

InterRent Real Estate Investment Trust

Consolidated Financial Statements

For the Years Ended December 31, 2022 and 2021

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of InterRent Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of InterRent Real Estate Investment Trust and its subsidiaries (the "Trust"), which comprise the consolidated balance sheets as at December 31, 2022 and 2021 and the consolidated statements of income, changes in unitholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Trust as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair Value of Income Properties

Refer to consolidated financial statements note 2 – Basis of presentation – Investment properties, note 3 – Significant accounting policies – Critical judgments in applying accounting policies, and note 4 – Investment properties.

The fair market value of income properties as at December 31, 2022 is \$4,253,044, which represents approximately 98% of total assets. Management used an internal valuation model based on the direct capitalization income approach to determine the fair value of income properties as at December 31, 2022. Management engaged an external valuation expert to provide appraisals for substantially all of the income properties held as at December 31, 2022 and a summary of major assumptions and market data by city to validate its internal model.

We identified the valuation of fair value of income properties as a key audit matter because management made significant assumptions relating to the capitalization rate, vacancy rate, and forecasted stabilized net operating income of each income property used in its internal model. These significant assumptions involve a high degree of estimation uncertainty and complexity. This has resulted in significant audit effort, including the use of valuation specialists and a high degree of auditor judgment and subjectivity to evaluate the audit evidence obtained.

How our audit addressed the Key Audit Matter

Our audit procedures related to the valuation of income properties included the following, among others:

- We evaluated the appropriateness of the underlying data used in the calculation of stabilized net operating income, used in management's direct capitalization method.
- We assessed the competency and objectivity of those involved in the valuation of income properties, including management's internal valuation team and management's external valuation specialists, by considering their qualifications and expertise.
- We compared the forecasted stabilized net operating income from management's prior year internal valuation model to the actual results.
- For a sample of properties, we utilized an internal valuation specialist to assist in:
 - Developing independent ranges for management's assumptions and estimates from comparable market benchmarks for similar assets in similar locations; and
 - Evaluating the appropriateness of assumptions used by management including the capitalization rate, vacancy rate, and forecasted stabilized net operating income by comparing them to independent regional market data, industry averages, and improved comparable sales.

Other Information

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

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

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mark Jakovic.

RSM Canada LLP

Chartered Professional Accountants

Licensed Public Accountants

March 7, 2023

Toronto, Ontario

InterRent Real Estate Investment Trust

Consolidated Balance Sheets

(Cdn \$ Thousands)

	Note	December 31, 2022	December 31, 2021
Assets			
Investment properties	4	\$ 4,253,044	\$ 4,062,593
Investment in joint ventures	6	32,040	30,399
Prepays and deposits		2,639	2,855
Receivables and other assets	8	23,603	20,788
Cash		4,267	2,064
Total assets		\$ 4,315,593	\$ 4,118,699
Liabilities			
Mortgages payable	9	\$ 1,654,449	\$ 1,371,577
Credit facilities	10	-	140,495
Class B LP unit liability	12	43,658	59,040
Unit-based compensation liabilities	13	54,131	70,492
Lease liabilities		1,903	1,548
Tenant rental deposits		18,226	16,654
Accounts payable and accrued liabilities	11	45,850	38,890
Total liabilities		1,818,217	1,698,696
Unitholders' equity			
Unit capital	15	1,052,858	1,030,780
Retained earnings		1,444,518	1,389,223
Total unitholders' equity		2,497,376	2,420,003
Total liabilities and unitholders' equity		\$ 4,315,593	\$ 4,118,699

Commitments and contingencies (note 25)

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

On behalf of the Trust

Ronald Leslie
Trustee

Brad Cutsey
Trustee

InterRent Real Estate Investment Trust

Consolidated Statements of Income
For the years ended December 31
(Cdn \$ Thousands)

	Note	2022	2021
Operating revenues			
Revenue from investment properties	16	\$ 216,400	\$ 185,148
Operating expenses			
Property operating costs		35,163	30,853
Property taxes		23,851	21,857
Utilities		18,163	14,780
Total operating expenses		77,177	67,490
Net operating income		139,223	117,658
Financing costs	17	46,442	30,769
Administrative costs		15,479	13,216
Income before other income and expenses		77,302	73,673
Other income and expenses			
Fair value adjustments on investment properties	4	(8,325)	327,208
Other income and fees		1,218	605
Income from investment in joint ventures	6	37	39
Other fair value gains/(losses)	18	36,529	(29,229)
Interest on units classified as financial liabilities	19	(2,802)	(2,610)
Net income for the year		\$ 103,959	\$ 369,686

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

InterRent Real Estate Investment Trust

Consolidated Statements of Changes in Unitholders' Equity

For the years ended December 31

(Cdn \$ Thousands)

