InterRent Real Estate Investment Trust

Management's Discussion and Analysis

For The Three and Nine Months Ended September 30, 2011

November 11, 2011

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FORWARD-LOOKING STATEMENTS

Caution Regarding Forward-Looking Statements

This Management's Discussion and Analysis ("MD&A") of InterRent Real Estate Investment Trust ("InterRent REIT" or the "Trust") contains "forward-looking statements" within the meaning of applicable securities legislation. This document should be read in conjunction with material contained in the Trust's audited consolidated financial statements for the year ended December 31, 2010 along with InterRent REIT's other publicly filed documents. Forward-looking statements appear in this MD&A under the heading "Outlook" and generally include, but are not limited to, statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results circumstances, performance or expectations, including but not limited to financial performance and equity or debt offerings, new markets for growth, financial position, comparable multi-residential REITs and proposed acquisitions. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of InterRent REIT to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: the risks related to the market for InterRent REIT's securities, the general risks associated with real property ownership and acquisition, that future accretive acquisition opportunities will be identified and/or completed by InterRent REIT, risk management, liquidity, debt financing, credit risk, competition, general uninsured losses, interest rate fluctuations, environmental matters, restrictions on redemptions of outstanding InterRent REIT securities, lack of availability of growth opportunities, diversification, potential unitholder liability, potential conflicts of interest, the availability of sufficient cash flow, fluctuations in cash distributions, the market price of InterRent REIT's trust Units, the failure to obtain additional financing, dilution, reliance on key personnel, changes in legislation, failure to obtain or maintain mutual fund trust status and delays in obtaining governmental approvals or financing as well as those additional factors discussed in the section entitled "Risks and Uncertainties" and in other sections of this Management's Discussion and Analysis.

In addition, certain material assumptions are applied by the Trust in making forward looking statements including, without limitation, factors and assumptions regarding;

- Overall national economic activity
- Regional economic factors, such as employment rates
- Inflationary/deflationary factors
- Long, medium and short term interest rates
- Availability of financing
- Housing starts

Although the forward-looking information contained herein is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. InterRent REIT has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, however there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. InterRent REIT does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

Certain statements included herein may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

INTERRENT REAL ESTATE INVESTMENT TRUST

InterRent Real Estate Investment Trust ("InterRent REIT" or the "Trust") is an unincorporated, open-ended real estate investment trust created pursuant to a Declaration of Trust, dated October 10, 2006, and as amended and restated on June 29, 2007, September 30, 2009 and December 29, 2010 (the "Declaration of Trust" or "DOT"), under the laws of the Province of Ontario. InterRent REIT was created to invest in income producing multi-family residential properties within Canada initially through the acquisition of InterRent International Properties Inc. (the "Corporation") and of the Silverstone Group by the way of a plan of arrangement (the "Arrangement") under the *Business Corporations Act* (Ontario), which was completed on December 7, 2006.

InterRent REIT's principal objectives are to provide its unitholders ("Unitholders") with stable and growing monthly cash distributions, partially on a Canadian income tax-deferred basis, and to increase the value of its trust units (the "Units") through the effective management of its residential multi-family revenue producing properties and the acquisition of additional, accretive properties.

DECLARATION OF TRUST

The investment policies of the Trust are outlined in the Trust's Amended and Restated Declaration of Trust (the "DOT") dated as of December 29, 2010 and a copy of this document is available on SEDAR (www.sedar.com). Some of the principal investment guidelines and operating policies set out in the DOT are as follows:

INVESTMENT GUIDELINES

- Focus its activities on acquiring, maintaining, improving and managing multi-unit residential revenue producing properties.
- No single asset shall be acquired if the cost of such acquisition (net of the amount of debt secured by the asset) will exceed 15% of the Trust's "Gross Book Value" (as such term is defined in the DOT).
- Investments in joint ventures are permitted as long as the Trust's interest is not less than 25%.
- No investment will be made that would result in the Trust not qualifying as a "mutual fund trust" as defined in the *Income Tax Act* (Canada).

OPERATING POLICIES

- Overall indebtedness not to exceed 75% of Gross Book Value, as defined by the DOT.
- For individual properties, the maximum debt capacity not to exceed 75% of its market value, on or after the date which is 12 months from the acquisition date.
- No guaranteeing of third party debt except for subsidiaries or wholly-owned entities of the Trust or potential joint venture partner structures.
- Third party surveys of structural and environmental conditions are required prior to the acquisition of a revenue producing property.

At September 30, 2011 the Trust was in material compliance with all investment guidelines and operating policies stipulated in the DOT.

ADOPTION OF IFRS

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian publicly-listed entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011 – this is now GAAP. Accordingly, the accompanying unaudited condensed consolidated financial statements for the period ended September 30, 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Statements using accounting policies consistent with IFRS. The transition to IFRS required a restatement of the Trust's 2010 financial information from its original Canadian GAAP basis such that the 2010 comparative information presented in the financial statements and the MD&A are on an IFRS basis. Financial information for periods prior to January 1, 2010 have not been restated. For the purposes of this MD&A, the term “Canadian GAAP” refers to Canadian generally accepted accounting principles for the Trust before the adoption of IFRS.

Readers of the MD&A should refer to “Impact of Transition on the Trust’s Financial Statements” below, and Note 24of the accompanying unaudited condensed consolidated financial statements, for a discussion of IFRS and its impact on the Trust’s financial presentation.

ACCOUNTING POLICIES

InterRent REIT’s accounting policies are described in Note 3 of the condensed consolidated financial statements for the three month period ended September 30, 2011. Beginning January 1, 2011, the Trust prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”). The condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of consolidated condensed financial statements, including IAS 34, Interim Financial Reporting, and IFRS 1, First-time Adoption of IFRS. Subject to certain transition elections discussed in Note 24 the Trust has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

In applying these policies, in certain cases it is necessary to use estimates, which management determines using information available to the Trust at the time. Management reviews key estimates on a quarterly basis to determine their appropriateness and any change to these estimates is applied prospectively in compliance with IFRS. Significant estimates are made with respect to the fair values of investment properties and the fair values of financial instruments.

NON-GAAP MEASURES

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

Distributable Income (“DI”) reflects the ability of the Trust to earn income and to make distributions of cash to Unitholders and therefore is considered a measure of cash available for distribution. DI differs from net income, an IFRS measure. For a complete description of the Trust’s definition of Distributable Income refer to the Declaration of Trust.

Funds from Operations (“FFO”) is a financial measure which should not be considered as an alternative to net income, cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. The Trust presents FFO in accordance with the Real Property Association of Canada (REALpac) White Paper on Funds from Operations.

