InterRent Real Estate Investment Trust

Condensed Consolidated Interim Financial Statements

March 31, 2023
(unaudited)

InterRent Real Estate Investment Trust

Condensed Consolidated Interim Balance Sheets

Unaudited (Cdn $ Thousands)

	Note		**March 31, 2023**		December 31, 2022
Assets					
Investment properties	3	**$**	**4,343,071**	$	4,253,044
Investment in joint ventures	5		**41,829**		32,040
Prepaids and deposits			**9,255**		2,639
Receivables and other assets	7		**24,067**		23,603
Cash			**1,842**		4,267
Total assets		**$**	**4,420,064**	$	4,315,593
Liabilities					
Mortgages payable	8	**$**	**1,635,670**	$	1,654,449
Credit facilities	9		**44,792**		-
Class B LP unit liability	11		**45,670**		43,658
Unit-based compensation liabilities	12		**58,139**		54,131
Lease liabilities			**1,858**		1,903
Tenant rental deposits			**18,457**		18,226
Accounts payable and accrued liabilities	10		**42,805**		45,850
Total liabilities			**1,847,391**		1,818,217
Unitholders' equity					
Unit capital	14		**1,058,174**		1,052,858
Retained earnings			**1,514,499**		1,444,518
Total unitholders' equity			**2,572,673**		2,497,376
Total liabilities and unitholders' equity		**$**	**4,420,064**	$	4,315,593

Commitments and contingencies (note 24)

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

On behalf of the Trust

Ronald Leslie
Trustee

Brad Cutsey
Trustee

InterRent Real Estate Investment Trust

Condensed Consolidated Interim Statements of Income
For the three months ended March 31
Unaudited (Cdn $ Thousands)

	Note		2023		2022
Operating revenues					
Revenue from investment properties	15	**$**	**57,709**	$	51,863
Operating expenses					
Property operating costs			**8,967**		7,791
Property taxes			**6,229**		5,949
Utilities			**6,215**		5,964
Total operating expenses			**21,411**		19,704
Net operating income			**36,298**		32,159
Financing costs	16		**13,858**		9,655
Administrative costs			**3,495**		3,301
Income before other income and expenses			**18,945**		19,203
Other income and expenses					
Fair value adjustments on investment properties	3		**70,165**		65,835
Other income and fees			**382**		234
Income from investment in joint ventures	5		**18**		10
Other fair value gains/(losses)	17		**(6,007)**		10,022
Interest on units classified as financial liabilities	18		**(742)**		(672)
Net income for the period		**$**	**82,761**	$	94,632

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

InterRent Real Estate Investment Trust

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity
For the three months ended March 31
Unaudited (Cdn $ Thousands)

	Trust units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings	Total Unitholders' equity
Balance, January 1, 2022	$ 1,030,780	$ 1,620,761	$ (231,538)	$ 1,389,223	$ 2,420,003
Units issued	5,946	-	-	-	5,946
Net income for the period	-	94,632	-	94,632	94,632
Distributions declared to Unitholders	-	-	(12,004)	(12,004)	(12,004)
Balance, March 31, 2022	**$ 1,036,726**	**$ 1,715,393**	**$ (243,542)**	**$ 1,471,851**	**$ 2,508,577**
Balance, January 1, 2023	$ 1,052,858	$ 1,724,720	$ (280,202)	$ 1,444,518	$ 2,497,376
Units issued (note 14)	5,316	-	-	-	5,316
Net income for the period	-	82,761	-	82,761	82,761
Distributions declared to Unitholders	-	-	(12,780)	(12,780)	(12,780)
Balance, March 31, 2023	**$ 1,058,174**	**$ 1,807,481**	**$ (292,982)**	**$ 1,514,499**	**$ 2,572,673**

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

InterRent Real Estate Investment Trust

Condensed Consolidated Interim Statements of Cash Flows
For the three months ended March 31
Unaudited (Cdn $ Thousands)