	Trust units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings	Total Unitholders' equity
Balance, January 1, 2021	\$ 1,003,526	\$ 1,251,075	\$ (185,830)	\$ 1,065,245	\$ 2,068,771
Units issued (note 15)	27,254	-	-	-	27,254
Net income for the year	-	369,686	-	369,686	369,686
Distributions declared to Unitholders	-	-	(45,708)	(45,708)	(45,708)
Balance, December 31, 2021	\$ 1,030,780	\$ 1,620,761	\$ (231,538)	\$ 1,389,223	\$ 2,420,003
Balance, January 1, 2022	\$ 1,030,780	\$ 1,620,761	\$ (231,538)	\$ 1,389,223	\$ 2,420,003
Units issued (note 15)	22,078	-	-	-	22,078
Net income for the year	-	103,959	-	103,959	103,959
Distributions declared to Unitholders	-	-	(48,664)	(48,664)	(48,664)
Balance, December 31, 2022	\$ 1,052,858	\$ 1,724,720	\$ (280,202)	\$ 1,444,518	\$ 2,497,376

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

InterRent Real Estate Investment Trust

Consolidated Statements of Cash Flows
For the years ended December 31
(Cdn \$ Thousands)

	Note	2022	2021
Cash flows from (used in) operating activities			
Net income for the year		\$ 103,959	\$ 369,686
Add items not affecting cash			
Income from investment in joint ventures	6	(37)	(39)
Amortization		1,257	908
Fair value adjustments on investment properties	4	8,325	(327,208)
Other fair value (gains)/losses	18	(36,529)	29,229
Unit-based compensation expense	13	7,570	6,234
Financing costs	17	46,442	30,769
Interest expense	17	(43,810)	(29,923)
Tenant inducements		4,162	4,307
		91,339	83,963
Net income items related to financing activities	19	1,178	1,119
Changes in non-cash operating assets and liabilities	20	(1,336)	10,938
Cash from operating activities		91,181	96,020
Cash flows used in investing activities			
Acquisition of investment properties	5	(74,393)	(517,851)
Investment in joint venture	6	(1,604)	(2,348)
Other investments		(250)	(250)
Additions to investment properties	4	(121,301)	(85,271)
Cash used in investing activities		(197,548)	(605,720)
Cash flows from (used in) financing activities			
Mortgage and loan repayments	20	(352,124)	(40,449)
Mortgage advances	20	655,096	393,041
Financing fees		(21,361)	(2,357)
Credit facility advances/(repayments)	20	(140,495)	140,495
Principal repayments on lease liabilities		(186)	(79)
Trust units issued, net of issue costs	13, 15	414	2,875
Deferred units purchased and cancelled	13, 15	(1,401)	(3,925)
Interest paid on units classified as financial liabilities	19	(1,178)	(1,119)
Distributions paid	20	(30,195)	(28,360)
Cash from financing activities		108,570	460,122
Increase (decrease) in cash during the year		2,203	(49,578)
Cash at the beginning of year		2,064	51,642
Cash at end of year		\$ 4,267	\$ 2,064

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

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

1. ORGANIZATIONAL INFORMATION

InterRent Real Estate Investment Trust (the "Trust" or the "REIT") is an unincorporated, open-ended real estate investment trust created pursuant to a Declaration of Trust, dated October 10, 2006, and most recently amended and restated on 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 consolidated financial statements were authorized for issuance by the Trustees of the Trust on March 7, 2023.

2. BASIS OF PRESENTATION

Statement of compliance

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

Basis of presentation

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

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

- i) Investment properties, which are measured at fair value (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.

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

Basis of consolidation

The consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. Subsidiaries are entities over which the Trust has control and are consolidated from the date control commences until control ceases. Control is achieved when the Trust has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

2. BASIS OF PRESENTATION (Continued)

Functional currency

The Trust and its subsidiaries' functional currency is Canadian dollars and all figures are rounded to the nearest thousand except when otherwise noted.

Critical accounting estimates and judgments in applying accounting policies

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

Investment properties

Investment properties, except for investment properties under development where fair value is not reliably determinable, are re-measured to fair value at each reporting date, determined based on internal valuation models incorporating market evidence and valuations performed by third-party appraisers. When estimating the fair value of investment properties, management makes multiple estimates and assumptions that have a significant effect on the measurement of investment properties. Estimates used in determining the fair value of the investment properties include capitalization rates, inflation rates, turnover estimates, market rent, vacancy rates, standard costs and stabilized net operating income used in the overall capitalization rate valuation method as well as direct comparison model for vacant land held for development.

Financial liabilities

The fair value measurement of the Class B LP unit and unit-based compensation liabilities require management to make estimates and assumptions that affect the reported amount of the liabilities and the corresponding compensation expense, and gain or loss on changes in fair value. Estimates and assumptions used in determining the fair value of these liabilities include the expected life of the instruments and the volatility of the Trust's unit prices.

