

# **InterRent Real Estate Investment Trust**

## **Condensed Consolidated Financial Statements**

**March 31, 2013**

**(unaudited - See Notice to Reader)**

### **Notice to Reader**

The accompanying unaudited condensed consolidated financial statements have been prepared by the REIT's management and the REIT's independent auditors have not performed a review of these financial statements.

# InterRent Real Estate Investment Trust

## Condensed Consolidated Balance Sheets

Unaudited (Cdn \$ Thousands)

	Note	March 31, 2013	December 31, 2012
<b>Assets</b>			
Investment properties	4	\$600,295	\$551,021
Prepays and deposits		4,571	2,374
Other assets	7	5,270	5,376
Cash		21,817	435
		<b>\$631,953</b>	<b>\$559,206</b>
<b>Liabilities</b>			
Mortgages and loans payable	8	\$250,060	\$256,820
Credit facilities	9	-	5,110
Accounts payable and accrued liabilities	10	8,766	10,342
Tenant rental deposits		4,211	4,088
LP Class B unit liability	11	1,172	974
Unit-based compensation liabilities	12	8,395	5,948
		<b>272,604</b>	<b>283,282</b>
<b>Unitholders' equity</b>			
Unit capital	13	160,524	82,653
Retained earnings		198,825	193,271
		<b>359,349</b>	<b>275,924</b>
		<b>\$631,953</b>	<b>\$559,206</b>

Subsequent events (note 23)

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

# InterRent Real Estate Investment Trust

## Condensed Consolidated Statements of Income

For the Three months Ended March 31

Unaudited (Cdn \$ Thousands)

	Note	2013	2012
<b>Operating revenues</b>			
Revenue from investment properties		\$13,054	\$10,806
<b>Operating expenses</b>			
Property operating costs		2,171	1,809
Property taxes		1,731	1,577
Utilities		1,722	1,707
		5,624	5,093
<b>Net operating income</b>		7,430	5,713
Financing costs	14	2,546	2,797
Administrative costs		1,091	881
		3,637	3,678
<b>Income from operations before other income and expenses</b>		3,793	2,035
<b>Other income and expenses</b>			
Loss on disposition of assets	15	-	(359)
Fair value adjustments on investment properties	4	5,510	2,586
Other fair value losses	16	(1,761)	(759)
Interest on units classified as financial liabilities	17	(56)	(31)
<b>Net income for the period</b>		\$7,486	\$3,472

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

# InterRent Real Estate Investment Trust

## Condensed Consolidated 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, 2012	\$79,459	\$121,067	\$(4,332)	\$116,735	\$196,194
Units issued	1,351	-	-	-	1,351
Profit for the period	-	3,472	-	3,472	3,472
Distributions declared to Unitholders	-	-	(1,309)	(1,309)	(1,309)
<b>Balance, March 31, 2012</b>	<b>\$80,810</b>	<b>\$124,539</b>	<b>\$(5,641)</b>	<b>\$118,898</b>	<b>\$199,708</b>
Balance, January 1, 2013	\$82,653	\$203,602	\$(10,331)	\$193,271	\$275,924
Units issued	77,871	-	-	-	77,871
Profit for the period	-	7,486	-	7,486	7,486
Distributions declared to Unitholders	-	-	(1,932)	(1,932)	(1,932)
<b>Balance, March 31, 2013</b>	<b>\$160,524</b>	<b>\$211,088</b>	<b>\$(12,263)</b>	<b>\$198,825</b>	<b>\$359,349</b>

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

# InterRent Real Estate Investment Trust

## Condensed Consolidated Statements of Cash Flows

For the Three months Ended March 31

(Cdn \$ Thousands)