	Note	2023	2022
Cash flows from (used in) operating activities			
Net income for the period		**$ 82,761**	$ 94,632
Add items not affecting cash			
Income from investment in joint ventures	5	**(18)**	(10)
Amortization		**409**	273
Fair value adjustments on investment properties	3	**(70,165)**	(65,835)
Other fair value (gains)/losses	17	**6,007**	(10,022)
Unit-based compensation expense	12	**1,935**	3,547
Financing costs	16	**13,858**	9,655
Interest expense	16	**(13,417)**	(9,160)
Tenant inducements		**547**	1,524
		21,917	24,604
Net income items related to financing activities	18	**307**	292
Changes in non-cash operating assets and liabilities	19	**(10,760)**	(8,733)
Cash from operating activities		**11,464**	16,163
Cash flows from (used in) investing activities			
Acquisition of investment properties	4	**-**	(13,508)
Investment in joint venture	5	**(9,771)**	(555)
Other investments		**-**	(250)
Additions to investment properties	3	**(19,921)**	(22,219)
Cash used in investing activities		**(29,692)**	(36,532)
Cash flows from (used in) financing activities			
Mortgage and loan repayments	19	**(45,043)**	(127,230)
Mortgage advances	19	**25,193**	211,611
Financing fees		**(919)**	(7,693)
Credit facility advances/(repayments)	19	**44,792**	(49,475)
Principal repayments on lease liabilities		**(49)**	(48)
Trust units issued, net of issue costs	12, 14	**34**	385
Deferred units purchased and cancelled	12, 14	**(291)**	(302)
Interest paid on units classified as financial liabilities	18	**(307)**	(292)
Distributions paid	19	**(7,607)**	(7,469)
Cash from financing activities		**15,803**	19,487
Increase (decrease) in cash during the period		**(2,425)**	(882)
Cash at the beginning of period		**4,267**	2,064
Cash at end of period		**$ 1,842**	$ 1,182

The accompanying notes are an integral part of these condensed consolidated interim 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 May 21, 2019, 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 condensed consolidated interim financial statements for the period ended March 31, 2023 were authorized for issuance by the Trustees of the Trust on May 9, 2023.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB, have been omitted or condensed.

The financial statements have been presented in Canadian dollars, which is the Trust’s functional currency, rounded to the nearest thousand unless otherwise indicated.

These condensed consolidated interim financial statements should be read in conjunction with the Trust’s annual consolidated financial statements for the year ended December 31, 2022.

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 condensed consolidated interim financial statements have been prepared on a historical cost basis except for:

i) Investment properties, which are measured at fair value (except for investment properties under development where fair value is not reliably determinable);
ii) Financial assets and financial liabilities classified as “fair value through profit and loss”, which are measured at fair value; and
iii) Unit-based compensation liabilities and Class B LP unit liability, which are measured at fair value.

2. BASIS OF PRESENTATION (Continued)

Material accounting policies

The condensed consolidated interim financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2022.

Basis of consolidation

The condensed consolidated interim 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.

Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment when applying the Trust's accounting policies. The critical accounting estimates and judgments have been set out in notes 2 and 3 to the Trust's consolidated financial statements for the year ended December 31, 2022.

Comparative information

Certain comparative figures have been reclassified to conform to the current year's presentation.

Unaudited (Cdn $ Thousands except unit amounts)

3. INVESTMENT PROPERTIES

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

	March 31, 2023	December 31, 2022
Income properties	**$ 4,309,055**	$ 4,152,141
Properties under development	**34,016**	100,903
	$ 4,343,071	$ 4,253,044

Income properties:

	March 31, 2023	December 31, 2022
Balance, beginning of period	**$ 4,152,141**	$ 3,998,193
Acquisitions (note 4)	**-**	72,600
Transfers from properties under development	**70,173**	-
Property capital investments	**16,576**	89,673
Fair value adjustments	**70,165**	(8,325)
	$ 4,309,055	$ 4,152,141

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

	March 31, 2023	December 31, 2022
Balance, beginning of period	**$ 100,903**	$ 64,400
Acquisitions (note 4)	**-**	2,431
Transfer to income properties	**(70,173)**	-
Property capital investments	**3,286**	34,072
	$ 34,016	$ 100,903

The fair value of the income properties is determined internally by the Trust. The fair value methodology of the Trust's income 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 ("Cap Rate") to forecasted stabilized net operating income ("SNOI"), which incorporates turnover estimates, market rent adjustments, allowances for vacancy, management fees, labour and repairs and maintenance for the property. In order to substantiate management's valuation, the Trust engaged a leading independent national real estate appraisal firm to provide appraisals for substantially all of the portfolio at December 31, 2022. The Trust engaged the firm once again to review and advise of any significant changes in any of the key input assumptions in the model (such as Cap Rate, turnover estimate and market rent adjustments) as at March 31, 2023, in order for the Trust to complete its internal valuations.