3. SIGNIFICANT ACCOUNTING POLICIES

Property asset acquisitions

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

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

Investment properties under development

Properties under development include properties that are undergoing activities that will take a substantial period of time and effort to complete in order to prepare the property for its intended use to earn rental income. The cost of development properties includes the cost of acquiring the property and direct development costs, realty taxes and borrowing costs directly attributable to the development. Capitalization of costs continue until all activities necessary to prepare the property for its intended use as a rental property are substantially complete. Land held for development is transferred to investment properties under development when development type of activities begin that will change the property condition.

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

Joint Arrangements

The Trust enters into joint arrangements which include joint ventures and joint operations. A joint arrangement is an arrangement pursuant to which the Trust and other parties undertake an economic activity that is subject to joint control. Joint control exists when the joint arrangements require the unanimous consent of the parties sharing control for decisions about relevant activities.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in joint ventures

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

The Trust's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost, which includes cost directly attributable to the acquisition. The carrying amount of the investment is adjusted to recognize changes in the Trust's share of net assets of the joint venture since the acquisition date less any identified impairment loss. Distributions received from a joint venture reduce the carrying amount of the investment. The consolidated statement of income reflects the Trust's share of the results of operations of the joint ventures.

If the Trust's share of losses of a joint venture exceeds the Trust's interest in that joint venture, the Trust discontinues recognizing its share of further losses, unless it has undertaken obligations or made payments on behalf of the joint venture.

Joint operations

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The Trust records only its proportionate share of the assets, liabilities and the results of operations of the joint operation. 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.

Revenue recognition

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

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

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

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensation is earned from project and property management services provided to the jointly controlled properties and is recorded in other income and fees as the services are provided.

IFRS 15 requires revenue recognized from customer contracts (non-lease components) to be disclosed separately from its other sources of revenue (note 16).

Financial instruments

The Trust recognizes financial assets and financial liabilities when the Trust becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets and financial liabilities classified as fair value through profit or loss, are measured at fair value plus or minus transaction costs on initial recognition. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

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

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

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

Financial assets at amortized cost

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

Subsequent to initial recognition, these assets are carried at amortized cost, using the effective interest method, less any impairment loss. The carrying amount of the financial asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statement of income. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Financial assets at FVTPL

Derivative financial assets, consisting of interest rate swaps and forward rate locks, are classified as FVTPL, are measured at fair value, with changes recognized in the consolidated statement of income, and are presented on the consolidated balance sheets in mortgages payable.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities at amortized cost

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

Subsequent to initial recognition, these liabilities are carried at amortized cost, using the effective interest method. The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

Financial liabilities at FVTPL

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

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

Impairment of financial assets

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

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

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

Fair value measurement

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

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on either directly or indirectly observable market data
- Level 3: Valuation techniques for which any significant input is unobservable

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

Leases, the Trust as a lessee

At the inception of a contract, the Trust assesses whether a contract is, or contains, a lease by assessing if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration using the definition of a lease in IFRS 16. The Trust recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, however it applies the recognition exemptions for leases of low-value assets and short-term leases with a lease term of 12 months or less.

Right-of-use assets are measured at cost less any accumulated amortization and are included within receivables and other assets. Such right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities are measured at the present value of lease payments to be made over the lease term less any variable payments and lease incentives receivable. Variable payments are recognized as an expense in the period in which the event or condition that triggers the payment occurs. After the commencement date, the amount of the lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments, or a change in the assessment to the purchase underlying asset.

Trust units

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

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Class B LP unit liability

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, the Class B LP units are classified as a liability. Management has designated the Class B LP unit liability as FVTPL, and the Class B LP unit liability is re-measured to fair value at each reporting date with changes recorded in the consolidated statements of income. The distributions on the Class B LP units are recognized in the consolidated statements of income as interest expense.

Unit-based compensation

The Trust maintains compensation plans which include the granting of deferred, performance, and restricted units to Trustees and employees, and previously maintained a unit option plan. The Trust records the expense associated with these awards over the vesting period. 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 liability and re-measured at each reporting date, with changes recognized in the consolidated statements of income. The additional deferred, performance, and restricted units earned on the deferred, performance, and restricted units granted are recognized in the consolidated statements of income as interest expense.

Provisions

Provisions are recognized when the REIT has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value when the effect is material.

Income taxes

The Trust is taxed as a Mutual Fund Trust for income tax purposes and intends to distribute its income for income tax purposes each year to Unitholders to such an extent that it would not be liable for income tax under Part I of the Income Tax Act (Canada) ("Tax Act"). Accordingly, no provision for income taxes is included in the consolidated financial statements.

