InterRent Real Estate Investment Trust

Condensed Consolidated Financial Statements

March 31, 2012
(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, 2012	December 31, 2011
Assets			
Investment properties	5	**$418,551**	$363,639
Prepaids and deposits		**1,804**	2,529
Other assets	6	**2,805**	5,445
Cash		**583**	24,793
Assets held for sale	7	**6,382**	9,943
		$430,125	$406,349
Liabilities			
Mortgages and loans payable	8	**$205,872**	$166,753
Subordinated convertible debentures	9	**-**	24,657
Credit facilities	10	**7,152**	-
Accounts payable and accrued liabilities	11	**5,918**	6,504
Tenant rental deposits		**3,532**	3,130
LP Class B unit liability	12	**710**	592
Unit-based compensation liabilities	13	**3,577**	2,332
Liabilities related to assets held for sale	7	**3,656**	6,187
		230,417	210,155
Unitholders' equity			
Unit capital	14	**80,810**	79,459
Retained earnings		**118,898**	116,735
		199,708	196,194
		$430,125	$406,349

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	2012	2011
Operating revenues			
Revenue from investment properties		**$10,806**	$9,421
Operating expenses			
Property operating costs		**1,809**	1,800
Property taxes		**1,577**	1,419
Utilities		**1,707**	1,867
		5,093	5,086
Net operating income		**5,713**	4,335
Financing costs	15	**2,797**	3,034
Administrative costs		**881**	697
		3,678	3,731
Income from operations before other income and expenses		**2,035**	604
Other income and expenses			
Loss on disposition of assets	16	**(359)**	(221)
Fair value adjustments on investment properties	5	**2,586**	1,320
Other fair value gains	17	**(759)**	412
Interest on units classified as financial liabilities	18	**(31)**	(11)
Net income for the period		**$3,472**	$2,104

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, December 31, 2010	$48,049	$81,797	$(271)	$81,526	$129,575
Units issued	155	-	-	-	155
Profit for the year	-	2,104	-	2,104	2,104
Distributions declared to Unitholders	-	-	(964)	(964)	(964)
Balance, March 31, 2011	$48,204	$83,901	$(1,235)	$82,666	$130,870
Balance, December 31, 2011	$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)
Balance, March 31, 2012	**$80,810**	**$124,539**	**$(5,641)**	**$118,898**	**$199,708**

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	2012	2011
Cash flows from (used in) operating activities			
Net income for the period		**$3,472**	$2,104
Add items not affecting cash			
Amortization		**5**	5
Loss on disposition of assets	16	**359**	221
Fair value adjustments on investment properties	5	**(2,586)**	(1,320)
Other fair value gains	17	**759**	(412)
Unit-based compensation expense	13	**612**	288
Amortization of deferred finance costs on mortgages and premiums on assumed debt		**229**	143
Accretion of discount and amortization of deferred finance cost on convertible debt		**343**	426
Tenant inducements		**86**	119
		3,279	1,574
Net income items related to financing activities	15/18	**2,999**	2,918
Changes in non-cash operating assets and liabilities:			
Other assets		**537**	300
Prepaids and deposits		**737**	109
Accounts payable and accrued liabilities		**(888)**	(3,041)
Tenant rental deposits		**367**	(32)
Cash from operating activities		**7,031**	1,828
Cash flows from (used in) investing activities			
Acquisition of investment properties	4	**(49,722)**	(3,670)
Proceeds from sale of investment properties	7	**2,997**	5,925
Additions to investment properties	5	**(2,490)**	(2,186)
		(49,215)	69
Cash flows from (used in) financing activities			
Mortgage and loan repayments		**(3,723)**	(3,787)
Mortgage advances		**40,464**	4,526
Interest paid on mortgages and loans payable	15	**(2,001)**	(1,954)
Financing fees		**(39)**	(133)
Credit facility advances (repayments)		**7,152**	1,947
Interest paid on credit facilities	15	**(112)**	(89)
Subordinated convertible debenture repayments		**(25,000)**	-
Proceeds from sale of mortgages receivable	6	**3,029**	-
Interest paid on subordinated convertible debentures		**(880)**	(875)
Trust units issued, net of issue costs		**65**	-
Interest paid on units classified as financial liabilities	18	**(6)**	-
Distributions paid		**(975)**	(808)
		17,974	(1,173)
Increase (decrease) in cash during the period		**(24,210)**	724
Cash (bank indebtedness) at the beginning of period		**24,793**	(239)
Cash at end of period		**$583**	$485

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.