Unaudited (Cdn $ Thousands except unit amounts)

3. INVESTMENT PROPERTIES (Continued)

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

	March 31, 2023		December 31, 2022	
	Range	**Weighted average**	**Range**	**Weighted average**
Capitalization rate	3.00% - 5.75%	4.04%	3.00% - 5.75%	4.04%

The direct capitalization income approach method of valuation requires that SNOI be divided by a Cap Rate to determine a fair value. As such, changes in both SNOI and Cap Rate could significantly alter the fair value of the investment properties. The tables below summarize the impact of changes in both SNOI and Cap Rate on the Trust's fair value of the income properties:

As at March 31, 2023

Forecasted stabilized net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 168,863	$ 172,345	**$ 174,086**	$ 175,827	$ 179,309
Capitalization rate						
-0.25%	3.79%	$ 4,455,499	$ 4,547,365	$ 4,593,298	$ 4,639,231	$ 4,731,097
Cap rate used	**4.04%**	$ 4,179,788	$ 4,265,969	**$ 4,309,055**	$ 4,352,150	$ 4,438,331
+0.25%	4.29%	$ 3,936,210	$ 4,017,369	$ 4,057,949	$ 4,098,528	$ 4,179,687

As at December 31, 2022

Forecasted stabilized net operating income		-3%	-1%	As estimated	+1%	+3%
		$ 162,714	$ 166,069	**$ 167,746**	$ 169,423	$ 172,778
Capitalization rate						
-0.25%	3.79%	$ 4,293,235	$ 4,381,756	$ 4,426,016	$ 4,470,276	$ 4,558,796
Cap rate used	**4.04%**	$ 4,027,565	$ 4,110,607	**$ 4,152,141**	$ 4,193,650	$ 4,276,693
+0.25%	4.29%	$ 3,792,858	$ 3,871,062	$ 3,910,163	$ 3,949,265	$ 4,027,468

The two (2022 - three) properties under development are valued at acquisition cost plus development costs. The direct capitalization income approach method of valuation is not a reliable measure as the properties are undergoing a significant amount of work which will affect multiple components of the estimated net operating income as well as the Cap Rate. The Trust expects the fair value of the properties to be reliably determinable when development is substantially complete, and will measure both investment properties under development at cost until either its fair value becomes reliably determinable or development is completed (whichever is earlier).

Cash outflow used for additions to investment properties for the three months ended March 31:

	2023	2022
Property capital investments	**$ (19,862)**	$ (25,978)
Changes in non-cash investing accounts payable and accrued liabilities	**(59)**	3,759
	$ (19,921)	$ (22,219)

Unaudited (Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTY ACQUISITIONS

During the three months ended March 31, 2023, the Trust did not complete any investment property acquisitions.

During the three months ended March 31, 2022, the Trust completed the following investment property acquisitions:

Acquisition Date	Suite Count	Ownership Interest		Total Acquisition Costs[1]		Mortgage Funding[1]	Interest Rate	Maturity Date
January 24, 2022	36	50%	$	8,695	$	5,363	BA + 1.35%	January 28, 2023
February 28, 2022	21	50%		4,813		2,965	BA + 1.35%	January 28, 2023
	57		**$**	**13,508**	**$**	**8,328**		

[1] The total acquisition costs and mortgage funding represent the Trust's ownership interest.

Cash outflow used for investment property acquisitions for the three months ended March 31, 2023 were nil (March 31, 2022 - $13,508).

5. INVESTMENT IN JOINT VENTURES

The Trust accounts for its joint venture interests using the equity method. The following table details the Trust's ownership interest in its equity accounted investments:

Equity Investee	Location	Principal Activity	March 31, 2023	December 31, 2022
TIP Albert Limited Partnership	Ottawa	Develop, own and operate investment property[1]	40.0%	40.0%
Fairview Limited Partnership	Burlington	Develop, own and operate investment property	25.0%	25.0%
2-4 Hanover Limited Partnership	Brampton	Own and operate investment property[2]	10.0%	-

[1] On September 8, 2022 TIP Albert Limited Partnership sold 2.5% of its interest in 801 Albert Street Inc., the development site at 900 Albert Street Ottawa, to the Trust for consideration of $2,385. Following this transaction, TIP Albert Limited Partnership has ownership interest of 83.33% in 801 Albert Street Inc. The Trust has ownership interest of 33.33% in 801 Albert Street Inc. through its 40% ownership in TIP Albert Limited Partnership. The Trust holds the remaining ownership of 16.67% interest directly in 801 Albert Street Inc. This 16.67% interest is reported under Property under Development (note 3) as a joint operation (note 6). In total, the Trust holds a 50% interest in the development property.