Throughout 2021 and 2022, the Trust and its wholly owned subsidiaries satisfied certain conditions available to REITs (the "REIT Exception") under amendments to the Tax Act, intended to permit a corporate income tax rate of nil as long as the specified conditions continue to be met. Without satisfying these conditions, the Trust would have been liable for income taxes.

Critical judgments in applying accounting policies

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

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

Investment in joint arrangements

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

Property asset acquisitions

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

Income tax

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

Future accounting changes

Amendment to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to IAS 1 to specify the requirements for classifying liabilities as current or noncurrent. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The implementation of these amendments is not expected to have a significant impact on the Trust as the balance sheet is presented on a liquidity basis.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

4. INVESTMENT PROPERTIES

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

	December 31, 2022	December 31, 2021
Income properties	\$ 4,152,141	\$ 3,998,193
Properties under development	100,903	64,400
	\$ 4,253,044	\$ 4,062,593

Income properties:

	December 31, 2022	December 31, 2021
Balance, beginning of year	\$ 3,998,193	\$ 3,053,856
Acquisitions (note 5)	72,600	538,996
Transfers to properties under development	-	(639)
Property capital investments	89,673	78,772
Fair value adjustments	(8,325)	327,208
	\$ 4,152,141	\$ 3,998,193

Properties under development:

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

	December 31, 2022	December 31, 2021
Balance, beginning of year	\$ 64,400	\$ 52,384
Acquisitions (note 5)	2,431	-
Transfer from income properties	-	639
Property capital investments	34,072	11,377
	\$ 100,903	\$ 64,400

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, and 2021. These external appraisals provided the Trust with a summary of the major assumptions and market data by city (such as capitalization rate, turnover estimate and market rent adjustments) in order for the Trust to complete its internal valuations.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

4. INVESTMENT PROPERTIES (Continued)

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

	December 31, 2022		December 31, 2021	
	Range	Weighted average	Range	Weighted average
Capitalization rate	3.00% - 5.75%	4.04%	2.75% - 5.75%	3.86%

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 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

As at December 31, 2021

Forecasted stabilized net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 149,612	\$ 152,697	\$ 154,239	\$ 155,781	\$ 158,866
Capitalization rate						
-0.25%	3.61%	\$ 4,146,980	\$ 4,232,485	\$ 4,275,237	\$ 4,317,989	\$ 4,403,494
Cap rate used	3.86%	\$ 3,878,235	\$ 3,958,199	\$ 3,998,193	\$ 4,038,162	\$ 4,118,126
+0.25%	4.11%	\$ 3,642,202	\$ 3,717,299	\$ 3,754,848	\$ 3,792,396	\$ 3,867,493

The three (2021 - 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 years ended:

	2022	2021
Property capital investments	\$ (123,745)	\$ (90,149)
Changes in non-cash investing accounts payable and accrued liabilities	2,444	4,878
	\$ (121,301)	\$ (85,271)

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

5. INVESTMENT PROPERTY ACQUISITIONS

During the year ended December 31, 2022, the Trust completed the following investment property acquisitions, which have contributed to the operating results effective from the acquisition date:

Acquisition Date	Suite Count	Ownership Interest	Total Acquisition Costs ⁽¹⁾	Mortgage Funding ⁽¹⁾	Interest Rate	Maturity Date
January 24, 2022	36	50%	\$ 8,726	\$ 5,363	BA + 1.35%	January 28, 2023
February 28, 2022	21	50%	4,849	2,965	BA + 1.35%	January 28, 2023
June 30, 2022	254	50%	59,025	34,191	4.02%	December 1, 2027
September 8, 2022 ⁽²⁾	0	2.5%	2,431	638	BA + 1.00%	September 30, 2022
	311		\$ 75,031	\$ 43,157		

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

⁽²⁾ During the quarter, the Trust acquired an additional 2.5% stake in the development site at 900 Albert Street Ottawa bringing the Trust's direct economic ownership up to 16.67%. In total, the Trust owns a 50% stake in the development property through a combination of its direct investment in the project and its ownership in the TIP Albert Limited Partnership joint venture. See notes 6 and 7 for more information.

During the year ended December 31, 2021, 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 21, 2021	114	100%	\$ 22,521	\$ 16,500	1.36%	February 20, 2022
January 28, 2021	614	50%	151,641	95,063	BA + 1.35%	January 28, 2023
April 13, 2021	45	50%	10,035	6,143	BA + 1.35%	January 28, 2023
April 29, 2021	158	100%	32,103	-	-%	n/a
May 13, 2021	55	100%	27,338	3,821	2.95%	June 1, 2023
May 13, 2021	45	100%	20,859	10,142	2.87%	June 1, 2030
June 1, 2021	95	100%	33,623	24,488	BA + 1.10%	May 31, 2022
June 9, 2021	5 ⁽²⁾	100%	4,257	-	-%	n/a
July 26, 2021	94	50%	15,854	9,783	BA + 1.10%	July 26, 2022
October 18, 2021	172	100%	83,560	48,000	BA + 1.10%	October 18, 2022
October 18, 2021	113	100%	46,686	27,000	BA + 1.10%	October 18, 2022
October 22, 2021	104	50%	26,244	15,250	BA + 1.35%	January 28, 2023
November 8, 2021	48 ⁽³⁾	100%	19,164	7,503	3.81%	August 1, 2023
November 26, 2021	46	50%	10,308	6,338	BA + 1.35%	January 28, 2023
December 2, 2021	121	100%	34,803	20,000	1.94%	December 2, 2022
	1,829		\$ 538,996	\$ 290,031		