	Note	2013	2012
<b>Cash flows from (used in) operating activities</b>			
Net income for the period		\$7,486	\$3,472
Add items not affecting cash			
Amortization		8	5
Loss on disposition of assets	15	-	359
Fair value adjustments on investment properties	4	(5,510)	(2,586)
Other fair value losses	16	1,761	759
Unit-based compensation expense	12	982	612
Amortization of deferred finance costs on mortgages and premiums on assumed debt	14	66	229
Accretion of discount and amortization of deferred finance cost on convertible debt	14	-	343
Tenant inducements		105	86
		<b>4,898</b>	3,279
Net income items related to financing activities	14/17	<b>2,544</b>	2,999
Changes in non-cash operating assets and liabilities:			
Other assets		(46)	537
Prepays and deposits		(2,197)	737
Accounts payable and accrued liabilities		(1,762)	(888)
Tenant rental deposits		123	367
		<b>3,560</b>	7,031
<b>Cash flows from (used in) investing activities</b>			
Acquisition of investment properties	5	(23,813)	(43,788)
Proceeds from sale of investment properties	6	-	2,997
Additions to investment properties	4	(5,278)	(2,490)
		<b>(29,091)</b>	(43,281)
<b>Cash flows from (used in) financing activities</b>			
Mortgage and loan repayments		(37,878)	(3,723)
Mortgage advances		16,749	34,530
Interest paid on mortgages and loans payable	14	(2,389)	(2,001)
Financing fees		(331)	(39)
Credit facility advances (repayments)		(5,110)	7,152
Interest paid on credit facilities	14	(147)	(112)
Subordinated convertible debenture repayments		-	(25,000)
Proceeds from sale of mortgages receivable	7	-	3,029
Interest paid on subordinated convertible debentures		-	(880)
Trust units issued, net of issue costs		77,417	65
Deferred units purchased and cancelled		(11)	-
Interest paid on units classified as financial liabilities	17	(8)	(6)
Distributions paid		(1,379)	(975)
		<b>46,913</b>	12,040
Increase (decrease) in cash during the period		<b>21,382</b>	(24,210)
Cash at the beginning of period		<b>435</b>	24,793
<b>Cash at end of period</b>		<b>\$21,817</b>	\$583

Amounts paid for interest are included in cash flows from financing activities in the consolidated statement of cash flows. The accompanying notes are an integral part of these consolidated financial statements.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

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### 1. ORGANIZATIONAL INFORMATION

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

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

These condensed interim consolidated financial statements for the period ended March 31, 2013 were authorized for issuance by the Trustees of the Trust on May 13, 2013.

### 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 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, 2012 except for IFRS 13 which was adopted January 1, 2013 (see changes in accounting policy). 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 interim financial statements should be read in conjunction with the Trust's consolidated financial statements for the year ended December 31, 2012.

#### Basis of presentation

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;
- 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 liability which is measured at fair value.

#### 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 consolidated from date control commences until control ceases.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

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### 2. BASIS OF PRESENTATION (Continued)

#### 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, 2012.

#### Change in accounting policy

The Trust adopted IFRS 13 Fair Value Measurement (IFRS 13) on January 1, 2013. IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. Quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments will be extended by IFRS 13 to cover all assets and liabilities within its scope. For the Trust, IFRS 13 is applicable for investment properties which are re-measured to fair value each reporting period under IAS 40.

Fair value measurements recognized in the balance sheet accounts are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

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

The adoption of IFRS 13 by the Trust resulted in no change to the method used in estimating fair value or the values determined. The adoption resulted in additional disclosure concerning the inputs as the fair value method used for investment properties is a level 3 based on significant inputs not based on observable market data.

### 3. FUTURE ACCOUNTING CHANGES

#### *IFRS 9 Financial Instruments*

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

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

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 4. INVESTMENT PROPERTIES

	March 31, 2013	December 31, 2012
Balance, beginning of period	\$ 551,021	\$ 373,245
Acquisitions (note 5)	38,486	85,967
Property capital investments	5,278	26,470
Settlement from derecognition of liability	-	(365)
Fair value adjustments	5,510	72,041
Dispositions (note 6)	-	(6,337)
Balance, end of period	<b>\$ 600,295</b>	<b>\$ 551,021</b>

The fair value of the portfolio is determined internally by the Trust. The Trust determined the fair value of each investment property internally based upon the direct capitalization income approach method of valuation. The fair value was determined by applying a capitalization rate to an estimated annual 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, market evidence from third party appraisers is incorporated on a continual basis. The information obtained from the appraisers provided the Trust with a summary of major assumptions and market data by city in order for the Trust to complete its internal valuations.