[2] On March 27, 2023 the Trust acquired a 10% interest in the properties located at 2 & 4 Hanover Road in Brampton, Ontario for consideration of $8,875.

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

The Trust is responsible to fund its total investment in the joint ventures for the development of the investment property. The following table shows the changes in the carrying value of the investment in joint ventures:

		March 31, 2023		December 31, 2022
Balance, beginning of period	**$**	**31,533**	$	29,892
Additions		**9,771**		1,604
Share of net income		**18**		37
	$	**41,322**	$	31,533
Transaction costs	**$**	**507**	$	507
Carrying value of the investment in joint ventures	**$**	**41,829**	$	32,040

Unaudited (Cdn $ Thousands except unit amounts)

5. INVESTMENT IN JOINT VENTURES (Continued)

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

	March 31, 2023	December 31, 2022
Current assets	**$ 4,840**	$ 4,078
Non-current assets	**339,884**	155,519
Current liabilities	**(1,695)**	(411)
Non-current liabilities	**(154,952)**	(63,500)
Net assets	**$ 188,077**	$ 95,686
Trust's share	**$ 40,780**	$ 31,160

	Three months ended March 31	
	2023	2022
Revenue	**$ 221**	$ 57
Expenses	**91**	18
Net income	**$ 130**	$ 39
Trust's share	**$ 18**	$ 10

6. JOINT OPERATIONS

The Trust has interest in twenty-three investment properties (December 31, 2022 - twenty-three) and one property under development (December 31, 2022 - one) that are subject to joint control and have been determined to be joint operations. The Trust records only its proportionate share of the assets, liabilities and the results of operations of the joint operations. The assets, liabilities and results of joint operations are included within the respective line items of the consolidated balance sheets and consolidated statements of income. The Trust's ownership in the joint operations are as follows:

Joint Operation	**Region**	**Type**	**Ownership Interest (March 31, 2023)**	**Ownership Interest (December 31, 2022)**
Vancouver No. 1 Apartments Partnership	Greater Vancouver Area	Investment properties	50.00%	50.00%
Ontario No. 1 Apartments Partnership	Greater Toronto and Hamilton Area	Investment properties	50.00%	50.00%
Quebec No. 1 Apartments Partnership	Greater Montréal Area	Investment properties	50.00%	50.00%
801 Albert Street Inc.	National Capital Region	Property under development	16.67%	16.67%

Unaudited (Cdn $ Thousands except unit amounts)

7. RECEIVABLES AND OTHER ASSETS

	March 31, 2023	December 31, 2022
Current:		
Rents and other receivables, net of allowance for uncollectable amounts (note 22(b))	**$ 9,047**	$ 8,464
Lease incentives[1]	**766**	631
	$ 9,813	$ 9,095
Non-current:		
Automobiles, software, equipment and furniture and fixtures, net of accumulated amortization of $4,692 (2022 - $4,316)	**$ 4,162**	$ 4,337
Deferred finance fees on credit facilities, net of accumulated amortization of $2,367 (2022 - $2,308)	**427**	387
Loan receivable long-term incentive plan (note 13)	**8,453**	8,501
Right-of-use asset, net of accumulated amortization of $155 (2022 - $122)	**712**	783
Other investments	**500**	500
	$ 14,254	$ 14,508
	$ 24,067	$ 23,603

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

8. MORTGAGES PAYABLE

Mortgages are secured by the investment properties and bear interest at a weighted average interest rate of 3.37% (December 31, 2022 - 3.22%).

The mortgages mature at various dates between the years 2023 and 2033.

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

2023	$ 114,450
2024	213,085
2025	228,009
2026	163,356
2027	210,941
Thereafter	747,472
	1,677,313
Less: Deferred finance costs and mortgage premiums	(41,643)
	$ 1,635,670

Unaudited (Cdn $ Thousands except unit amounts)

9. CREDIT FACILITIES

	March 31, 2023	December 31, 2022
Demand credit facility (i)	$ -	$ -
Term credit facility (ii)	44,792	-
Term credit facility (iii)	-	-
Term credit facility (iv)	-	-
	$ 44,792	$ -

(i) The Trust has a $3,000 (2022 - $3,000) demand credit facility with a Canadian chartered bank secured by a general security agreement. The weighted average interest rate on amounts drawn during the three months ended March 31, 2023 was 7.20% (year ended December 31, 2022 - 4.33%).