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

⁽²⁾ Includes a parking lot with 24 parking stalls.

⁽³⁾ Includes 5,661 sq ft of leasable commercial space.

Cash outflow used for investment property acquisitions:

	2022	2021
Total acquisition costs	\$ (75,031)	\$ (538,996)
Fair value adjustment of assumed debt	-	(321)
Assumed debt	638	21,466
	\$ (74,393)	\$ (517,851)

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

6. 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	December 31, 2022	December 31, 2021
TIP Albert Limited Partnership	Ottawa	Develop, own and operate investment property ⁽¹⁾	40.0%	38.83%
Fairview Limited Partnership	Burlington	Develop, own and operate investment property	25.0%	25.0%

⁽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. (December 31, 2021 - 85.83%) The Trust has ownership interest of 33.33% in 801 Albert Street Inc. through its 40% ownership in TIP Albert Limited Partnership (December 31, 2021 - 38.83%). The Trust holds the remaining ownership of 16.67% (December 31, 2021 - 14.17%) interest directly in 801 Albert Street Inc. This 16.67% interest is reported under Property under Development (note 5) as a joint operation (note 7). In total, the Trust holds a 50% interest in the development property (December 31, 2021 - 47.5%).

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:

	December 31, 2022	December 31, 2021
Balance, beginning of year	\$ 29,892	\$ 27,505
Additions	1,604	2,348
Share of net income	37	39
Distributions	-	-
	\$ 31,533	\$ 29,892
Transaction costs	\$ 507	\$ 507
Carrying value of the investment in joint ventures	\$ 32,040	\$ 30,399

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

	December 31, 2022	December 31, 2021
Current assets	\$ 4,078	\$ 5,508
Non-current assets	155,519	151,566
Current liabilities	(411)	(872)
Non-current liabilities	(63,500)	(64,137)
Net assets	\$ 95,686	\$ 92,065
Trust's share	\$ 31,160	\$ 29,892

	2022	2021
Revenue	\$ 217	\$ 226
Expenses	64	65
Net income	\$ 153	\$ 161
Trust's share	\$ 37	\$ 39

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

7. JOINT OPERATIONS

The Trust has interest in twenty-three investment properties (December 31, 2021 - twenty) and one property under development (December 31, 2021 - 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 (December 31, 2022)	Ownership Interest (December 31, 2021)
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%	-
801 Albert Street Inc.	National Capital Region	Property under development	16.67%	14.17%

8. RECEIVABLES AND OTHER ASSETS

	December 31, 2022	December 31, 2021
Current:		
Rents and other receivables, net of allowance for uncollectable amounts (note 23(b))	\$ 8,464	\$ 3,775
Lease incentives ⁽¹⁾	631	1,963
	\$ 9,095	\$ 5,738
Non-current:		
Automobiles, software, equipment and furniture and fixtures, net of accumulated amortization of \$4,316 (2021 - \$3,149)	\$ 4,337	\$ 3,330
Deferred finance fees on credit facilities, net of accumulated amortization of \$2,308 (2021 - \$2,017)	387	323
Loan receivable long-term incentive plan (note 14)	8,501	10,596
Right-of-use asset, net of accumulated amortization of \$122 (2021 - \$32)	783	551
Other investments	500	250
	\$ 14,508	\$ 15,050
	\$ 23,603	\$ 20,788

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

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Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

9. MORTGAGES PAYABLE

Mortgages are secured by the investment properties and bear interest at a weighted average interest rate of 3.22% (December 31, 2021 - 2.38%).

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

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

2023	\$	266,749
2024		105,381
2025		227,756
2026		143,078
2027		210,883
Thereafter		743,316
		1,697,163
Less: Deferred finance costs and mortgage premiums		(42,714)
	\$	1,654,449

10. CREDIT FACILITIES

	December 31, 2022	December 31, 2021
Demand credit facility ⁽ⁱ⁾	\$ -	\$ 405
Term credit facility ⁽ⁱⁱ⁾	-	53,570
Term credit facility ⁽ⁱⁱⁱ⁾	-	520
Term credit facility ^(iv)	-	86,000
	\$ -	\$ 140,495

(i) The Trust has a \$3,000 (2021 - \$2,000) demand credit facility with a Canadian chartered bank secured by a general security agreement. The weighted average interest rate on amounts drawn during the period ended December 31, 2022 was 4.33% (2021 - 2.95%).

