 273 |
| Carrying value of the investment in joint venture | **$ 17,337** | $ 11,140 |

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

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Current assets | **$ 486** | $ 1,237 |
| Non-current assets | **66,854** | 49,780 |
| Current liabilities | **(648)** | (2,916) |
| Non-current liabilities | **(15,500)** | (15,500) |
| Net assets | **$ 51,192** | 32,601 |
| Trust's share (33.3%) | **$ 17,064** | $ 10,867 |

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

## 7. RECEIVABLES AND OTHER ASSETS

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Current: | | |
| Rents and other receivables, net of allowance for uncollectable amounts | **$ 1,940** | $ 1,177 |
| Tenant inducements [1] | **380** | 494 |
| | **$ 2,320** | $ 1,671 |
| Non-current: | | |
| Automobiles, software, equipment, furniture and fixtures, net of accumulated amortization of $1,342 (2017 - $883) | **$ 1,653** | $ 1,280 |
| Deferred finance fees on credit facilities, net of accumulated amortization of $1,378 (2017 - $1,160) | **245** | 351 |
| Loan receivable long-term incentive plan (note 13) | **12,529** | 9,881 |
| | **$ 14,427** | $ 11,512 |
| | **$ 16,747** | $ 13,183 |

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

## 8. MORTGAGES AND LOANS PAYABLE

Mortgages and vendor take-back loans are secured by the investment properties and bear interest at a weighted average interest rate of 3.04% (December 31, 2017 – 2.81%).

The mortgages and vendor take-back loans mature at various dates between the years 2019 and 2028.

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

| | |
|---|---|
| 2019 | $ 91,789 |
| 2020 | 96,573 |
| 2021 | 52,950 |
| 2022 | 71,897 |
| 2023 | 69,494 |
| Thereafter | 434,809 |
| | 817,512 |
| Less: Deferred finance costs and mortgage premiums | (17,941) |
| | **$ 799,571** |

## 9. CREDIT FACILITIES

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Demand credit facility (i) | **$ -** | $ - |
| Term credit facility (ii) | **-** | - |
| Term credit facility (iii) | **23,550** | 4,130 |
| Term credit facility (iv) | **-** | 55,000 |
| | **$ 23,550** | $ 59,130 |

(i) The Trust has a $500 (2017 - $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, 2018 was 4.10% (2017 – 3.40%).

(ii) The Trust has a $35,000 (2017 - $35,000) term credit facility, maturing in 2019, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on ten (2017 – 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, 2018 was 4.30% (2017 – 3.60%).

(iii) The Trust has a $25,000 (2017 - $25,000) term credit facility, maturing in 2021, with a Canadian chartered bank secured by a general security agreement, first mortgage on one (2017 – two) of the Trust’s properties and second collateral mortgages on two (2017 – two) 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, 2018 was 4.30% (2017 – 3.60%).

(iv) The Trust has a $60,000 (2017 - $60,000) term credit facility, maturing in 2020, with a Canadian chartered bank secured by a general security agreement, first mortgages on two (2017 – two) of the Trust’s properties and second collateral mortgages on five (2017 – 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, 2018 was 3.44% (2017 – 2.83%).

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Accounts payable | **$ 7,218** | $ 5,371 |
| Accrued liabilities | **17,196** | 15,327 |
| Accrued distributions | **2,645** | 1,892 |
| Mortgage interest payable | **1,512** | 1,093 |
| | **$ 28,571** | $ 23,683 |

## 11. LP CLASS B UNIT LIABILITY

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

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

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

| **Number of Units** | |
|---|---|
| **Balance – December 31, 2016** | **186,250** |
| Units issued | - |
| **Balance - December 31, 2017** | **186,250** |
| Units issued | 3,224,516 |
| **Balance – December 31, 2018** | **3,410,766** |

The LP Class B Units represented an aggregate fair value of $44,511 at December 31, 2018 (December 31, 2017 - $1,701). 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.

On February 15, 2018, 3,224,516 Class B LP units were issued at a value of $30,364 as partial consideration for the internalization of the property manager function (note 20).