(ii) The Trust has a $105,000 (2022 - $105,000) term credit facility, maturing in 2025, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on eight (2022 - eight) 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 three months ended March 31, 2023 was 6.57% (year ended December 31, 2022 - 6.85%).

(iii) The Trust has a $15,000 (2022 - $15,000) term credit facility, maturing in 2023, with a Canadian chartered bank secured by a general security agreement, first mortgage on one (2022 - one) of the Trust's properties and second collateral mortgages on one (2022 - one) 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 three months ended March 31, 2023 was 7.35% (year ended December 31, 2022 - 4.36%).

(iv) The Trust has a $100,000 (2022 - $100,000) term credit facility, maturing in 2025, with a Canadian chartered bank secured by a general security agreement, first mortgages on two (2022 - two) of the Trust's properties and second collateral mortgages on four (2022 - four) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread for prime advances and banker's acceptances. There were no amounts drawn during the period ended March 31, 2023. The weighted average interest rate on amounts drawn during the year ended December 31, 2022 was 2.59%.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2023	December 31, 2022
Accounts payable	$ 6,552	$ 6,495
Accrued liabilities	28,794	32,092
Accrued distributions	4,371	4,357
Mortgage interest payable	3,088	2,906
	$ 42,805	$ 45,850

11. CLASS B LP UNIT LIABILITY

The Class B LP 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.

Unaudited (Cdn $ Thousands except unit amounts)

11. CLASS B UNIT LIABILITY (Continued)

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

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

Number of Units	
Balance - December 31, 2021	**3,410,766**
Units issued	-
Balance - December 31, 2022	**3,410,766**
Units issued	-
Balance - March 31, 2023	**3,410,766**

The Class B LP Units represented an aggregate fair value of $45,670 at March 31, 2023 (December 31, 2022 - $43,658). 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 Class B LP Unit is accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of Unitholders. There is no value assigned to the Special Voting Units. The gains or losses that resulted from changes in the fair value were recorded in the consolidated statement of income.

12. UNIT-BASED COMPENSATION LIABILITIES

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

	March 31, 2023	December 31, 2022
Unit-based liabilities, beginning of period	**$ 54,131**	$ 70,492
Compensation expense - deferred unit plan	**1,065**	5,060
Compensation expense - performance and restricted unit plan	**435**	886
DRIP[1] expense - deferred unit plan	**411**	1,583
DRIP[1] expense - performance and restricted unit plan	**24**	41
DUP units converted, cancelled and forfeited	**(383)**	(4,149)
Unit options exercised and expired	**(30)**	(708)
(Gain)/Loss on fair value of liability (note 17)	**2,486**	(19,074)
Unit-based liabilities, end of period	**$ 58,139**	$ 54,131

[1] Distribution reinvestment plan

Unit options, deferred, performance, and restricted units are settled with the issuance of Trust Units. However, due to the fact that Trust Units are redeemable, awards of unit options, deferred, performance, and restricted units are considered to be cash-settled. As such, the fair value of unit options, deferred, performance, and restricted 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, the Performance and Restricted Unit plan, and unit options, as well as the long-term incentive plan (note 13) is 6% of the issued and outstanding Trust Units.

Unaudited (Cdn $ Thousands except unit amounts)

12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

(i) DEFERRED UNIT PLAN

The deferred unit plan entitles Trustees, officers and employees, at the participant's option, to elect to receive deferred units (elected portion) in consideration for trustee fees or bonus compensation under the employee incentive plan, as the case may be. The Trust matches the elected portion of the deferred units received for officers and employees. 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, 2021	**4,451,933**
Units issued under deferred unit plan	298,350
Reinvested distributions on deferred units	122,389
Deferred units exercised into Trust Units (note 14)	(217,913)
Deferred units purchased and cancelled	(92,808)
Deferred units cancelled	(22,726)
Balance - December 31, 2022	**4,539,225**
Units issued under deferred unit plan	79,725
Reinvested distributions on deferred units	30,519
Deferred units exercised into Trust Units (note 14)	(6,215)
Deferred units purchased and cancelled	-
Deferred units cancelled	(23,774)
Balance - March 31, 2023	**4,619,480**

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 $55,289 at March 31, 2023 (December 31, 2022 - $51,861). 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.