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

	March 31, 2013		December 31, 2012	
	Range	Weighted average	Range	Weighted average
Capitalization rate	4.75% - 6.75%	5.55%	4.75% - 6.75%	5.55%

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 Rates could significantly alter the fair value of the investment properties. The tables below summarize the impact of changes in both NOI and Cap Rates on the Trust's fair value of the investment properties:

#### As at March 31, 2013

Net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 32,317	\$ 32,983	<b>\$ 33,316</b>	\$ 33,649	\$ 34,315
Capitalization rate						
-0.25%	5.30%	\$ 609,746	\$ 622,318	\$ 628,604	\$ 634,890	\$ 647,462
Cap rate used	<b>5.55%</b>	\$ 582,280	\$ 594,285	<b>\$ 600,295</b>	\$ 606,291	\$ 618,297
+0.25%	5.80%	\$ 557,181	\$ 568,670	\$ 574,414	\$ 580,158	\$ 591,646

#### As at December 31, 2012

Net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 29,663	\$ 30,274	<b>\$ 30,580</b>	\$ 30,886	\$ 31,497
Capitalization rate						
-0.25%	5.30%	\$ 559,672	\$ 571,211	\$ 576,981	\$ 582,751	\$ 594,291
Cap rate used	<b>5.55%</b>	\$ 534,461	\$ 545,481	<b>\$ 551,021</b>	\$ 556,501	\$ 567,521
+0.25%	5.80%	\$ 511,424	\$ 521,969	\$ 527,241	\$ 532,514	\$ 543,059



# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 5. INVESTMENT PROPERTY ACQUISITIONS

During the three months ended March 31, 2013, 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 28, 2013	174	\$ 20,494	\$14,323	4.04% and 0%	June 1, 2021 and January 28, 2017
March 20, 2013	87	\$ 11,810	\$ 7,462	2.96%	September 1, 2023
March 25, 2013	64	\$ 6,182	\$ -	-%	n/a
	325	\$ 38,486	\$ 21,785		

During the three months ended March 31, 2012, the Trust completed the following investment property acquisitions:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
January 5, 2012	490	\$ 29,032	\$ 21,580	3.00%	February 1, 2013
March 7, 2012	230	\$ 20,690	\$ 14,934	2.75% and 3.0%	March 1, 2016 and April 1, 2013
	720	\$ 49,722	\$ 36,514		

Cash outflow required for investment property acquisitions:

	2013	2012
Total acquisition costs	\$ (38,486)	\$ (49,722)
Fair value adjustment of assumed debt	1,050	-
Assumed debt	13,623	5,934
	\$ (23,813)	\$ (43,788)

### 6. INVESTMENT PROPERTY DISPOSITIONS

During the three months ended March 31, 2013, no investment properties were disposed.

During the three months ended March 31, 2012, the Trust completed the following investment property dispositions. These dispositions do not meet the definition of discontinued operations.

Disposition Date	Suite Count	Sale Price	Proceeds	Mortgage(s) Repaid
March 8, 2012	36	\$ 2,435	\$2,281	\$ 1,581
March 8, 2012	16	\$ 983	\$ 920	\$639
	52	\$ 3,418	\$ 3,201	\$2,220

Proceeds include cash consideration of \$2,997 and mortgages receivable of \$210.