Adjusted Funds from Operations (“AFFO”) is presented in this MD&A because management considers this non-IFRS measure to be an important performance indicator in determining the sustainability of future distributions to Unitholders. AFFO begins with FFO and removes the effect of certain non-cash income and expense items and adds a provision for maintenance capital expenditures. AFFO should not be interpreted as an indicator of cash generated from operating activities as it does not consider changes in working capital.

Net Operating Income (“NOI”) is a key measure of operating performance used in the real estate industry and includes all rental revenues generated at the property level, less related direct costs such as utilities, realty taxes, insurance and on site maintenance wages and salaries. As one of the factors that may be considered relevant by readers, management believes that NOI is a useful supplemental measure that may assist prospective investors in assessing the Trust.

Readers are cautioned that DI, FFO, AFFO and NOI are not alternatives to measures under IFRS and should not, on their own, be construed as indicators of the Trust's performance or cash flows, measures of liquidity or as measures of actual return on Units of the Trust. These non-IFRS measures, as presented, should only be used in conjunction with the condensed consolidated financial statements of the Trust.

Under IFRS, the Trust's units are not considered an equity instrument and therefore no denominator exists to calculate per unit calculations. Management feels that certain per unit calculations are an important method of measuring results from period to period and as such has determined a weighted average number of units (WAU) to be used based on a method consistent with past period calculation. WAU is not a measure defined by IFRS. WAU as computed by the Trust may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to other such issuers.

OVERVIEW

BUSINESS OVERVIEW AND STRATEGY

InterRent REIT generates revenues, cash flows and earnings from rental operations and from the sale of revenue producing properties. InterRent REIT's largest and most consistent source of income is its rental operations, which involves leasing individual suites to tenants for lease terms generally ranging from month-to-month to twelve-months.

InterRent REIT's strategy is to maintain and develop a portfolio of properties to generate an attractive long term return to unitholders. InterRent REIT is focused on medium-sized, multi-residential properties in Ontario, targeting working and middle class, long term renters. Within this market, we believe there are a total of approximately 624,000 suites. Many of these properties are held within a fragmented and aging ownership profile and offer significant opportunities to complete strategic acquisitions. The Trust believes that multi-residential real estate is a favourable asset class to operate within because it offers stability of cash flow and an opportunity for expansion.

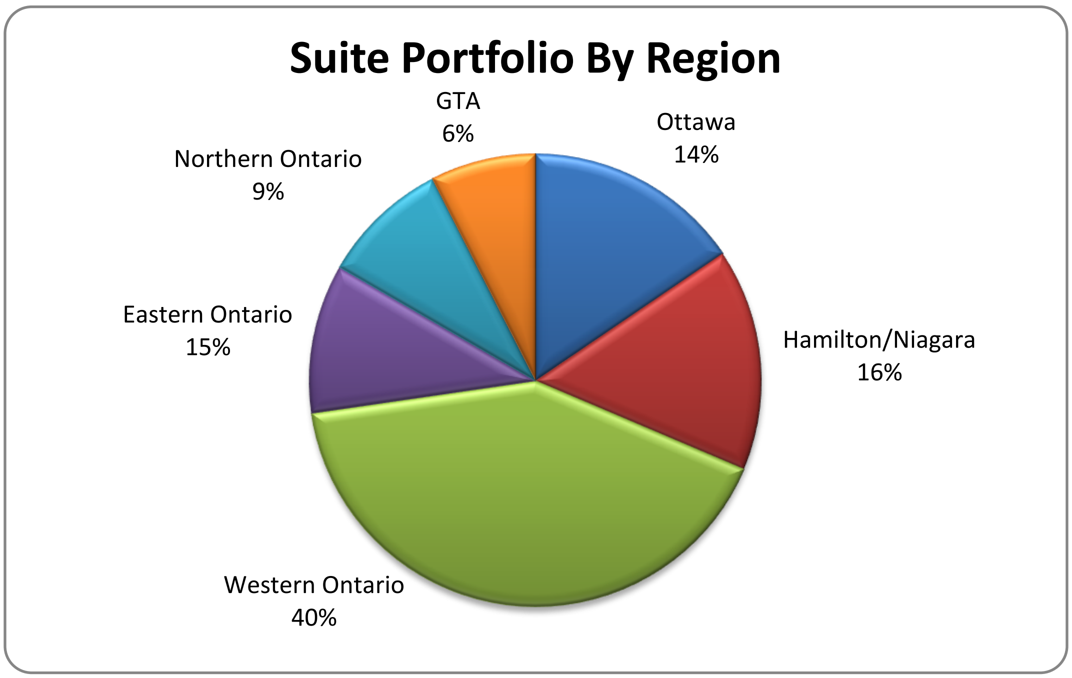
The REIT underwent a year of rebuilding and repositioning in 2010 driven by the changes in the operating model, the Board and the Management team that occurred late in 2009. As the repositioning is taking hold, management is shifting focus from changing the portfolio and the culture to solidifying the cultural changes and ensuring that the mantra of continuous improvement is engrained into everything we do. At the same time, more efforts are being shifted towards building out a product pipeline that will allow InterRent to grow and to capitalize on our strengths. Finding good quality properties where we can drive down operating costs while increasing rents through sound capital investment and management are key to InterRents's future. The Team we have assembled has a proven track record and we believe they have both the experience and abilities necessary to execute on our growth strategy.

OUTLOOK

- Management continues to focus attention on energy saving initiatives such as replacing old boilers with newer energy efficient systems and moving from hydro to natural gas wherever feasible. Management has completed replacement of all common area light fixtures with energy efficient light fixtures, installed water saving devices throughout the portfolio, and the first phase of its boiler replacement program. The second phase of boiler replacements/upgrades is underway and is expected to be completed by end of year.
- Management has put in place a program to pursue above guideline increases (AGIs) for rent given the capital expenditures invested in the properties in 2010. Each property has been reviewed and as of September 30, 2011, applications have been submitted to the Landlord and Tenant Board, representing approximately two-thirds of the portfolio. Approximately 38% of the monthly increases were in place by September 30, 2011 leaving 62% to be rolled out based on tenant anniversary dates.
- The Trust is continuing to introduce into tenant leases a nominal charge related to electricity in anticipation of beginning to establish and roll-out a sub-metering program.
- Management is looking to grow InterRent REIT in a strategic structured manner. The purchase of another property representing 52 suites was closed on October 25, 2011 bringing the year to date total purchases to 259 suites.
- The Trust added and rented 4 suites within existing properties as at September 30, 2011. In addition, there is work currently being done to build out 8 more suites and the potential for 15 more is being evaluated.