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, 2012 were authorized for issuance by the Trustees of the Trust on May 7, 2012.

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, 2011. 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, 2011.

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.

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, 2011.

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, 2013, 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.

IFRS 13 Fair Value Measurement

On May 12, 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

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. Management has not yet determined the potential impact that the adoption of IFRS 13 will have on the Trust's consolidated financial statements.

Unaudited (Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTY ACQUISITIONS

(i) During the three months ended March 31, 2012, 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 5, 2012	490	$ 29,032	$ 21,580	3.00%	February 1, 2013
March 7, 2012	230	$ 20,690	$ 14,934	2.75% and 3.00%	March 1, 2016 and April 1, 2013

(ii) During the three months ended March 31, 2011, the Trust completed the following investment property acquisitions:

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
March 24, 2011	70	$ 3,718	$ 1,901	5.53%	July 1, 2020

5. INVESTMENT PROPERTIES

	March 31, 2012	December 31, 2011
Balance, beginning of period	**$ 373,245**	$ 332,379
Acquisitions (Note 4 and 12)	**49,722**	15,823
Property capital investments	**2,490**	15,887
Fair value gains	**2,586**	37,002
Dispositions	**(3,263)**	(27,846)
	$ 424,780	$ 373,245
Reclassification to assets held for sale (Note 7)	**(6,229)**	(9,606)
Balance, end of period	**$ 418,551**	$ 363,639

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 stabilized net operating income (“NOI”), which incorporates allowances for vacancy, management fees, labour and repairs and maintenance for the property. In order to substantiate management’s valuation, 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.

Investment property valuations are most sensitive to changes in the capitalization rate. The capitalization rate assumptions for the investment properties are included in the following table:

	March 31, 2012		**December 31, 2011**	
	Range	**Weighted average**	**Range**	**Weighted average**
Capitalization rate	5.25% - 10.00%	5.97%	5.25% - 10.00%	5.93%

The impact of a 25 basis point change in the capitalization rate used to value the investment properties would affect the fair value by approximately ($17,230) for an increase and $18,760 for a decrease.

Unaudited (Cdn $ Thousands except unit amounts)

6. OTHER ASSETS

	March 31, 2012	December 31, 2011
Mortgage holdbacks	**$ 162**	$ 162
Rents and other receivables, net of allowance for uncollectable amounts	**542**	419
Furniture and fixtures, net of accumulated amortization of $152 (2011 - $138)	**41**	45
Deferred finance fees on line of credit, net of accumulated amortization of $17 (2011 - $9)	**76**	84
Mortgages receivable [1]	**617**	4,306
Tenant inducements [2]	**182**	184
Loan receivable long-term incentive plan (Note 18)	**1,185**	245
	$ 2,805	$ 5,445

(1) At March 31, 2012, the balance is comprised of five mortgages with maturity dates ranging from 14 to 64 months at interest rates from 2% to 8%. All mortgages are secured by the related property and a general security agreement. At December 31, 2011 the balance is comprised of nine mortgages with maturity dates ranging from 2 to 67 months at interest rates from 2% to 8%. During the three month period ended March 31, 2012, five mortgages with a carrying value of $3,332 were sold for cash proceeds of $3,029 at a loss of $303.
(2) Comprised of straight-line rent. This amount is excluded from the determination of the fair value of the investment properties.

7. ASSETS HELD FOR SALE

As at March 31, 2012, the Trust classified three investment properties (144 suites) as assets held for sale as a result of the Trust initiating an active program to dispose of these properties. The following tables set forth the assets and liabilities associated with these properties.