(ii) The Trust has a \$105,000 (2021 - \$55,000) term credit facility, maturing in 2025, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on eight (2021 - nine) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. The weighted average interest rate on amounts drawn during the period ended December 31, 2022 was 2.22% (2021 - 2.19%).

(iii) The Trust has a \$15,000 (2021 - \$15,000) term credit facility, maturing in 2023, with a Canadian chartered bank secured by a general security agreement, first mortgage on one (2021 - one) of the Trust's properties and second collateral mortgages on one (2021 - 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 period ended December 31, 2022 was 4.36% (2021 - 3.10%).

(iv) The Trust has a \$100,000 (2021 - \$100,000) term credit facility, maturing in 2024, with a Canadian chartered bank secured by a general security agreement, first mortgages on two (2021 - two) of the Trust's properties and second collateral mortgages on four (2021 - 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. The weighted average interest rate on amounts drawn during the period ended December 31, 2022 was 2.59% (2021 - 2.17%).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2022	December 31, 2021
Accounts payable	\$ 6,495	\$ 3,977
Accrued liabilities	32,092	28,649
Accrued distributions	4,357	4,092
Mortgage interest payable	2,906	2,172
	\$ 45,850	\$ 38,890

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

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12. 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.

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, 2020	3,410,766
Units issued	-
Balance - December 31, 2021	3,410,766
Units issued	-
Balance - December 31, 2022	3,410,766

The Class B LP Units represented an aggregate fair value of \$43,658 at December 31, 2022 (December 31, 2021 - \$59,040). 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.

13. UNIT-BASED COMPENSATION LIABILITIES

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

	December 31, 2022	December 31, 2021
Unit-based liabilities, beginning of year	\$ 70,492	\$ 58,200
Compensation expense - deferred unit plan	5,060	4,743
Compensation expense - performance and restricted unit plan	886	-
Compensation expense - unit option plan	-	-
DRIP ⁽¹⁾ expense - deferred unit plan	1,583	1,491
DRIP ⁽¹⁾ expense - performance and restricted unit plan	41	-
DUP units converted, cancelled and forfeited	(4,149)	(6,957)
Unit options exercised and expired	(708)	(4,238)
(Gain)/Loss on fair value of liability (note 18)	(19,074)	17,253
Unit-based liabilities, end of year	\$ 54,131	\$ 70,492

⁽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.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

13. UNIT-BASED COMPENSATION LIABILITIES (Continued)

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 14) is 6% of the issued and outstanding Trust Units.

(i) DEFERRED UNIT PLAN

The deferred unit plan entitles Trustees, officers and employees, at the participant's option, to elect to receive deferred units (elected portion) in consideration for trustee fees or bonus compensation under the employee incentive plan, as the case may be. The Trust matches the elected portion of the deferred units received 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, 2020	4,524,216
Units issued under deferred unit plan	276,625
Reinvested distributions on deferred units	96,173
Deferred units exercised into Trust Units (note 15)	(188,456)
Deferred units purchased and cancelled	(197,378)
Deferred units cancelled	(59,247)
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 15)	(217,913)
Deferred units purchased and cancelled	(92,808)
Deferred units cancelled	(22,726)
Balance - December 31, 2022	4,539,225

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 \$51,861 at December 31, 2022 (December 31, 2021 - \$67,585). 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.

InterRent Real Estate Investment Trust

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(Cdn \$ Thousands except unit amounts)

13. UNIT-BASED COMPENSATION LIABILITIES (Continued)

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

	2022		2021	
	Number of units	Weighted average exercise price	Number of units	Weighted average exercise price
Balance, beginning of year	291,652	\$ 6.44	756,745	\$ 6.28
Exercised	(68,387)	\$ 6.09	(465,093)	\$ 6.18
Balance, end of year	223,265	\$ 6.55	291,652	\$ 6.44

Options outstanding at December 31, 2022:

Exercise price	Number of units	Remaining life in years	Number of units exercisable
\$ 5.65	63,500	0.45	63,500
\$ 5.81	65,500	1.96	65,500
\$ 7.67	94,265	4.57	94,265
	223,265		223,265

The weighted average market price of options exercised in the twelve months ended December 31, 2022 was \$16.11 (2021 - \$17.31).

The unit options represented an aggregate fair value of \$1,317 at December 31, 2022 (December 31, 2021 - \$2,907). The fair value of unit options is re-valued at each reporting period based on an estimate of the fair value using the Black-Scholes option pricing model using the following weighted average valuation assumptions:

	December 31, 2022	December 31, 2021
Market price of Unit	\$ 12.80	\$ 17.31
Expected option life	0.9 years	1.2 years
Risk-free interest rate	4.06%	0.98%
Expected volatility (based on historical)	23%	31%
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).