PORTFOLIO SUMMARY

Currently, InterRent REIT's entire portfolio is situated in the province of Ontario. The majority of the Trust's properties are located in Ontario's secondary population centres. Management believes that secondary population centres tend to be more stable, providing higher capitalization rates and less exposure to the condominium units available in the Greater Toronto Area (GTA). In keeping with management's strategy of maximizing returns for unitholders and focusing on clusters of buildings within geographical proximity to each other in order to build operational efficiencies and attract focused, professional staff, properties are reviewed on a regular basis to determine if they should be kept or sold. The Trust started the year with 3,998 suites. During the first three quarters of 2011 the Trust sold eleven properties totalling 207 suites, purchased two properties totalling 190 suites and added 4 suites to existing properties. At September 30, 2011, the Trust had 3,985 suites including ten properties (totalling 316 suites) classified as assets held for sale. This review process will continue through 2011 as Management expects to sell other properties that are not consistent with our strategy. Management has identified several cities within its geographical clusters for growth. We are actively looking for purchase opportunities within the target cities in order to build our acquisition pipeline. The following graph and table shows our suite mix by region as well as our average rent by region for June 2011.



Region	Number of Suites	Average Rent
Eastern Ontario	589	$785
GTA	232	$1,022
Hamilton/Niagara	649	$874
Northern Ontario	341	$722
Ottawa	579	$969
Western Ontario	1,595	$770
Total	3,985	$829

Q2 PERFORMANCE HIGHLIGHTS

The following table presents a summary of InterRent's operating performance for the three months ended September 30, 2011 compared to the same period in 2010:

Selected Financial Information In $000's, except per Unit amounts and Units outstanding	**3 Months Ended September 30, 2011**	**3 Months Ended September 30, 2010**
Operating revenues	**$9,713**	$8,836
Operating NOI	**5,553**	4,457
NOI %	**57.2%**	50.4%
NOI per unit	**$0.17**	$0.14
Funds from operations	**$1,633**	$682
Funds from operations per unit	**$0.05**	$0.02
Adjusted funds from operations	**$2,122**	$910
Adjusted funds from operations per unit	**$0.07**	$0.03
Distributable income	**$1,296**	$(118)
Distributable income per unit	**$0.04**	$(0.004)
Weighted average units outstanding	**32,600,708**	31,882,272

- Operating revenue for the quarter increased $0.9 million to $9.7 million, an increase of 9.9% over Q3 2010. Average monthly rent per suite increased to $829 (September 2011) from $797 (September 2010), an increase of 4.0%.

- Economic vacancy decreased to 3.4% (September 2011) from 6.7% (September 2010).

- Net Operating Income (NOI) increased 24.6% to $5.6 million for the quarter compared to $4.5 million for Q3 2010.

- As of September 30, 2011, applications have been submitted to the Landlord and Tenant Board, representing approximately 67% of the portfolio. The AGIs rolled out to tenants to date represent a monthly rental increase of approximately $15,000.

- Funds From Operation (FFO) for the quarter increased to $1.6 million (or $0.05 per unit) compared to $0.7 million (or $0.02 per unit) for Q3 2010.

- Distributable Income (DI) for the quarter was $1.3 million (or $0.04 per unit) an increase of $1.4 million over Q3 2010.

- The REIT secured an Operating Line of $10 million from a financial institution to provide financing as part of our growth/acquisition strategy.

- The Trust completed the following investment property transactions in the third quarter of 2011.

Transaction Date		**Suite Count**	**Region**	**Price**	**Price per Suite**
August 4, 2011	acquisition	120	Eastern Ontario	$ 6,037	$ 50
August 8, 2011	disposition	9	GTA	915	102
August 15, 2011	disposition	44	Western Ontario	2,050	47
September 26, 2011	disposition	38	Western Ontario	2,505	66

ANALYSIS OF OPERATING RESULTS

The current and prior period consolidated income statement, and analysis of operating results, does not separately disclose the results from assets held for sale as discontinued operations. The definition of a discontinued operation under IFRS is more restrictive than under GAAP and management's position is that the disposal of an individual property or the classification of individual properties as held for sale do not constitute a significant operation to be classified as discontinued under IFRS.

In $ OOO's	3 Months Ended September 30, 2011	3 Months Ended September 30, 2010	9 Months Ended September 30, 2011	9 Months Ended September 30, 2010
Gross rental revenue	**$9,849**	$9,620	**$29,070**	$28,571
Less: vacancy & rebates	**(563)**	(1,041)	**(1,681)**	(3,389)
Other revenue	**427**	257	**1,179**	736
Operating revenues	**$9,713**	$8,836	**$28,568**	$25,918
Expenses				
Operating expenses	**1,775**	2,163	**5,314**	6,268
Property taxes	**1,438**	1,322	**4,281**	4,295
Utilities	**947**	894	**3,878**	4,134
Operating expenses	**$4,160**	$4,379	**$13,473**	$14,697
Net operating income	**$5,553**	$4,457	**$15,095**	$11,221
Operating margins	**57.2%**	50.4%	**52.8%**	43.3%

REVENUE

Gross rental revenue for the three months ended September 30, 2011 increased 2.4% to $9.8 million compared to $9.6 million for the three months ended September 30, 2010. Operating revenue for the quarter was up $0.9 million to $9.7 million, or 9.9% compared to Q3 2010. The Trust had 4,028 suites at the end of Q3 2010 as compared to 3,985 at the end of Q3 2011. The average monthly rent for September 2011 increased to $829 per suite from $797 (September 2010), an increase of 4.0%.

Management expects to continue to grow rent organically through continued roll-out of above guideline increases as well as continuing to drive other ancillary revenue streams such as parking and locker rentals. The current round of applications for AGIs was completed in June with applications being submitted for suites within properties totalling 67% of the portfolio. The increases being applied for (without including the guideline increase) range from 1.8% to 9% and management expects that the AGIs alone will add over $0.5 million in annualized gross rent once the process is complete. Of the $17 average monthly rental increase from June 2011 to September 2011, approximately $4 is related to AGIs, representing an increase in monthly rental revenue of approximately $15,000. The Trust anticipates that the balance of AGI applications will be filed by the end of Q1 2012.