	March 31, 2012	December 31, 2011
Properties	**3**	5
Suites	**144**	196
Investment properties (Note 5)	**$ 6,229**	$ 9,606
Prepaids and deposits	**37**	49
Other assets	**116**	288
Assets held for sale	**$ 6,382**	$ 9,943
Mortgages and loans payable	**$ 3,295**	$ 5,488
Accounts payable and accrued liabilities	**284**	588
Tenant rental deposits	**77**	111
Liabilities related to assets held for sale	**$ 3,656**	$ 6,187

Unaudited (Cdn $ Thousands except unit amounts)

7. ASSETS HELD FOR SALE (Continued)

During the three months ended March 31, 2012 and 2011, the Trust completed the following investment property dispositions. These dispositions do not meet the definition of discontinued operations under IFRS.

Disposition Date	Suite Count	Sale Price	Proceeds	Mortgage(s) Repaid
March 8, 2012	36	$ 2,435	$ 2,284	1,078
March 8, 2012	16	983	923	769
Total	**52**	**$ 3,418**	**$ 3,207**	**$ 1,847**

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

Disposition Date	Suite Count	Sale Price	Proceeds	Mortgage(s) Repaid
January 12, 2011	11	$ 1,145	$ 1,078	-
February 4, 2011	14	850	769	$ 245
February 7, 2011	4	582	541	82
March 7, 2011	49	3,055	2,907	1,345
March 15, 2011	6	650	603	-
Total	**84**	**$ 6,282**	**$ 5,898**	**$ 1,672**

A loss of $56 was recognized in the three months ended March 31, 2012 (March 31, 2011 - $221) in connection with these property dispositions.

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 4.06%.

The mortgages and vendor take-back loans mature at various dates between the years 2012 and 2021.

Excluding mortgages on the three properties included in assets held for sale (see Note 7), the aggregate future minimum principal payments, including maturities, are as follows:

2012	$ 61,097
2013	80,526
2014	17,373
2015	6,577
2016	14,479
Thereafter	27,727
	207,779
Less: Deferred finance costs and mortgage premiums	1,907
	$ 205,872

Unaudited (Cdn $ Thousands except unit amounts)

9. SUBORDINATED CONVERTIBLE DEBENTURE

On January 15, 2008, the Trust issued a $25,000 subordinated convertible debenture which bore interest at 7.0% per annum and was due on January 31, 2013. The debenture was convertible into Units of the Trust at $4.60 per Unit at the option of the holder and redeemable by the Trust based on certain terms outlined in the debenture agreement. The convertible instrument was first segregated between debt and equity based on the fair value of the debt component. The difference between the estimated fair value of the debt at issuance and the face amount (net of incurred costs) was $6,912. This discount was amortized to earnings as financing costs over the term of the debenture. In addition, the Trust incurred costs of $1,451 in connection with issuing the convertible debt. Of these costs, $1,050 had been allocated to the liability component and $401 was allocated to the equity component. The discount on the debt resulted in a weighted average effective interest rate of 16.7%. On December 23, 2011, the Trust elected to redeem the debenture at par on February 1, 2012. As a result, the carrying amount of the convertible debenture was revised to the present value of the estimated future cash flows discounted at the original effective interest rate and an adjustment of $1,982 was recorded as an expense.

On February 1, 2012 the Trust redeemed the debenture at par.

Convertible debenture

	March 31, 2012	December 31 2011
Convertible debenture	**$ -**	$ 24,657
	$ -	$ 24,657

10. CREDIT FACILITIES

	March 31, 2012	December 31, 2011
Demand operating loan (i)	**$ 1,040**	$ -
Demand credit facility (ii)	**6,112**	-
	$ 7,152	$ -

(i) The Trust has a $1,175 (2011 - $1,175) demand operating loan bearing interest at prime plus 1%, secured by a general security agreement and a collateral mortgage in the amount of $1,175 (2011 - $1,175) constituting a second fixed charge on thirteen (2011 – thirteen) of the Trust's properties.