(ii) UNIT OPTIONS

The Trust had a unit option plan that provided for options to be granted to the benefit of employees, Trustees and certain other third parties. The Board has terminated the unit option plan, the termination of this plan will not impact any currently outstanding options, but the plan is now closed to new issuances. The exercise price of options granted under the unit option plan was determined by the Trustees, but was 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 did not exceed 10 years or such other maximum permitted time period under applicable regulations. At the time of granting options, the Board of Trustees determined the time, or times, when an option or part of an option was exercisable. The Trust did not provide financial assistance to any optionee in connection with the exercise of options.

Unaudited (Cdn $ Thousands except unit amounts)

12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

Options granted, exercised and expired during the three months ended March 31 are as follows:

	2023		2022	
	Number of units	**Weighted average exercise price**	**Number of units**	**Weighted average exercise price**
Balance, beginning of period	223,265	$ 6.55	291,652	$ 6.44
Exercised	(5,175)	$ 6.60	(63,887)	$ 6.03
Balance, end of period	**218,090**	**$ 6.55**	**227,765**	$ 6.56

Options outstanding at March 31, 2023:

Exercise price	**Number of units**	**Remaining life in years**	**Number of units exercisable**
$ 5.65	60,750	0.21	60,750
$ 5.81	65,500	1.72	65,500
$ 7.67	91,840	4.33	91,840
	218,090		**218,090**

The weighted average market price of options exercised in the three months ended March 31, 2023 was $14.50 (2022 - $16.28).

The unit options represented an aggregate fair value of $1,440 at March 31, 2023 (December 31, 2022 - $1,317). 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:

	March 31, 2023	December 31, 2022
Market price of Unit	$ 13.39	$ 12.80
Expected option life	0.8 years	0.9 years
Risk-free interest rate	3.74%	4.06%
Expected volatility (based on historical)	23%	23%
Expected distribution yield	5.0%	5.0%

(iii) PERFORMANCE AND RESTRICTED UNIT PLAN

The performance and restricted unit plan enables the Trustees to grant performance units and restricted units to employees and officers of the REIT. Performance units vest on the vesting date set out in the grant agreement according to a performance payout criteria, based on the REIT's relative performance against peers and achievement against sustainability goals. Restricted units vest 100% on the vesting date set out in the grant agreement. The performance and restricted units earn additional units for the distributions that would otherwise have been paid on the units (i.e. had they instead been issued as Trust Units on the date of grant).

Unaudited (Cdn $ Thousands except unit amounts)

12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

A summary of performance and restricted unit activity is presented below:

Number of Units	
Balance - December 31, 2021	**-**
Units issued under performance and restricted unit plan	209,592
Reinvested distributions on performance and restricted units	3,558
Balance - December 31, 2022	**213,150**
Units issued under performance and restricted unit plan	175,133
Reinvested distributions on performance and restricted units	1,776
Balance - March 31, 2023	**390,059**

The initial 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 fair value of the performance units is estimated at each reporting period using a Monte Carlo pricing model. Changes in fair value are recognized in the consolidated statement of income.

The liability for performance and restricted units is recognized on a pro-rated basis over the vesting period. The aggregate fair value of the performance and restricted units on the balance sheet at March 31, 2023 was $1,410 (December 31, 2022 - $953).

13. LONG-TERM INCENTIVE PLAN

In the past, the Board awarded long-term incentive plan ("LTIP") units to certain officers and key employees, collectively the "Participants". The Board has terminated the LTIP, the termination of this plan will not impact any currently outstanding awards, but the plan is now closed to new issuances. 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, the Performance and Restricted Unit plan, and the unit option plan (note 12) is 6% of the issued and outstanding Trust Units. The Participants could 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
September 11, 2012	100,000	3.35%	405
June 27, 2013	125,000	3.85%	552
December 16, 2014	100,000	3.27%	460
June 9, 2015	75,000	3.44%	403
June 30, 2016	275,000	2.82%	1,875
July 28, 2017	320,000	3.09%	2,176
March 5, 2018	285,000	3.30%	2,582
	1,280,000		$ 8,453

Unaudited (Cdn $ Thousands except unit amounts)