	September 2011	June 2011	March 2011	December 2010	September 2010
Average monthly rents all properties	$829	$812	$810	$805	$797
Average monthly rents excluding properties held for sale	$838	$825	$822	$819	$811

Portfolio Occupancy

Overall economic vacancy was 3.4% for September 2011 compared to 6.7% over the same period last year. The increased rents and reduction in vacancies that InterRent REIT is now achieving supports and strengthens management's belief that changing the tenant profile and investing capital in the properties will lead to a stronger and more sustainable portfolio of properties. The objectives are being achieved as a direct result of having been:

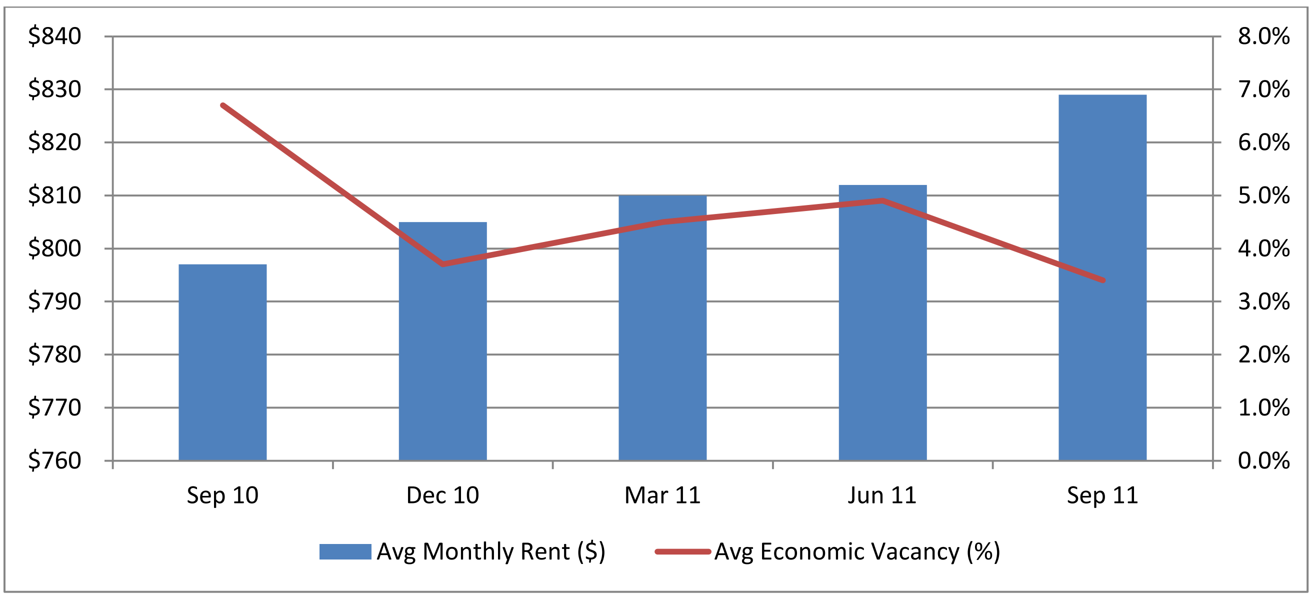
1. proactive in evicting tenants that are not desirable based on our repositioning strategy;

2. ensuring suites are properly repaired and maintained before being rented to new tenants; and,

3. more selective of the tenants it rents to (part of a more stringent screening criteria and credit review process).

This is part of the Trust's repositioning strategy to maximize rental revenues and to drive value for all stakeholders. Management intends to continue to pursue this strategy and focus in order to continue to improve all Regions.

The following chart represents the economic vacancy for the entire portfolio for the month listed. This data is calculated by taking vacancy and dividing it by gross rental revenue. All suites in the portfolio are included in the calculation whether they were available to rent immediately or not (ie: no removal of suites under renovation or undergoing major repairs and maintenance).



The overall economic vacancy for September 2011 across the entire portfolio, including the properties classified as held for sale, was 3.4%, compared to 4.9% for June 2011. On a per region basis, the economic vacancy breaks down as follows: Eastern Ontario – 6.8%; GTA – 1.4%; Hamilton/Niagara – 2.5%; Northern Ontario – 0.0%; Ottawa – 0.6%; and, Western Ontario – 4.9%.

The 1.5% decrease in economic vacancy from June 2011 to September 2011 was anticipated as the second round of tenant reviews that we began in Q2 were completed part way through the third quarter. These reviews were completed as part of ongoing efforts to improve the profile of the properties and to push rents. For the properties that are listed for sale, these improvements to the property and the tenant profile help maximize the sale price.

As part of the ongoing effort to drive rents throughout the portfolio, the vacancy rate is expected to continue in the current range. Going forward, management believes that minor variations in economic vacancy will continue to occur from one quarter to another given the seasonal nature of rental activity.

Other Revenue

Other rental revenue for the three months ended September 30, 2011 increased 66.1% to $0.4 million compared to $0.2 million for the three months ended September 30, 2010. The increased revenues from ancillary sources such as parking, laundry and locker rentals continues to be a focus as it provides organic revenue growth.

OPERATING COSTS

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

Operating costs for the three months ended September 30, 2011 amounted to $1.8 million or 18.3% of revenue compared to $2.2 million or 24.5% of revenue for the three months ended September 30, 2010. The decrease of $0.4 million is mainly attributable to a reduction in repairs and maintenance of $0.2 million and leasing costs of $0.1 million

As the new operational model is taking hold and operations are becoming more efficient, management believes that the current staffing levels are able to meet not only the current requirements, but most regions are able to integrate new properties into the portfolio with minimal extra cost.

PROPERTY TAXES

Property taxes for the three months ended September 30, 2011 amounted to $1.4 million or 14.8% of revenue compared to $1.3 million or 15.0% of revenue for the three months ended September 30, 2010. Year over year, the expense is relatively constant at $4.3 million. The Trust is constantly reviewing property tax assessments for its properties and this active approach shall continue to help drive down costs. Where appropriate, the Trust will appeal individual property assessments.

UTILITY COSTS

Utility costs for the three months ended September 30, 2011 amounted to $0.9 million or 9.7% of revenue compared to $0.9 million or 10.1% of revenue for the three months ended September 30, 2010. The second phase of our boiler replacement program is in progress and should be completed by the end of the year. Approximately 30% of our gas consumption is under contract at rates ranging from $0.2960 to $0.3445 per cubic metre. These contracts are scheduled to expire throughout the second half of 2012.

NET OPERATING INCOME (NOI)

NOI for the three months ended September 30, 2011 amounted to $5.6 million or 57.2% of revenue compared to $4.5 million or 50.4% of revenue for the three months ended September 30, 2010. The $1.1 million increase in the quarter is as a result of net revenue increasing by $0.8 million and operating costs reducing by $0.4 million.

STABILIZED PORTFOLIO PERFORMANCE

Stabilized properties for the three and nine months ended September 30, 2011 are defined as all properties owned by the Trust continuously since December 31, 2009, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during 2011 and 2010. As at September 30, 2011, the Trust has 3,795 stabilized suites, which represents 95.2% of the overall portfolio.