(ii) The Trust has a $9,617 (2011 - $9,617) demand credit facility with a financial institution bearing interest at prime plus 2.0%, secured by collateral mortgages on ten (2011 - ten) of the Trust's properties.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2012	December 31, 2011
Accounts payable	**$ 1,936**	$ 1,587
Accrued liabilities	**2,981**	3,226
Accrued distributions	**440**	437
Mortgage interest payable	**561**	523
Convertible debenture interest payable	**-**	731
	$ 5,918	$ 6,504

Unaudited (Cdn $ Thousands except unit amounts)

12. LP CLASS B UNIT LIABILITY

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

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

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

Number of Units	
Balance – December 31, 2010	**-**
Units issued	186,250
Balance - December 31, 2011	**186,250**
Units issued	-
Balance – March 31, 2012	**186,250**

The LP Class B Units represented an aggregate fair value of $710 at March 31, 2012 ($592 – December 31, 2011). Each LP Class B Unit is accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of Unitholders. There is no value assigned to the Special Voting Units. The gains or losses that resulted from changes in the fair value were recorded in the consolidated statement of income.

13. UNIT-BASED COMPENSATION LIABILITIES

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

	March 31, 2012	December 31, 2011
Unit-based liabilities, beginning of period	**$ 2,332**	$ 320
Compensation expense – deferred unit plan	**592**	683
Compensation expense – unit option plan	**(5)**	448
DRIP[(1)] expense – deferred unit plan	**25**	72
DUP units converted, cancelled and forfeited	**-**	(302)
Options exercised	**(9)**	-
Loss on fair value of liability	**642**	1,111
Unit-based liabilities, end of period	**$ 3,577**	$ 2,332

[(1)] Distribution reinvestment plan

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

Unaudited (Cdn $ Thousands except unit amounts)

13. 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:

Number of Units	
Balance – December 31, 2010	**374,015**
Units issued under deferred unit plan	488,598
Reinvested distributions on deferred units	35,806
Deferred units exercised into Trust Units (Note 14)	(101,779)
Deferred units purchased and cancelled	(46,207)
Balance - December 31, 2011	**750,433**
Units issued under deferred unit plan	288,145
Reinvested distributions on deferred units	6,981
Balance – March 31, 2012	**1,045,559**

As of March 31, 2012, the 493,195 deferred units, which represent the vested portion, have an intrinsic value of $1,879 (December 31, 2011 – 349,122 deferred units had an intrinsic value of $1,110).

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.

Unaudited (Cdn $ Thousands except unit amounts)

13. 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:

	2012		2011	
	Number of units	**Weighted average exercise price**	**Number of units**	**Weighted average exercise price**
Balance, beginning of period	690,000	$ 2.23	25,000	$4.81
Granted	-	-	-	-
Exercised	(7,500)	$ 2.13	-	-
Expired	(7,500)	$ 2.13	-	-
Balance, end of period	**675,000**	**$ 2.23**	**25,000**	**$ 4.81**

Options outstanding at March 31, 2012:

Exercise price	Number of units	Remaining life in years	Number of units exercisable
$ 4.81	25,000	0.17	25,000
$ 2.13	650,000	9.23	650,000
	675,000		**675,000**

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, 2012	December 31, 2011
Expected option life	4.1 years	4.3 years
Risk-free interest rate	1.45%	1.26%
Expected volatility	52%	52%
Expected distribution yield	5.3%	5.6%

The intrinsic value of the options at March 31, 2012 is $1,092 (December 31, 2011 - $698).

Unaudited (Cdn $ Thousands except unit amounts)

14. TRUST UNITS

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

	Trust Units	Amount
Balance – December 31, 2010	**32,247,518**	**$48,049**
Issued from prospectus	10,723,733	32,171
Unit issue costs	-	(1,743)
Units Issued under distribution reinvestment plan	391,435	772
Units Issued under the deferred unit plan (Note 13)	101,779	210
Balance – December 31, 2011	**43,464,465**	**$ 79,459**
Units Issued under long-term incentive plan (Note 18)	250,000	992
Units Issued from options exercised	7,500	25
Units Issued under distribution reinvestment plan	95,427	334
Balance – March 31, 2012	**43,817,392**	**$ 80,810**

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 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.