14. TRUST UNITS

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

	Trust Units	Amount
Balance - December 31, 2021	**140,179,844**	**$ 1,030,780**
Units Issued under the deferred unit plan	217,913	2,748
Units Issued under distribution reinvestment plan	1,422,730	18,208
Units Issued from options exercised	68,387	1,122
Balance - December 31, 2022	**141,888,874**	**$ 1,052,858**
Units Issued under the deferred unit plan	6,215	92
Units Issued under distribution reinvestment plan	382,885	5,160
Units Issued from options exercised	5,175	64
Balance - March 31, 2023	**142,283,149**	**$ 1,058,174**

On May 9, 2022, the TSX approved the Trust's normal course issuer bid ("Bid") for a portion of its Trust Units. Under the Bid, the Trust may acquire up to a maximum of 13,357,843 of its Trust Units, or approximately 10% of its public float of 133,578,439 Trust Units as of May 2, 2022, for cancellation over the next 12 months commencing on May 16, 2022 until the earlier of May 15, 2023 or the date on which the Trust has purchased the maximum number of Trust Units permitted under the Bid. The number of Trust Units that can be purchased pursuant to the Bid is subject to a current daily maximum of 93,790 Trust Units (being 25% of the average daily trading volume), except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Purchases will be made at market prices through the facilities of the TSX.

For the three months ended March 31, 2023 and 2022 the Trust did not purchase any Trust Units.

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.

Unaudited (Cdn $ Thousands except unit amounts)

14. TRUST UNITS (Continued)

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 Class B LP 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 Class B LP 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 for the three months ended March 31 are as follows:

		2023		2022
Lease revenue [1]	**$**	**56,673**	$	50,846
Non-lease revenue [2]		**1,036**		1,017
	$	**57,709**	$	51,863

[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

Unaudited (Cdn $ Thousands except unit amounts)

16. FINANCING COSTS

Financing costs for the three months ended March 31:

		2023		2022
Mortgages payable	$	14,075	$	8,596
Credit facilities		342		900
Interest income		(165)		(88)
Interest capitalized to properties under development		(835)		(248)
Interest expense		13,417		9,160
Amortization of deferred finance costs on mortgages		537		598
Amortization of deferred finance costs on credit facilities		59		52
Amortization of fair value on assumed debt		(155)		(155)
	$	13,858	$	9,655

17. OTHER FAIR VALUE GAINS/(LOSSES)

Other fair value gains/(losses) for the three months ended March 31:

		2023		2022
Class B LP unit liability	$	(2,012)	$	4,502
Unit-based compensation liability (deferred unit plan)		(2,337)		4,872
Unit-based compensation liability (performance and restricted unit plan)		2		-
Unit-based compensation liability (option plan)		(151)		249
Rate swap (mortgage payable)		(874)		399
Forward rate lock (mortgage payable)		(635)		-
	$	(6,007)	$	10,022

18. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

Interest on units classified as financial liabilities for the three months ended March 31:

		2023		2022
Class B LP unit liability	$	307	$	292
Unit-based compensation (deferred unit plan)		411		380
Unit-based compensation (performance and restricted unit plan)		24		-
	$	742	$	672

19. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Net change in non-cash operating assets and liabilities for the three months ended March 31:

		2023		2022
Receivables and other assets	$	(1,376)	$	(1,941)
Prepaid and deposits		(6,616)		(1,914)
Accounts payable and accrued liabilities		(2,999)		(5,166)
Tenant rental deposits		231		288
	$	(10,760)	$	(8,733)

Unaudited (Cdn $ Thousands except unit amounts)

19. SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

(b) Net cash distributions to unitholders for the three months ended March 31:

		2023		2022
Distributions declared to unitholders	$	**12,780**	$	12,004
Add: Distributions payable at beginning of period		**4,255**		3,994
Less: Distributions payable at end of period		**(4,268)**		(4,006)
Less: Distributions to participants in the DRIP		**(5,160)**		(4,523)
	$	**7,607**	$	7,469

(c) Interest paid for the three months ended March 31:

		2023		2022
Interest expense	$	**13,417**	$	9,160
Add: Mortgage interest payable at beginning of period		**2,906**		2,172
Less: Mortgage interest payable at end of period		**(3,088)**		(1,993)
Add: Interest capitalized		**835**		248
Add: Interest income received		**165**		88
	$	**14,235**	$	9,675

(d) Reconciliation of liabilities arising from financing activities for the three months ended March 31:

Mortgages payable		2023		2022
Balance, beginning of period	$	**1,697,163**	$	1,393,553
Mortgage advances		**25,193**		211,611
Repayment of mortgages		**(45,043)**		(127,230)
Balance, end of period	$	**1,677,313**	$	1,477,934

Credit facilities		2023		2022
Balance, beginning of period	$	**-**	$	140,495
Advances of credit facilities		**44,792**		-
Repayment of credit facilities		**-**		(49,475)
Balance, end of period	$	**44,792**	$	91,020

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 March 31, 2023, nil (December 31, 2022 - nil) was included in accounts payable and accrued liabilities, net of amounts receivable and including applicable sales tax, which are due to companies that are controlled by an officer and Trustee of the Trust. The amounts were non-interest bearing and due on demand.

(ii) Services

During the three months ended March 31, 2023, the Trust incurred $298 (2022 - $384) in entitlement, development, and construction management services related to development projects from companies controlled by an officer and Trustee of the Trust. The services received have been capitalized to the investment properties.

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, Class B LP 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 three months ended March 31, 2023 and the year ended December 31, 2022.

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 March 31, 2023, the debt to gross book value ratio is 38.0% (December 31, 2022 - 38.3%).

In addition, the Trust is subject to financial covenants in its mortgages payable and credit facilities such as minimum tangible net worth, interest coverage, debt service coverage and leverage ratio (similar to debt to gross book value as calculated in the Declaration of Trust). The Trust was in compliance with all financial covenants throughout the three month period ended March 31, 2023 and the year ended December 31, 2022.

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 adequate security to assist in potential recoveries. The Trust monitors its collection process on a regular basis and all receivables from past tenants and tenant receivables over 30 days are provided for in allowances for doubtful accounts.

Unaudited (Cdn $ Thousands except unit amounts)

22. FINANCIAL RISK MANAGEMENT (Continued)

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.

At March 31, 2023, the Trust had past due rents and other receivables of $11,997 (December 31, 2022 - $11,313), net of an allowance for doubtful accounts of $2,950 (December 31, 2022 - $2,849) 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 condensed consolidated interim 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 March 31, 2023, 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 Class B LP unit liability as their redemption time is uncertain, as at March 31, 2023 are as follows:

Year	Mortgages payable	Mortgage interest [1]	Credit facilities	Lease liabilities principal	Accounts payable and accrued liabilities	Total
2023	$ 114,450	$ 40,923	$ 44,792	$ 203	$ 42,805	$ 243,173
2024	213,085	46,827	-	297	-	260,209
2025	228,009	38,332	-	315	-	266,656
2026	163,356	31,252	-	335	-	194,943
2027	210,941	27,398	-	351	-	238,690
Thereafter	747,472	65,262	-	357	-	813,091
	$1,677,313	**$ 249,994**	**$ 44,792**	**$ 1,858**	**$ 42,805**	**$2,016,762**

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

Unaudited (Cdn $ Thousands except unit amounts)

22. FINANCIAL RISK MANAGEMENT (Continued)

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 March 31, 2023, approximately 4% (December 31, 2022 - 3%) of the Trust’s mortgage debt is at variable interest rates and the Trust's credit facilities also bear interest at variable rates. If there was a 100 basis point change in the interest rate, cash flows would have changed by approximately $211 for the three months ended March 31, 2023 (2022 - $1,175).

23. FAIR VALUE MEASUREMENT

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

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

The fair value of the mortgages 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 payable, and credit facilities, which are measured at a fair value level 2, is approximately $1,659,426 (December 31, 2022 - $1,666,048) excluding any deferred financing costs.

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

March 31, 2023	Level 1	Level 2	Level 3
Assets			
Investment properties	-	-	4,343,071
Interest rate swap asset(1)	-	1,568	-
Liabilities			
Forward rate lock liability(1)	-	635	-
Unit-based compensation liability	-	58,139	-
Class B LP unit liability	-	45,670	-

December 31, 2022	Level 1	Level 2	Level 3
Assets			
Investment properties	-	-	4,253,044
Interest rate swap asset(1)	-	2,442	-
Forward rate lock asset(1)	-	-	-
Liabilities			
Unit-based compensation liability	-	54,131	-
Class B LP unit liability	-	43,658	-

(1) Interest rate swap asset and forward rate lock asset/liability are presented on the consolidated balance sheet in mortgages payable

24. COMMITMENTS AND CONTINGENCIES

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