In $000's	3 Months Ended September 30, 2011	3 Months Ended September 30, 2010	9 Months Ended September 30, 2011	9 Months Ended September 30, 2010
Operating revenues	**$9,331**	$8,371	**$27,531**	$24,586
Operating costs	**$3,956**	$4,135	**$12,903**	$13,846
NOI	**$5,375**	$4,236	**$14,628**	$10,740
NOI margin	**57.6%**	50.6%	**53.1%**	43.7%

For the three months ended September 30, 2011, operating revenues for stabilized properties increased by 11.5% and operating costs decreased by 4.3% as compared to the same period last year. As a result, the stabilized NOI margin increased by 7.0% as compared to the same period last year.

For the nine months ended September 30, 2011, operating revenues for stabilized properties increased by 12.0% and operating costs decreased by 6.8% as compared to the same period last year. As a result, the stabilized NOI margin increased by 9.6% as compared to the same period last year.

Excluding the ten properties (316 suites) from the stabilized results above, the NOI margin increased 7.2% from 51.2% to 58.4% for the three months ended September 30, 2011 compared to the same period last year. For the nine month period ended September 30, 2011, the NOI margin increased 9.5% from 44.5% to 54.0% compared to the same period last year.

In $000's	3 Months Ended September 30, 2011	3 Months Ended September 30, 2010	9 Months Ended September 30, 2011	9 Months Ended September 30, 2010
Operating revenues	**$8,733**	$7,873	**$25,811**	$23,064
Operating costs	**$3,635**	$3,844	**$11,882**	$12,805
NOI	**$5,098**	$4.029	**$13,929**	$10,259
NOI margin	**58.4%**	51.2%	**54.0%**	44.5%

FINANCING AND ADMINISTRATIVE COSTS

In $ OOO's	3 Months Ended September 30, 2011	3 Months Ended September 30, 2010	9 Months Ended September 30, 2011	9 Months Ended September 30, 2010
Net operating income	**$5,553**	$4,457	**$15,095**	$11,221
Expenses				
Financing costs	**3,169**	3,075	**9,384**	9,063
Administrative costs	**732**	693	**2,684**	2,545
Income before undernoted	**$1,652**	$689	**$3,027**	$(387)

FINANCING COSTS

Financing costs amounted to $3.2 million or 32.6% of revenue for the three months ended September 30, 2011 compared to $3.1 million or 34.8% of revenue for the three months ended September 30, 2010.

	3 Months Ended September 30, 2011		3 Months Ended September 30, 2010	
In $ OOO's	Amount	% of Revenue	Amount	% of Revenue
Cash based:				
Mortgage interest	$2,015	20.7%	$1,893	21.4%
Debenture interest	441	4.5%	532	6.0%
Credit facilities	35	0.4%	115	1.3%
Interest income	(10)	(0.1%)	(9)	(0.1%)
Non Cash based:				
Accretion of discount and amortization of deferred finance cost on convertible debt	467	4.8%	431	4.9%
Amortization of deferred finance cost and premiums on assumed debt	221	2.3%	113	1.3%
Total	$3,169	32.6%	$3,075	34.8%

Mortgage Interest

Mortgage interest (including interest on vendor take-back loans) is one of the single largest expense line items for InterRent REIT. Given the current rates in the market for both CMHC insured and conventional mortgages, it is management's expectation that it will be able to continue to refinance existing mortgages as they come due at rates that are often significantly lower than the maturing mortgage rate.

Subordinated Convertible Debenture

As at September 30, 2011, InterRent REIT had one convertible subordinated debenture issue outstanding.

The Trust issued a $25 million subordinated convertible debenture on January 15, 2008 which bears interest at 7% and is due on January 31, 2013. The debenture is convertible into Trust Units at $4.60 per Trust Unit at the option of the holder prior to maturity.

The Trust had a $5.5 million subordinated convertible debenture which bore interest at 7.25% which was settled for cash on its maturity date of September 22, 2010.

The Trust accounts for its convertible debenture as a compound financial instrument which requires both elements of debt and equity be accounted for separately. 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 $6,912,408. This discount is being amortized to earnings as financing costs over the term of the debenture. In addition, the Trust incurred costs of $1,451,478 in connection with issuing the convertible debt. Of these costs, $1,050,438 has been allocated to the liability component and $401,040 has been allocated to the equity component. The discount on the debt results in a weighted average effective interest rate of 16.7%.

ADMINISTRATIVE COSTS

Administrative costs include such items as salaries and incentive payments, employee benefits, investor relations, transfer agent listing and filing fees, legal, tax, audit and other professional fees and amortization on corporate furniture and equipment.

Administrative costs for the three months ended September 30, 2011 amounted to $0.7 million or 7.5% of revenue compared to $0.7 million or 7.8% of revenue for the three months ended September 30, 2010.

SALE OF INVESTMENT PROPERTIES, FAIR VALUE ADJUSTMENTS ON INVESTMENT PROPERTIES AND GAIN ON FINANCIAL LIABILITIES

In $ OOO's	**3 Months Ended September 30, 2011**	**3 Months Ended September 30, 2010**	**9 Months Ended September 30, 2011**	**9 Months Ended September 30, 2010**
Income (loss) before undernoted	**$1,652**	$689	**$3,027**	$(387)
Gain (loss) on sale of investment properties	**90**	(32)	**(109)**	(32)
Fair value adjustments of investment properties	**6,956**	10,569	**11,379**	19,705
Unrealized gain on financial liabilities	**(2,915)**	(8,036)	**(2,377)**	(278)
Distributions expense on units classified as financial liabilities	**(19)**	(956)	**(52)**	(2,659)
Net income	**$5,764**	$2,234	**$11,868**	$16,349

SALE OF INVESTMENT PROPERTIES

In the three month period ended September 30, 2011, the Trust sold three investment properties for a total selling price of $5.5 million compared to a carrying value of $5.1 million. The properties were sold for $0.4 million above their carrying value (which is the fair market value) however selling costs of $0.3 million were incurred as part of the transactions, resulting in a gain on disposition of $0.1 million. In the three month period ended September 30, 2010, the Trust sold one investment property for a total selling price of $0.7 million which incurred a loss on disposition of $32 thousand.

FAIR VALUE ADJUSTMENTS OF INVESTMENT PROPERTIES

An independent valuation was completed by accredited appraisal firms for approximately 90% of the investment property portfolio as at January 1, 2010 and December 31, 2010. The fair value of the remaining portfolio was determined internally by the Trust using the same assumptions and valuation techniques used by the external valuation professionals. The fair value of the properties as at September 30, 2011, were determined internally by the Trust using the same assumptions and valuation techniques used by the external valuation professionals. For the third quarter of 2011, a fair value gain of $7.0 million was recorded on the financial statements as a result of changes in the fair value of investment properties.