## 12. UNIT-BASED COMPENSATION LIABILITIES

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

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Unit-based liabilities, beginning of period | **$ 27,017** | $ 18,425 |
| Compensation expense – deferred unit plan | **4,643** | 3,530 |
| Property management internalization cost (DUP) | **4,751** | - |
| Compensation expense – unit option plan | **191** | 110 |
| DRIP [1] expense – deferred unit plan | **971** | 673 |
| DUP units converted, cancelled and forfeited | **(2,802)** | (966) |
| Unit options exercised and expired | **(1,343)** | (544) |
| Loss on fair value of liability (note 17) | **14,965** | 5,789 |
| Unit-based liabilities, end of period | **$ 48,392** | $ 27,017 |

[1] Distribution reinvestment plan

## 12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

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

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

### (i) Deferred Unit Plan

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

A summary of Deferred Unit activity is presented below:

| **Number of Units** | |
|---|---|
| **Balance - December 31, 2016** | **2,404,965** |
| Units issued under deferred unit plan | 517,380 |
| Reinvested distributions on deferred units | 87,553 |
| 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** |
| Units issued under deferred unit plan | 1,247,608 |
| Reinvested distributions on deferred units | 96,955 |
| Deferred units exercised into Trust Units (note 14) | (148,794) |
| Deferred units purchased and cancelled | (118,396) |
| Deferred units cancelled | (23,085) |
| **Balance – December 31, 2018** | **3,942,911** |

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.

The aggregate fair value of vested deferred units was $42,594 at December 31, 2018 (December 31, 2017 - $23,647). The fair value of the vested deferred 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.

On February 15, 2018, 663,277 deferred units were issued as retention bonuses and included in the consideration for the internalization of the property manager function (note 20).

## 12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

### (ii) Unit Options

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

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Number of units** | **Weighted average exercise price** | **Number of units** | **Weighted average exercise price** |
| Balance, beginning of period | 1,345,850 | $ 5.96 | 1,180,175 | $ 5.18 |
| Granted | - | $ - | 330,000 | $ 7.67 |
| Exercised (note 14) | (329,265) | $ 5.44 | (163,325) | $ 3.83 |
| Expired | (10,000) | $ 7.67 | (1,000) | $ 5.81 |
| **Balance, end of period** | **1,006,585** | **$ 6.11** | **1,345,850** | **$ 5.96** |

Options outstanding at December 31, 2018:

| **Exercise price** | **Number of units** | **Remaining life in years** | **Number of units exercisable** |
|---|---|---|---|
| $ 2.13 | 56,000 | 2.48 | 56,000 |
| $ 5.50 | 60,325 | 3.68 | 60,325 |
| $ 5.65 | 308,510 | 4.45 | 308,510 |
| $ 5.81 | 273,000 | 5.96 | 273,000 |
| $ 7.67 | 308,750 | 8.58 | 148,750 |
| | **1,006,585** | | **846,585** |

Total compensation expense for the year was $191 (2017 - $66). 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%.

The weighted average market price of options exercised in the year ended December 31, 2018 was $10.00 (2017 - $7.81).

## 12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

### (ii) Unit Options (Continued)

The unit options represented an aggregate fair value of $5,798 at December 31, 2018 (December 31, 2017 - $3,370). 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, 2018 | December 31, 2017 |
|---|---|---|
| Market price of Unit | $ 13.05 | $ 9.13 |
| Expected option life | 2.3 years | 2.7 years |
| Risk-free interest rate | 1.88% | 1.73% |
| Expected volatility (based on historical) | 17% | 18% |
| Expected distribution yield | 5.0% | 5.0% |

## 13. LONG-TERM INCENTIVE PLAN

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

| Date of award | Number of units | Interest rate | Loan receivable |
|---|---|---|---|
| March 8, 2012 | 250,000 | 3.57% | $ 796 |
| June 29, 2012 | 50,000 | 3.35% | 172 |
| September 11, 2012 | 100,000 | 3.35% | 477 |
| June 27, 2013 | 175,000 | 3.85% | 874 |
| December 16, 2014 | 100,000 | 3.27% | 526 |
| June 9, 2015 | 75,000 | 3.44% | 442 |
| June 30, 2016 | 285,000 | 2.82% | 2,089 |
| July 28, 2017 | 565,000 | 3.09% | 4,088 |
| March 5, 2018 | 335,000 | 3.30% | 3,065 |
| | 1,935,000 | | $ 12,529 |