A loss of \$56 was recognized in the three months ended March 31, 2012 in connection with these property dispositions.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 7. OTHER ASSETS

	March 31, 2013	December 31, 2012
Mortgage holdbacks	\$ 52	\$ 172
Rents and other receivables, net of allowance for uncollectable amounts	513	550
Automobile, equipment and furniture and fixtures, net of accumulated amortization of \$175 (2012 - \$167)	89	30
Deferred finance fees on line of credit, net of accumulated amortization of \$117 (2012 - \$78)	268	293
Mortgages receivable <sup>(1)</sup>	2,201	2,202
Tenant inducements <sup>(2)</sup>	266	244
Loan receivable long-term incentive plan (note 18)	1,881	1,885
	<b>\$ 5,270</b>	<b>\$ 5,376</b>

<sup>(1)</sup> At March 31 2013, the balance is comprised of six mortgages with maturity dates ranging from 2 to 52 months at interest rates from 2% to 8%. All mortgages are secured by the related property and a general security agreement. At December 31, 2012 the balance is comprised of six mortgages with maturity dates ranging from 5 to 55 months at interest rates from 2% to 8%. During the first three months of the year ended December 31, 2012, five mortgages with a carrying value of \$3,332 were sold for cash proceeds of \$3,029 at a loss of \$303.

<sup>(2)</sup> 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 3.51% (December 31, 2012 – 3.60%).

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

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

2013	\$ 60,426
2014	20,355
2015	9,479
2016	17,473
2017	44,007
Thereafter	101,074
	252,814
Less: Deferred finance costs and mortgage premiums	2,754
	<b>\$ 250,060</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 9. CREDIT FACILITIES

	March 31, 2013	December 31, 2012
Demand operating loan <sup>(i)</sup>	\$ -	\$ -
Demand credit facility <sup>(ii)</sup>	-	-
Term credit facility <sup>(iii)</sup>	-	5,110
Term credit facility <sup>(iv)</sup>	-	-
	<b>\$ -</b>	<b>\$ 5,110</b>

(i) The Trust has a \$500 (2012 - \$500) demand operating loan with a Canadian chartered bank bearing interest at prime plus 1.0%, secured by a general security agreement and a second collateral mortgage on one (2012 – one) of the Trust's properties.

(ii) The Trust has a \$10,000 (2012 - \$10,000) demand credit facility with a financial institution bearing interest at prime plus 1.0%, secured by a general security agreement and second collateral mortgages on nine (2012 - nine) of the Trust's properties.

(iii) The Trust has a \$10,000 (2012 - \$10,000) term credit facility, maturing in 2014, with a Canadian chartered bank bearing interest at prime plus 0.75%, secured by a general security agreement and second collateral mortgages on nine (2012 – nine) of the Trust's properties.

(iv) The Trust has a \$12,500 (2012 - \$12,500) term credit facility, maturing in 2015, with a Canadian chartered bank bearing interest at prime plus 0.75%, secured by a general security agreement and second collateral mortgages on ten (2012 – ten) of the Trust's properties.

### 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2013	December 31, 2012
Accounts payable	\$ 2,002	\$ 2,536
Accrued liabilities	5,314	6,517
Accrued distributions	757	590
Mortgage interest payable	693	699
	<b>\$ 8,766</b>	<b>\$ 10,342</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 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 liability.

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

<b>Number of Units</b>	
<b>Balance – December 31, 2011</b>	<b>186,250</b>
Units issued	-
<b>Balance - December 31, 2012</b>	<b>186,250</b>
Units issued	-
<b>Balance – March 31, 2013</b>	<b>186,250</b>

The LP Class B Units represented an aggregate fair value of \$1,172 at March 31, 2013 (\$974 – December 31, 2012). Each LP Class B Unit is accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of Unitholders. There is no value assigned to the Special Voting Units. The gains or losses that resulted from changes in the fair value were recorded in the consolidated statement of income.