UNREALIZED FAIR VALUE GAIN ON FINANCIAL LIABILITIES

The Trust used a closing price of $2.66 based on the closing price of the TSX listed InterRent REIT Trust Units to determine the fair value of the deferred unit compensation liability. The total fair value of these Units recorded on the condensed consolidated balance sheet at September 30, 2011 was $1.1 million and a corresponding fair value loss of $0.2 million was recorded on the condensed consolidated statement of income for the three months ended September 30, 2011.

The Trust determined the fair value of the option plan (unit-based compensation liability) at September 30, 2011 at $0.6 million and a corresponding fair value loss of $0.2 million was recorded on the condensed consolidated statement of income for the three months ended September 30, 2011. The intrinsic value of the options is $0.3 million.

The Trust determined the fair value of the conversion feature of the convertible debenture at September 30, 2011 at $3.5 million and a corresponding fair value loss of $2.5 million was recorded on the condensed consolidated statement of income for the three months ended September 30, 2011. The intrinsic value of the conversion feature of the convertible debenture is nil.

Prior to December 29, 2010, Trust Units were classified as a Trust unit financial liability on the consolidated balance sheet. The fair value of this liability was valued based upon the price of the REIT's trust Units at the reporting date. The fair value loss was recognized in the statement of income for the 2010 comparative period. In addition, LP Class B units, prior to their exchange into Trust Units on October 1, 2010, were classified as a financial liability in accordance with IFRS standards and as a result is recorded at their fair value at each reporting date.

In $ OOO's	**3 Months Ended September 30, 2011**	**3 Months Ended September 30, 2010**	**9 Months Ended September 30, 2011**	**9 Months Ended September 30, 2010**
Fair value gain(loss) on financial liabilities:				
Deferred unit compensation plan	**$(241)**	$(31)	**$(519)**	$(9)
Option plan	**(158)**	-	**(124)**	-
Conversion feature of convertible debenture	**(2,516)**	(74)	**(1,734)**	1,076
LP Class B unit liability	**-**	(84)	**-**	(10)
Trust units classified as financial liability	**-**	(7,847)	**-**	(1,335)
Fair value gain (loss) on financial liabilities	**$(2,915)**	$(8,036)	**$(2,377)**	$(278)

DISTRIBUTION EXPENSE

Prior to December 29, 2010, the mandatory requirement to distribute taxable income under the Trust's Declaration of Trust constituted a contractual obligation. Accordingly, for the time period prior to December 29, 2010, distributions to Unitholders are categorized as an expense. In addition, distributions to holders of the LP Class B units prior to their exchange into Trust Units on October 1, 2010 were also categorized as an expense in 2010.

Distributions earned on the deferred unit plan, which is classified as a liability, are recorded as distribution expense for three and nine month periods ending September 30th.

PERFORMANCE MEASURES

Management believes that Funds from Operations (FFO), Adjusted Funds from Operations (AFFO) and Distributable Income (DI) are key measures for real estate investment trusts.

FFO is a financial measure which should not be considered as an alternative to net income, cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. The Trust presents FFO in accordance with the Real Property Association of Canada (REALpac) White Paper on Funds from Operations. In June 2010, REALpac issued a White Paper on FFO for IFRS which is effective for 2011. It includes certain additional adjustments to FFO under IFRS from the previous definition of FFO under GAAP. The Trust has changed its definition of FFO based on this recommendation, prior to 2011, the Trust's definition of FFO differed from REALpac as the Trust adjusted for the amortization of financing costs, non-cash debenture interest and non-cash share compensation. The Trust's comparable FFO results have been recalculated for comparative purposes.

The use of FFO, combined with the required IFRS presentations, has been included for the purpose of improving the understanding of the operating results of the Trust.

As FFO excludes the fair value adjustments on investment properties and gains and losses from property dispositions, it provides an operating performance measure that, when compared period over period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and realty taxes, acquisition activities and interest costs, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with IFRS.

FFO Reconciliation In $000's, except per Unit amounts and Units outstanding	**3 Months Ended September 30, 2011**	**3 Months Ended September 30, 2010**	**9 Months Ended September 30, 2011**	**9 Months Ended September 30, 2010**
Net income	**$5,764**	$2,234	**$11,868**	$16,349
Add (deduct):				
Fair value adjustments on investment property	**(6,956)**	(10,569)	**(11,379)**	(19,705)
(Gain) loss on sale of investment property	**(90)**	32	**109**	32
Unrealized (gain) loss on financial instruments	**2,915**	8,036	**2,377**	278
Interest expense on redeemable units classified as liabilities	**-**	949	**-**	2,645
Funds from operations	**$1,633**	$682	**$2,975**	$(401)
Funds from operations – per Unit	**$0.05**	$0.02	**$0.09**	$(0.01)
Weighted average Units outstanding	**32,600,708**	31,882,272	**32,433,906**	29,488,363

ADJUSTED FUNDS FROM OPERATIONS

Management is of the view that AFFO is an effective measure of the cash generated from operations, after providing for operating capital requirements which are referred to as maintenance capital expenditure.

In calculating AFFO, the Trust adjusts FFO for expected maintenance capital expenditures which are above and beyond regular repairs and maintenance (which is already included in operating costs). The Trust currently uses an annual amount of $450 per suite for estimating the cost of maintaining the earning capacity of the portfolio. Non-cash items effecting earnings such as straight-line rent, accretion of discount in convertible debenture, amortization of deferred finance fee and unit based compensation expense are added back in the calculation.

AFFO is a financial measure not defined under IFRS and AFFO as presented herein may not be comparable to similar measures presented by other real estate investment trusts or real estate enterprises.

AFFO Reconciliation In $000's, except per Unit amounts and Units outstanding	**3 Months Ended September 30, 2011**	**3 Months Ended September 30, 2010**	**9 Months Ended September 30, 2011**	**9 Months Ended September 30, 2010**
Funds from operations	**$1,633**	$682	**$2,975**	$(401)
Add (deduct):				
Maintenance capital investment	**(448)**	(453)	**(1,341)**	(1,360)
Accretion of discount and amortization of deferred finance cost on convertible debt	**467**	431	**1,340**	1,243
Amortization of deferred finance cost and premiums on assumed debt	**221**	113	**622**	412
Amortization of tenant inducements	**127**	71	**370**	168
Unit based compensation	**122**	66	**1,051**	237
Adjusted Funds from operations (AFFO)	**$2,122**	$910	**$5,017**	$299
AFFO – per Unit	**$0.07**	$0.03	**$0.15**	$0.01
Weighted average Units outstanding	**32,600,708**	31,882,272	**32,433,906**	29,488,363

DISTRIBUTABLE INCOME

DI reflects the ability of the Trust to earn income and to make distributions of cash to Unitholders and therefore is considered a measure of cash available for distribution. DI is not a measure defined by IFRS. DI as computed by the Trust may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to distributable income reported by other such issuers.