## 14. TRUST UNITS

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

| | Trust Units | Amount |
|---|---|---|
| **Balance – December 31, 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 12(i)) | 89,303 | 734 |
| Units Issued under distribution reinvestment plan | 515,353 | 3,920 |
| Units Issued from options exercised (note 12(ii)) | 163,325 | 1,169 |
| **Balance – December 31, 2017** | **83,891,517** | **$ 341,528** |
| Issued from prospectuses | 20,803,500 | 212,853 |
| Unit issue costs | - | (9,358) |
| Units redeemed and cancelled | (510) | (5) |
| Units Issued under long-term incentive plan | 335,000 | 3,226 |
| Units Issued under the deferred unit plan (note 12(i)) | 148,794 | 1,610 |
| Units Issued under distribution reinvestment plan | 524,451 | 5,627 |
| Units Issued from options exercised (note 12(ii)) | 329,265 | 3,134 |
| **Balance – December 31, 2018** | **106,032,017** | **$ 558,615** |

On August 9, 2018 the Trust completed a bought deal prospectus whereby it issued 10,798,500 Trust Units for cash proceeds of $115,004 and incurred $5,032 in issue cost.

On March 28, 2018 the Trust completed a bought deal prospectus whereby it issued 10,005,000 Trust Units for cash proceeds of $97,849 and incurred $4,326 in issue cost.

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 cost.

## 14. TRUST UNITS (Continued)

### Declaration of Trust

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

#### (a) Trust Units

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

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

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

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

#### (b) Special Voting Units

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

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

## 15. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

| | **2018** | 2017 |
|---|---|---|
| Lease revenue [(1)] | **$ 124,310** | $ 106,554 |
| Non-lease revenue [(2)] | **2,976** | 2,450 |
| | **$ 127,286** | $ 109,004 |

[(1)] Consists of lease revenue from residential, parking and commercial tenants
[(2)] Consists of revenue from non-lease items such as laundry, commercial common area maintenance and ancillary services

## 16. FINANCING COSTS

| | **2018** | 2017 |
|---|---|---|
| Mortgages and loans payable | **$ 23,585** | $ 19,014 |
| Credit facilities | **1,414** | 1,877 |
| Interest income | **(606)** | (239) |
| Interest expense | **24,393** | 20,652 |
| Amortization of deferred finance costs on mortgages | **1,154** | 1,058 |
| Amortization of deferred finance costs on credit facilities | **218** | 209 |
| Amortization of fair value on assumed debt | **(200)** | (189) |
| | **$ 25,565** | $ 21,730 |

## 17. OTHER FAIR VALUE GAINS/(LOSSES)

| | **2018** | 2017 |
|---|---|---|
| LP Class B unit liability | **$ (12,446)** | $ (311) |
| Unit-based compensation liability (deferred unit plan) | **(11,386)** | (4,113) |
| Unit-based compensation liability (option plan) | **(3,579)** | (1,676) |
| | **$ (27,411)** | $ (6,100) |

## 18. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

| | **2018** | 2017 |
|---|---|---|
| LP Class B unit liability | **$ 860** | $ 46 |
| Unit-based compensation liability (deferred unit plan) | **971** | 673 |
| | **$ 1,831** | $ 719 |

## 19. SUPPLEMENTAL CASH FLOW INFORMATION

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

| | **2018** | 2017 |
|---|---|---|
| Receivables and other assets | **$ (1,567)** | $ (253) |
| Prepaid and deposits | **(3,421)** | (1,129) |
| Accounts payable and accrued liabilities | **(65)** | 2,063 |
| Tenant rental deposits | **709** | 1,096 |
| | **$ (4,344)** | $ 1,777 |

### (b) Net cash distributions to unitholders

| | **2018** | 2017 |
|---|---|---|
| Distributions declared to unitholders | **$ 26,696** | $ 20,182 |
| Add: Distributions payable at beginning of year | **1,888** | 1,460 |
| Less: Distributions payable at end of year | **(2,563)** | (1,888) |
| Less: Distributions to participants in the DRIP | **(5,627)** | (3,920) |
| | **$ 20,394** | $ 15,834 |