### 12. UNIT-BASED COMPENSATION LIABILITIES

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

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Unit-based liabilities, beginning of period	<b>\$ 5,948</b>	\$ 2,332
Compensation expense – deferred unit plan	<b>892</b>	1,052
Compensation expense – unit option plan	<b>42</b>	50
DRIP <sup>(1)</sup> expense – deferred unit plan	<b>48</b>	137
DUP units converted, cancelled and forfeited	<b>(78)</b>	(11)
Options exercised	<b>(20)</b>	(90)
Loss on fair value of liability	<b>1,563</b>	2,478
Unit-based liabilities, end of period	<b>\$ 8,395</b>	\$ 5,948

<sup>(1)</sup> Distribution reinvestment plan

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

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

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

#### (i) DEFERRED UNIT PLAN

The Trust implemented a deferred unit plan in 2007 which was subsequently amended in 2009. The deferred unit plan allows the Trust to issue a maximum number of trust units equal to 7.5% of the Trust's issued and outstanding trust units. The plan entitles trustees, officers and employees, at the participant's option, to elect to receive deferred units (elected portion) in consideration for trustee fees or bonus compensation under the management incentive plan, as the case may be. The Trust matches the elected portion of the deferred units received. The matched portion of the deferred units vest 50% on the third anniversary and 25% on each of the fourth and fifth anniversaries, subject to provisions for earlier vesting in certain events. The deferred units earn additional deferred units for the distributions that would otherwise have been paid on the deferred units (i.e. had they instead been issued as trust units on the date of grant). The deferred unit plan must be reapproved by the unitholders every three years. The deferred unit plan was approved, without change, on June 28, 2010.

A summary of Deferred Unit activity is presented below:

<b>Number of Units</b>	
<b>Balance – December 31, 2011</b>	<b>750,433</b>
Units issued under deferred unit plan	369,327
Reinvested distributions on deferred units	30,746
Deferred units cancelled	(9,200)
<b>Balance - December 31, 2012</b>	<b>1,141,306</b>
Units issued under deferred unit plan	261,453
Reinvested distributions on deferred units	8,445
Deferred units exercised into Trust Units (note 13)	(12,917)
Deferred units purchased and cancelled	(1,478)
Deferred units cancelled	(2,579)
<b>Balance – March 31, 2013</b>	<b>1,394,229</b>

The fair value of each unit granted is determined based on the weighted average observable closing market price of the REIT's Trust Units for the ten trading days preceding the date of grant.

As of March 31, 2013, the 651,425 deferred units, which represent the vested portion, have an intrinsic value of \$4,097 (December 31, 2012 – 529,186 deferred units had an intrinsic value of \$2,768).

During the 3 months ended March 31, 2013, 14,395 deferred units vested of which 12,917 were exercised into Trust Units and 1,478 were purchased and cancelled.

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

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

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

#### (ii) UNIT OPTIONS

The Trust has an incentive unit option plan (the "Plan"). The Plan provides for options to be granted to the benefit of employees, Trustees and certain other third parties. The maximum number of trust units allocated to and made available to be issued under the Plan shall not exceed 1,000,000. The exercise price of options granted under the unit option plan will be determined by the Trustees, but will be at least equal to the volume weighted average trading price of the trust units for the five trading days immediately prior to the date the option was granted. The term of any option granted shall not exceed 10 years or such other maximum permitted time period under applicable regulations. At the time of granting options, the Board of Trustees determines the time, or times, when an option or part of an option shall be exercisable. The Trust will not provide financial assistance to any optionee in connection with the exercise of options.

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

	2013		2012	
	Number of units	Weighted average exercise price	Number of units	Weighted average exercise price
Balance, beginning of period	759,150	\$ 2.75	690,000	\$ 2.23
Granted	-	-	-	-
Exercised	(7,650)	\$ 2.13	(7,500)	\$ 2.13
Expired	-	-	(7,500)	\$ 2.13
<b>Balance, end of period</b>	<b>751,500</b>	<b>\$ 2.76</b>	<b>675,000</b>	<b>\$ 2.23</b>

Options outstanding at March 31, 2013:

Exercise price	Number of units	Remaining life in years	Number of units exercisable
\$ 2.13	611,500	8.23	611,500
\$ 5.50	140,000	9.44	-
	<b>751,500</b>		<b>611,500</b>

The weighted average market price of options exercised in the three months ended March 31, 2013 was \$6.23 (three months ended March 31, 2012 - \$3.58).