DI Reconciliation In $000's, except per Unit amounts and Units outstanding	**3 Months Ended September 30, 2011**	**3 Months Ended September 30, 2010**	**9 Months Ended September 30, 2011**	**9 Months Ended September 30, 2010**
Net income	**$5,764**	$2,234	**$11,868**	$16,349
Add (deduct) items not affecting cash:				
Interest expense on redeemable units classified as liabilities	**-**	949	**-**	2,645
Amortization of furniture and fixtures	**5**	5	**14**	20
Accretion of discount and amortization of deferred finance cost on convertible debt	**467**	431	**1,340**	1,243
Amortization of deferred finance costs and premiums on assumed debt	**221**	113	**622**	412
Unit based compensation	**122**	66	**1,051**	237
(Gain) loss on sale of investment property	**(90)**	32	**109**	32
Unrealized loss on financial instruments	**2,915**	8,036	**2,377**	278
Less:				
Amortization of deferred finance charges post December 6, 2006	**202**	106	**495**	306
Maintenance capital expenditures	**950**	1,309	**1,837**	2,367
Fair value gain on investment properties	**6,956**	10,569	**11,379**	19,705
Distributable income	**$1,296**	$(118)	**$3,670**	$(1,162)
Distributable income – per Unit	**$0.04**	$(0.004)	**$0.11**	$(0.04)
Weighted average Units outstanding	**32,600,708**	31,882,272	**32,433,906**	29,488,363

WEIGHTED AVERAGE NUMBER OF UNITS

The following table sets forth the weighted average number of Units outstanding:

	3 Months Ended September 30, 2011	3 Months Ended September 30, 2010	9 Months Ended September 30, 2011	9 Months Ended September 30, 2010
Trust units	**32,600,708**	31,546,166	**32,433,906**	29,152,257
LP Class B units	**-**	336,106	**-**	336,106
Weighted average units outstanding (WAU)	**32,600,708**	31,882,272	**32,433,906**	29,488,363

INVESTMENT PROPERTIES

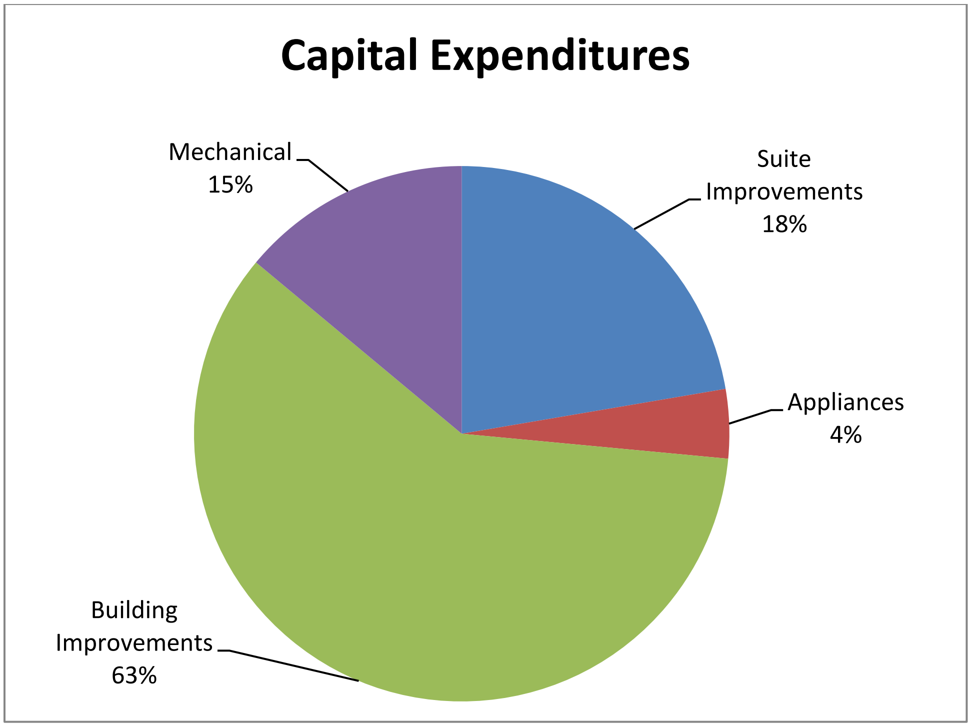
The following chart shows the changes in investment properties from December 31, 2010 to September 30, 2011.

In $ OOO's	September 30, 2011
Balance, December 31, 2010	$332,379
Acquistions	9,755
Property capital investments	8,573
Fair value gains	11,379
Dispositions	(13,835)
Total Investment properties	$348,251
Properties held for sale	(17,004)
	$331,247

The trust acquired two properties (190 suites) for $9.8 million during the nine month period ended September 30, 2011 and sold eleven properties (207 suites) with a carrying value of $13.8 million.

The fair value of the properties as at September 30, 2011, were determined internally by the Trust using the same assumptions and valuation techniques used by the external valuation professionals. For the nine month period ended September 30, 2011, a fair value gain of $11.4 million was recorded its financial statements as a result of changes in the fair value of investment properties.

For the nine month period ended September 30, 2011, the Trust invested $8.6 million in its investment properties, including the $0.6 million spent on properties listed as held for sale, compared to $9.8 million in the same period last year. The breakdown of expenditures for the year are itemized in the following graph.



The payback from many of the energy saving initiatives that were completed in 2010 exceeded management expectations. As a result of the significant reduction in consumption from the first phase of the boiler replacement program, management has decided to accelerate the program and complete some of the replacements that were originally planned for 2012 and 2013 in 2011. This is not a static plan, but one that must be reviewed, updated and re-prioritized as events occur and new information becomes available

UNITHOLDERS' EQUITY

The following chart shows the changes in reported Unitholders' equity from December 31, 2010 to September 30, 2011.

Summary of Unitholders' Capital Contributions	Units	Amount
December 31, 2010	32,247,518	$48,048,802
Units issued under the distribution reinvestment plan	306,486	549,201
Units issued under the deferred unit plan	101,779	209,665
September 30, 2011	32,655,783	$48,807,668

As at September 30, 2011 there were 32,655,783 Units issued and outstanding.

DISTRIBUTIONS

The Trust is currently making monthly distributions of $0.01 per Unit. For the three months ended September 30, 2011, the Trust's Distributable Income was $0.04 per unit, compared to $(0.004) for the three months ended September 30, 2010, while the distributions were $0.03 per unit for both quarters.