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(Cdn \$ Thousands except unit amounts)

13. 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

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 December 31, 2022 was \$953 (December 31, 2021 - \$nil).

14. 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 13) 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 8) is due over a term not exceeding ten years. Participants are required to pay interest at a ten-year fixed rate based on the Trust's fixed borrowing rate for long-term mortgage financing and are required to apply cash distributions received on these units toward the payment of interest and the remaining instalments. Participants may pre-pay any remaining instalments at their discretion. The Trust has recourse on the loans receivable and has reasonable assurance that the Trust will collect the full amount of the loan receivable. The loans receivable are secured by the units as well as the distributions on the units. If a Participant fails to pay interest and/or principal, the Trust can enforce repayment which may include the election to reacquire or sell the units in satisfaction of the outstanding amounts.

Date of award	Number of units	Interest rate	Loan receivable
September 11, 2012	100,000	3.35%	\$ 410
June 27, 2013	125,000	3.85%	558
December 16, 2014	100,000	3.27%	465
June 9, 2015	75,000	3.44%	406
June 30, 2016	275,000	2.82%	1,888
July 28, 2017	320,000	3.09%	2,189
March 5, 2018	285,000	3.30%	2,585
	1,280,000		\$ 8,501

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(Cdn \$ Thousands except unit amounts)

15. TRUST UNITS

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

	Trust Units	Amount
Balance - December 31, 2020	138,416,700	\$ 1,003,526
Units Issued under the deferred unit plan	188,456	3,032
Units Issued under distribution reinvestment plan	1,109,595	17,109
Units Issued from options exercised	465,093	7,113
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

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.

On May 10, 2021, 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 13,200,140 of its Trust Units, or approximately 10% of its public float of 132,001,401 Trust Units as of May 6, 2021, for cancellation over the next 12 months commencing on May 14, 2021 until the earlier of May 13, 2022 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 88,485 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 years ended December 31, 2022 and 2021 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:

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

15. TRUST UNITS (Continued)

(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 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.

16. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

	2022	2021
Lease revenue ⁽¹⁾	\$ 211,872	\$ 181,124
Non-lease revenue ⁽²⁾	4,528	4,024
	\$ 216,400	\$ 185,148

⁽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

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(Cdn \$ Thousands except unit amounts)

17. FINANCING COSTS

	2022	2021
Mortgages payable	\$ 44,386	\$ 29,476
Credit facilities	2,004	1,717
Interest income	(480)	(386)
Interest capitalized to properties under development	(2,100)	(884)
Interest expense	43,810	29,923
Amortization of deferred finance costs on mortgages	2,960	1,178
Amortization of deferred finance costs on credit facilities	291	239
Amortization of fair value on assumed debt	(619)	(571)
	\$ 46,442	\$ 30,769

18. OTHER FAIR VALUE GAINS/(LOSSES)

	2022	2021
Class B LP unit liability	\$ 15,383	\$ (12,346)
Unit-based compensation liability (deferred unit plan)	18,215	(15,133)
Unit-based compensation liability (performance and restricted unit plan)	(26)	-
Unit-based compensation liability (option plan)	885	(2,120)
Rate swaps and forward rate locks (mortgage payable)	2,072	370
	\$ 36,529	\$ (29,229)

19. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	2022	2021
Class B LP unit liability	\$ 1,178	\$ 1,119
Unit-based compensation (deferred unit plan)	1,583	1,491
Unit-based compensation (performance and restricted unit plan)	41	-
	\$ 2,802	\$ 2,610

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2022	2021
Receivables and other assets	\$ (7,379)	\$ (7,242)
Prepaid and deposits	216	8,540
Accounts payable and accrued liabilities	4,255	6,324
Tenant rental deposits	1,572	3,316
	\$ (1,336)	\$ 10,938

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(Cdn \$ Thousands except unit amounts)

20. SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

(b) Net cash distributions to unitholders

	2022	2021
Distributions declared to unitholders	\$ 48,664	\$ 45,708
Add: Distributions payable at beginning of year	3,994	3,755
Less: Distributions payable at end of year	(4,255)	(3,994)
Less: Distributions to participants in the DRIP	(18,208)	(17,109)
	\$ 30,195	\$ 28,360

(c) Interest paid

	2022	2021
Interest expense	\$ 43,810	\$ 29,923
Add: Mortgage interest payable at beginning of year	2,172	1,843
Less: Mortgage interest payable at end of year	(2,906)	(2,172)
Add: Interest capitalized	2,100	884
Add: Interest income received	480	386
	\$ 45,656	\$ 30,864