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, 2013	December 31, 2012
Market price of Unit	\$ 6.29	\$ 5.23
Expected option life	3.5 years	3.7 years
Risk-free interest rate	1.15%	1.24%
Expected volatility (based on historical)	41%	46%
Expected distribution yield	5.0%	5.0%

The intrinsic value of the options at March 31, 2013 is \$2,544 (December 31, 2012 - \$1,919).

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 13. TRUST UNITS

As a result of the redeemable feature of the Trust Units, the Trust Units are defined as a financial liability; however, for the purposes of financial statement classification and presentation, the Trust units may be presented as equity instruments as they meet an exemption under IAS 32.

	Trust Units	Amount
<b>Balance – December 31, 2011</b>	<b>43,464,465</b>	<b>\$ 79,459</b>
Units Issued under long-term incentive plan (note 18)	400,000	1,743
Units Issued from options exercised	38,350	172
Units Issued under distribution reinvestment plan	301,205	1,279
<b>Balance – December 31, 2012</b>	<b>44,204,020</b>	<b>\$ 82,653</b>
Issued from prospectus	12,420,646	81,107
Unit issue costs	-	(3,706)
Units Issued under the deferred unit plan (note 12)	12,917	67
Units Issued from options exercised	7,650	36
Units Issued under distribution reinvestment plan	65,143	367
<b>Balance – March 31, 2013</b>	<b>56,710,376</b>	<b>\$ 160,524</b>

#### Declaration of Trust

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

#### (a) Trust Units

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

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

- i) 90% of the “market price” of the Trust Units on the principal market on which the Trust Units are quoted for trading during the twenty-day period ending on the trading day prior to the day on which the Trust Units were surrendered to Trust for redemption; and
- ii) 100% of the “closing market price” of the Trust Units on the principal market on which the Trust Units are quoted for trading on the redemption notice date.

#### (b) Special Voting Units

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

Each Special Voting Unit entitles the holder to the number of votes at any meeting of unitholders, which is equal to the number of Trust Units that may be obtained upon surrender of the LP Class B unit to which the Special Voting Unit relates. The Special Voting Units do not entitle or give any rights to the holders to receive distributions or any amount upon liquidation, dissolution or winding-up of Trust.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 14. FINANCING COSTS

	2013	2012
Mortgages and loans payable	\$ 2,389	\$ 2,001
Convertible debentures	-	149
Credit facilities	147	112
Interest income	(56)	(38)
Interest expense	\$ 2,480	\$ 2,224
Amortization of deferred finance costs on mortgages	108	187
Amortization of deferred finance costs on credit facilities	39	8
Amortization of accretion on convertible debenture	-	343
Amortization of fair value on assumed debt	(81)	35
	\$ 2,546	\$ 2,797

### 15. LOSS ON DISPOSITION OF ASSETS

	2013	2012
Loss on disposition of investment properties	\$ -	\$ (56)
Loss on disposition of mortgages receivable	-	(303)
	\$ -	\$ (359)

### 16. OTHER FAIR VALUE LOSSES

	2013	2012
LP Class B unit liability	\$ (198)	\$ (117)
Unit-based compensation liability (deferred unit plan)	(1,048)	(351)
Unit-based compensation liability (option plan)	(515)	(291)
	\$ (1,761)	\$ (759)

### 17. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	2013	2012
LP Class B unit liability	\$ 8	\$ 6
Unit-based compensation liability (deferred unit plan)	48	25
	\$ 56	\$ 31



# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

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### 18. LONG-TERM INCENTIVE PLAN

The Board of Trustees may award long-term incentive plan ("LTIP") units to certain officers and key employees, collectively the "Participants." The Participants can subscribe for trust units at a purchase price equal to the weighted average trading price of the trust units for the five trading days prior to issuance. The purchase price is payable in instalments, with an initial instalment of 5% paid when the trust units are issued. The balance represented by a loan receivable (note 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 (5.00% for units issued in 2010, 3.57% for units issued in March 2012 and 3.35% for units issued in June and September 2012) and are required to apply cash distributions received on these units toward the payment of interest and the remaining instalments. Participants may pre-pay any remaining instalments at their discretion. The Trust has recourse on the loans receivable and has reasonable assurance that the Trust will collect the full amount of the loan receivable. The loans receivable are secured by the units as well as the distributions on the units. If a Participant fails to pay interest and/or principal, the Trust can enforce repayment which may include the election to reacquire or sell the units in satisfaction of the outstanding amounts.