### (c) Interest paid

| | **2018** | 2017 |
|---|---|---|
| Interest expense | **$ 24,393** | $ 20,652 |
| Add: Mortgage interest payable at beginning of year | **1,093** | 1,188 |
| Less: Mortgage interest payable at end of year | **(1,512)** | (1,093) |
| Add: Interest income received | **606** | 239 |
| | **$ 24,580** | $ 20,986 |

### (d) Reconciliation of liabilities arising from financing activities

| | Mortgages and loans payable | Credit Facilities |
|---|---|---|
| Balance, beginning of year | $ 746,361 | $ 59,130 |
| Mortgage advances | 219,264 | - |
| Assumed mortgages | 4,633 | - |
| Repayment of mortgages | (152,746) | - |
| Repayment of credit facilities | - | (35,580) |
| Balance, end of year | $ 817,512 | $ 23,550 |

## 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, 2018, $nil (December 31, 2017 - $1,074) 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, 2018, the Trust incurred $992 (2017 - $7,858) in property, asset and project management services and shared legal services (prior to property management internalization) from companies controlled by an officer of the Trust. Of the services received approximately $182 (2017 - $2,445) has been capitalized to the investment properties and the remaining amounts are included in operating and administrative costs.

### (iii) Property Management Internalization

On February 15, 2018, the REIT entered into an agreement with CLV Group Inc. (the “Property Manager”) to internalize the REIT’s property management function. Upon closing of the transaction, a subsidiary of the REIT acquired 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 total consideration, including all future vesting of deferred units, is approximately $44,151. The REIT also incurred approximately $2,048 in transaction related costs.

During the year the REIT recorded $43,993 in property management internalization costs. The remaining $2,100 relating to the future vesting of the matched portion of the retention bonuses to employees will be expensed over the next 5 years as administrative costs.

### (iv) 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.

| | **2018** | 2017 |
|---|---|---|
| Salaries and other short-term employee benefits | **$ 1,382** | $ 1,169 |
| Deferred unit plan [1] | **2,447** | 2,390 |
| Gain on fair value of unit-based compensation liabilities | **14,045** | 6,341 |
| | **$ 17,874** | $ 9,900 |

[1] Excludes retention bonuses issued as part of the property management internalization

Loans outstanding from key management for indebtedness relating to the LTIP at December 31, 2018 were $12,149 (December 31, 2017 - $9,498). Deferred unit plan includes accrued compensation for key management at December 31, 2018 for $2,145 (December 31, 2017 - $2,090).

## 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, 2018 and 2017.

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, 2018, the debt-to-gross book value ratio is 38.9% (December 31, 2017 – 47.8%).

In addition, the Trust is subject to financial covenants in its mortgages payable and credit facilities such as minimum tangible net worth, interest coverage, debt service coverage and leverage ratio (similar to debt to gross book value as calculated in the Declaration of Trust). The Trust was in compliance with all financial covenants throughout the years ended December 31, 2018 and 2017.

## 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 and loan receivable long-term incentive plan.

Credit risk arises from the possibility that: (i) tenants may experience financial difficulty and be unable to fulfil their lease commitments; and (ii) a party defaults on the repayment of their debt causing a financial loss to the Trust.

For its rents receivable, the Trust conducts credit assessments for all prospective tenants and, where permitted, obtains a security deposit to assist in potential recoveries. The Trust monitors its collection process on a monthly basis and all receivables from past tenants and tenant receivables over 30 days are provided for in allowances for doubtful accounts.

Credit risk relating to other receivables and loan receivable long-term incentive plan is mitigated through recourse against such parties and/or the underlying security. These receivables are considered to have low credit risk.

## 22. FINANCIAL RISK MANAGEMENT (Continued)

### b) Credit Risk (Continued)

At December 31, 2018, the Trust had past due rents and other receivables of $2,922 (December 31, 2017 - $1,886), net of an allowance for doubtful accounts of $982 (December 31, 2017 - $709) which adequately reflects the Trust's credit risk.

### 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, 2018 and 2017, the Trust had credit facilities as described in note 9.