Unaudited (Cdn $ Thousands except unit amounts)

15. FINANCING COSTS

	2012	2011
Mortgages and loans payable	**$ 2,001**	$ 1,954
Convertible debentures	**149**	431
Credit facilities	**112**	89
Interest income	**(38)**	(9)
Interest expense	**$ 2,224**	$ 2,465
Amortization of deferred finance costs on mortgages	**187**	112
Amortization of deferred finance costs on debenture	**-**	57
Amortization of deferred finance costs on credit facilities	**8**	-
Amortization of accretion on convertible debenture	**343**	369
Amortization of fair value on assumed debt	**35**	31
	$ 2,797	$ 3,034

16. LOSS ON DISPOSITION OF ASSETS

	2012	2011
Loss on disposition of investment properties	**$ (56)**	$ (221)
Loss on disposition of mortgages receivable	**(303)**	-
	$ (359)	$ (221)

17. OTHER FAIR VALUE GAINS (LOSSES)

	2012	2011
LP Class B unit liability	**$ (117)**	-
Unit-based compensation liability (deferred unit plan)	**(351)**	$ (71)
Unit-based compensation liability (option plan)	**(291)**	-
Conversion feature of convertible debenture	**-**	483
	$ (759)	$ 412

18. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	2012	2011
LP Class B unit liability	**$ 6**	-
Unit-based compensation liability (deferred unit plan)	**25**	$ 11
	$ 31	$ 11

19. 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 6) 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 (5.0% for units issued in 2010 and 3.57% for units issued in 2012) and are required to apply cash

19. LONG-TERM INCENTIVE PLAN (Continued)

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.

20. 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, 2012, $583 (December 31, 2011 - $409) 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, 2012, the Trust incurred $1,339 (2011 - $892) 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 $666 (2011 - $349) has been capitalized to the income producing properties and the remaining amounts are included in operating and administrative costs.

21. CAPITAL RISK MANAGEMENT

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

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

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, 2012, the debt to gross book value ratio is 50.3% (December 31, 2011 – 48.5%).

22. 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, 2012, the Trust had past due rents and other receivables of $832 (December 31, 2011 - $1,012), net of an allowance for doubtful accounts of $290 (December 31, 2011 - $593) 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.

Unaudited (Cdn $ Thousands except unit amounts)

22. 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 21 to the consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities (excluding derivative and other financial instruments reported as liabilities at fair value) when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust's reputation.

As at March 31, 2012, the Trust had a $1,175 demand operating facility with a Canadian chartered bank bearing interest at 1% above the prime lending rate. This line of credit is secured by collateral mortgages on thirteen of the Trust's properties. As at March 31, 2012, the Trust had utilized $1,040 of this facility. In addition, the Trust had a $9,617 operating facility with a financial institution bearing interest at prime plus 2.0%. This line of credit is secured by collateral second mortgages on ten of the Trust's properties. As at March 31, 2012, the Trust had utilized $6,112 of this facility.

Note 8 reflects the contractual maturities for mortgages of the Trust at March 31, 2012, 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 payable, vendor take-back loans, credit facilities and subordinated convertible debenture is approximately $202,372 (December 31, 2011 - $195,162).

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.

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

March 31, 2012	Level 1	Level 2	Level 3
Financial assets			
Cash	$ 583	$ -	$ -
Financial liabilities			
Unit-based compensation liability	-	3,577	-
LP Class B unit liability	-	710	-

Unaudited (Cdn $ Thousands except unit amounts)

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

December 31, 2011	Level 1	Level 2	Level 3
Financial assets			
Cash	$ 24,793	$ -	$ -
Financial liabilities			
Unit-based compensation liability	-	2,332	-
LP Class B unit liability	-	592	-

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, 2012, approximately 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 $77 for the three months ended March 31, 2012.

f) Utilities

The Trust has a natural gas supply contract which provides a degree of price certainty for usage. The contract covers approximately 30% of the Trust’s natural gas requirements.

While the above utility contract reduces the risk of exposure to adverse changes in the commodity price, it also reduces the potential benefit of a favourable change in the commodity price.

23. 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.