### 19. RELATED PARTY TRANSACTIONS

The transactions with related parties are incurred in the normal course of business and are measured at amounts believed to represent fair value. Related party transactions have been listed below, unless they have been disclosed elsewhere in the financial statements.

#### (i) Accounts Payable

As at March 31, 2013, \$453 (December 31, 2012 - \$504) was included in accounts payable and accrued liabilities which are due to companies that are controlled by an officer of the Trust. The amounts were non-interest bearing and due on demand.

#### (ii) Services

During the three months ended March 31, 2013, the Trust incurred \$1,386 (2012 - \$1,339) in property and project management services, shared legal services and brokerage services from companies controlled by an officer of the Trust. Of the services received approximately \$668 (2012 - \$666) has been capitalized to the income producing properties and the remaining amounts are included in operating and administrative costs.

### 20. CAPITAL RISK MANAGEMENT

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

The Trust manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Trust's working capital requirements. In order to maintain or adjust its capital structure, the Trust, upon approval from its Board of Trustees, may issue or repay long-term debt, issue units, repurchase units through a normal course issuer bid, pay distributions or undertake other activities as deemed appropriate under the specific circumstances. The Board of Trustees reviews and approves any material transactions out of the ordinary course of business, including approval of all acquisitions of investment properties, as well as capital and operating budgets.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

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### 20. CAPITAL RISK MANAGEMENT (Continued)

The Trust monitors capital using a debt to gross book value ratio, as defined in the Declaration of Trust which requires the Trust to maintain a debt to gross book value ratio below 75%. As at March 31, 2013, the debt to gross book value ratio is 39.6% (December 31, 2012 – 46.8%).

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 period ended March 31, 2013 and the year ended December 31, 2012.

### 21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

#### a) Overview

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

#### b) Credit Risk

Credit risk represents the financial loss that the Trust would experience if a tenant failed to meet its obligations in accordance with the terms and conditions of the lease. The Trust's credit risk is attributable to its rents and other receivables, loan receivable long-term incentive plan, mortgage holdbacks and mortgages receivable.

The amounts disclosed as rents and other receivables in the consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Trust's management based on prior experience and their assessment of the current economic environment. The Trust establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of rents and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and an overall loss component established based on historical trends. At March 31, 2013, the Trust had past due rents and other receivables of \$1,137 (December 31, 2012 - \$1,033), net of an allowance for doubtful accounts of \$624 (December 31, 2012 - \$483) which adequately reflects the Trust's credit risk.

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

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

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

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

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### 21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

#### c) Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The Trust manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 20 to the consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities (excluding derivative and other financial instruments reported as liabilities at fair value) when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust's reputation.

As at March 31, 2013, the Trust had credit facilities as described in note 9.

Note 8 reflects the contractual maturities for mortgage and loans payable of the Trust at March 31, 2013, 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 \$255,508 (December 31, 2012 - \$267,249).

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.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

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

March 31, 2013	Level 1	Level 2	Level 3
<b>Financial assets</b>			
Cash	\$ 21,817	\$ -	\$ -
<b>Financial liabilities</b>			
Unit-based compensation liability	-	8,336	-
LP Class B unit liability	-	1,172	-

  

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

#### 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 March 31, 2013, approximately 1% (December 31, 2012 – 14%) 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 \$62 for the three months ended March 31, 2013 (2012 - \$77).

### 22. 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.

### 23. SUBSEQUENT EVENTS

The Trust purchased the following three properties: 118 suites that closed April 4, 2013; 127 suites that closed on April 15, 2013; and, 327 suites that closed on April 18, 2013.