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

The undiscounted contractual maturities and repayment obligations of the Trust’s financial liabilities, excluding unit-based compensation liabilities and LP Class B unit liability as their redemption time is uncertain, as at December 31, 2018 are as follows:

| Year | Mortgages and loans payable | Mortgage and loan interest [1] | Credit facilities | Accounts payable and accrued liabilities | Total |
|---|---|---|---|---|---|
| 2019 | $91,789 | $ 22,640 | $ - | $ 28,571 | $ 143,000 |
| 2020 | 96,573 | 19,957 | - | - | 116,530 |
| 2021 | 52,950 | 17,293 | 23,550 | - | 93,793 |
| 2022 | 71,897 | 15,894 | - | - | 87,791 |
| 2023 | 69,494 | 13,499 | - | - | 82,993 |
| Thereafter | 434,809 | 52,759 | - | - | 487,568 |
| | **$817,512** | **$ 142,042** | **$ 23,550** | **$ 28,571** | **$ 1,011,675** |

[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, 2018, approximately 13% (December 31, 2017 – 28%) of the Trust’s mortgage debt is at variable interest rates and the Trust's credit facilities bear interest at variable rates. If there was a 100 basis point change in the interest rate, cash flows would have changed by approximately $1,510 for the year ended December 31, 2018 (2017 - $2,304).

## 23. FAIR VALUE MEASUREMENT (Continued)

### d) Market Risk (Continued)

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 $832,626 (December 31, 2017 - $805,119) excluding any deferred financing costs.

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

| December 31, 2018 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Investment properties | - | - | $ 2,077,051 |
| **Liabilities** | | | |
| Unit-based compensation liability | - | $ 48,392 | - |
| LP Class B unit liability | - | 44,511 | - |

| 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 | - |

## 24. COMMITMENTS AND CONTINGENCIES

The Trust is committed to purchase a property (74 suites) in April 2019 for a purchase price of approximately $11,150.

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 five properties totaling 253 suites that closed on February 12, 2019 for a purchase price of approximately $59,000.

The Trust completed the sale of nine properties (349 suites) on January 17, 2019 for a combined sale price of $35,300.

**25 TINDALE**
Hamilton, ON

## EXCHANGE AND SYMBOL

TSX: IIP.UN

## UNITS OUTSTANDING

106,032,017
(as at December 31, 2018)

## CORPORATE OFFICE

485 Bank Street, Suite 207
Ottawa, Ontario K2P 1Z2
Tel: (613) 569-5699
Fax: 1-888-696-5698
Email: investorinfo@interrentreit.com

## BOARD OF TRUSTEES

Paul Amirault – Trustee
Paul Bouzanis – Trustee
Ronald Leslie – Trustee
Mike McGahan – CEO & Trustee
Cheryl Pangborn – Trustee
John Jussup – Trustee

## EXECUTIVE OFFICERS

Mike McGahan - CEO
Brad Cutsey - President
Curt Millar - CFO
Dave Nevins – COO

## TRANSFER AGENT

TSX Trust
100 Adelaide Street West, Suite 301
Toronto, Ontario M5H 4H1
Tel: (416) 361-0930
Fax: (416) 361-0470
www.tsxtrust.com

## INVESTOR RELATIONS

485 Bank Street, Suite 207
Ottawa, Ontario K2P 1Z2
Tel: (613) 569-5699
Fax: 1-888-696-5698
Email: investorinfo@interrentreit.com

## AUDITORS

RSM Canada LLP
11 King Street West, Suite 800
Toronto, Ontario M5H 4C7
Tel: (416) 480-0160
Fax: (416) 480-2646
www.rsmcanada.com

## WEBSITE

www.interrentreit.com

## ANNUAL MEETING

Tuesday May 21, 2019
At 11:00 ET
160 Elgin Street, Suite 2600
Ottawa, Ontario K1P 1C3

QUEBEC

ONTARIO

485 BANK STREET, SUITE 207
OTTAWA, ONTARIO K2P 1Z2
TEL: (613) 569-5699
FAX: 1-888-696-5698

INVESTORINFO@INTERRENTREIT.COM

WWW.INTERRENTREIT.COM