(d) Reconciliation of liabilities arising from financing activities

Mortgages payable	2022	2021
Balance, beginning of year	\$ 1,393,553	\$ 1,019,816
Mortgage advances	655,096	393,041
Assumed mortgages	638	21,145
Repayment of mortgages	(352,124)	(40,449)
Balance, end of year	\$ 1,697,163	\$ 1,393,553

Credit facilities	2022	2021
Balance, beginning of year	\$ 140,495	\$ -
Advances of credit facilities	14,990	140,495
Repayment of credit facilities	(155,485)	-
Balance, end of year	\$ -	\$ 140,495

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Notes to Consolidated Financial Statements

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21. RELATED PARTY TRANSACTIONS

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

(i) Accounts Payable (net of amounts receivable)

As at December 31, 2022, \$nil (December 31, 2021 - \$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 year ended December 31, 2022, the Trust incurred \$2,356 (2021 - \$nil) 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.

(iii) Key management remuneration

Key management consists of the Trustees and executive management team of the Trust. Compensation paid or payable is provided in the following table:

	2022	2021
Salaries and other short-term employee benefits	\$ 2,405	\$ 2,003
Deferred unit plan	732	2,240
Performance and restricted unit plan	2,354	-
	\$ 5,491	\$ 4,243

Loans outstanding from key management for indebtedness relating to the LTIP at December 31, 2022 were \$8,262 (December 31, 2021 - \$10,351). Fees paid to Trustees accounted for all of the compensation paid or payable under the deferred unit plan during 2022 (2021 - \$630). As of 2022, Trustee fees under the deferred unit plan are no longer eligible to be matched by the Trust; and the executive management team earns awards under the performance and restricted unit plan instead of the deferred unit plan. As of December 31, 2022, the deferred unit plan included no accrued compensation for the executive management team. (December 31, 2021- \$1,610).

22. 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 years ended December 31, 2022 and 2021.

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Notes to Consolidated Financial Statements

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22. CAPITAL RISK MANAGEMENT (Continued)

The Trust monitors capital using a debt to gross book value ratio, as defined in the Declaration of Trust which requires the Trust to maintain a debt to gross book value ratio below 75%. As at December 31, 2022, the debt to gross book value ratio is 38.3% (December 31, 2021 - 36.7%).

In addition, the Trust is subject to financial covenants in its mortgages payable and credit facilities such as minimum tangible net worth, interest coverage, debt service coverage and leverage ratio (similar to debt to gross book value as calculated in the Declaration of Trust). The Trust was in compliance with all financial covenants throughout the years ended December 31, 2022 and 2021.

23. 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.

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 December 31, 2022, the Trust had past due rents and other receivables of \$11,313 (December 31, 2021 - \$6,071), net of an allowance for doubtful accounts of \$2,849 (December 31, 2021 - \$2,296) which adequately reflects the Trust's credit risk.

InterRent Real Estate Investment Trust

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23. FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The Trust manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 22 to the consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities (excluding derivative and other financial instruments reported as liabilities at fair value) when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust's reputation. In addition, liquidity and capital availability risks are mitigated by diversifying the Trust's sources of funding, maintaining a staggered debt maturity profile and actively monitoring market conditions.

As at December 31, 2022, the Trust had credit facilities as described in note 10.

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

The undiscounted contractual maturities and repayment obligations of the Trust's financial liabilities, excluding unit-based compensation liabilities and Class B LP unit liability as their redemption time is uncertain, as at December 31, 2022 are as follows:

Year	Mortgages payable	Mortgage interest ⁽¹⁾	Credit facilities	Lease liabilities principal outstanding	Accounts payable and accrued liabilities	Total
2023	\$ 266,749	\$ 46,822	\$ -	\$ 248	\$ 45,850	\$ 359,669
2024	105,381	43,078	-	297	-	148,756
2025	227,756	38,108	-	315	-	266,179
2026	143,078	30,920	-	335	-	174,333
2027	210,883	27,222	-	351	-	238,456
Thereafter	743,316	63,332	-	357	-	807,005
	\$1,697,163	\$ 249,482	\$ -	\$ 1,903	\$ 45,850	\$1,994,398

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

d) Market Risk

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

At December 31, 2022, approximately 3% (December 31, 2021 - 20%) 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 \$2,279 for the twelve months ended December 31, 2022 (2021 - \$2,523).

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24. 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 \$1,666,048 (December 31, 2021 - \$1,543,290) excluding any deferred financing costs.

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

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

December 31, 2021	Level 1	Level 2	Level 3
Assets			
Investment properties	-	-	4,062,593
Interest rate swap asset	-	370	-
Liabilities			
Unit-based compensation liability	-	70,492	-
Class B LP unit liability	-	59,040	-

⁽¹⁾ Interest rate swap asset is presented on the consolidated balance sheets in mortgages payable

25. 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.