LIQUIDITY AND CAPITAL RESOURCES

InterRent REIT's overall debt level was at 57.4% of Gross Book Value ("GBV") at September 30, 2011. GBV is a non-IFRS term that is defined in the DOT and includes all operations. The following chart sets out the Trust's computed debt to GBV:

In $ OOO's	September 30, 2011	December 31, 2010
Total assets per Balance Sheet	$353,182	$336,294
Mortgages payable and vendor take-back loans	$172,441	$166,774
Debenture	25,000	25,000
Lines of credit and bank indebtedness	5,394	4,206
Total debt	$202,835	$195,980
Debt to GBV	57.4%	58.3%

With a DOT limit of 75% of Debt-to-Gross Book Value, InterRent REIT has the ability to further leverage the existing portfolio to assist with future investment in new assets. The Trust is conscious of the current credit environment and how this affects the ability of the Trust to grow. The Trust is focusing its efforts on internal growth and producing improved operating results from the current portfolio. Properties that are not performing to the expectations of the Trust will be evaluated and may eventually be sold. Proceeds from the sale of these properties may be used for future acquisitions, capital improvements or to reduce debt.

As at September 30, 2011, InterRent REIT had a $1.2 million 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 September 30, 2011, the Trust had utilized $0.5 million of this facility.

In addition, InterRent REIT had a $10.0 million operating facility with a financial institution bearing interest at 2.0% above the prime bank lending rate. This line of credit is secured by collateral mortgages on twelve of the Trust's properties. As at September 30, 2011, the Trust had utilized $4.8 million of this facility.

MORTGAGE AND DEBT SCHEDULE

The following schedule summarizes the aggregate future minimum principal payments and debt maturities for the mortgages and vendor take-back loans (excluding assets held for sale) and the convertible debenture of InterRent REIT.

Year Maturing	Mortgage and Debt Balances At September 30, 2011 (in $ 000's)	Weighted Average by Maturity	Weighted Average Interest Rate
2011	$5,610	2.9%	2.35%
2012	$74,809	39.2%	3.90%
2013	$58,727	30.8%	5.62%
2014	$10,367	5.4%	4.05%
2015	$3,549	1.9%	4.62%
Thereafter	$37,655	19.7%	5.01%
Total	$190,717	100%	4.67%

At September 30, 2011, the average term to maturity of the mortgage debt was approximately 2.8 years and the weighted average cost of mortgage debt was 4.31%. The weighted average cost of mortgages and convertible debt was 4.67%. At September 30, 2011, approximately 55% of InterRent REIT's mortgage debt was backed by CMHC insurance.

ACCOUNTING

FUTURE ACCOUNTING CHANGES

IFRS 7 *Financial Instruments: Disclosures*

In October 2010, the IASB issued amendments to IFRS 7 regarding Disclosures – Transfer of Financial Assets, which are effective for annual periods beginning on or after July 1, 2011 with earlier application permitted. These amendments comprise additional disclosures on transfer transactions of financial assets and will not have an impact on the results of operations or financial position of the Trust as they are only disclosure requirements.

IFRS 9 *Financial Instruments*

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS9 *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 has 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.

IMPACT OF TRANSITION TO IFRS ON THE TRUST'S FINANCIAL STATEMENTS

IFRS replaced the previous Canadian GAAP for Trust effective for its 2011 interim and annual financial statements. Accordingly, the Trust is applying accounting policies consistent with IFRS beginning with its interim financial statements for the quarter ended March 31, 2011.

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. Accounting policies have been changed to be consistent with IFRS as is expected to be effective on December 31, 2011.

The accounting policies described in Note 3 to the accompanying condensed consolidated financial statements have been applied consistently to all periods presented. They also have been applied in the preparation of an opening IFRS statement of financial position as at January 1, 2010.

The impact of the transition from Canadian GAAP to IFRS is explained in detail in Note 24 to the accompanying condensed consolidated financial statements.

The changes in accounting policy have not been applied to any information for periods prior to January 1, 2010.

First-time adoption of IFRS

The first-time adoption of IFRS generally requires retrospective application of the resulting changes in accounting policies. Subject to certain optional exemptions and mandatory exceptions, the Trust has applied the changes in accounting policies resulting from the adoption of IFRS retrospectively in the preparation of its opening IFRS statement of financial position as at January 1, 2010, the Trust's "Transition Date".

The impact of first-time adoption of IFRS on the Trust's opening IFRS statement of financial position is described in detail in Note 24 to the accompanying condensed consolidated financial statements.

Changes in Accounting Policies

The following summarizes the significant changes to the Trust's accounting policies on adoption of IFRS, and the effect on the Trust's consolidated financial statements.

Investment Properties

IFRS defines investment property (IAS 40) as a property held to earn rentals or for capital appreciation or both. Investment property includes all properties previously described as "income producing properties".

Under Canadian GAAP, the Trust measured its investment properties using the historical cost model and recognizes various tangible and intangible assets related to the investment property. Under IFRS, after the initial recognition, the Trust has a choice of whether to measure its investment properties using the historical cost model or the fair value model.

- Under the fair value model, investment properties will be carried on the consolidated balance sheet at their fair values, and changes in fair value each period will be recorded in the consolidated statement of income. Under the fair value model, acquired intangible assets (i.e., in-place leases, tenant relationships) are recognized as an integral part of the value of investment properties and are not presented separately on the consolidated balance sheet. No depreciation related to investment properties is recognized under the fair value model.

- The cost model is generally consistent with Canadian GAAP.

The Trust decided to adopt the fair value model for its investment properties. The fair value of the investment properties at January 1, 2010 and December 31, 2010 were determined based on independent appraisals of substantially all the Trust's investment property portfolio. The effect of applying this change was an increase in the carrying value of investment properties of $17 million at January 1, 2010 and a further $45 million for the year ended December 31, 2010. For the nine months ended September 30, 2011, the fair value adjustment was determined internally by the Trust using the same assumptions and valuation techniques used by the external valuation professionals and resulted in a gain of $4.4 million.

Under the fair value model the Trust will revalue its investment properties on a quarterly basis which could result in frequent changes to the carrying value of the investment properties. Any changes in value will be recorded through operating earnings. Investment properties will not be subject to amortization or impairment under the fair value model.

Trust Units

Under Canadian GAAP, trust units were classified as equity. The assessments required under IFRS differ from Canadian GAAP with respect to the classification of certain financial instruments as a liability or as equity. Under the original Declaration of Trust in place at January 1, 2010, IFRS requires the trust units to be classified as a liability due to a contractual obligation to deliver cash in the form on mandatory distributions.

As a result of this change, unit holders' capital was reduced by the trust units' carrying value of $101.6 million. The trust units were recognized as a liability at their fair value of $42 million, with the difference recorded as a decrease in the deficit within unitholders' equity on January 1, 2010. Trust units were re-measured each reporting date at fair value with any change recognized through earnings.

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 under IFRS that permit classification as equity. At this time, the trust units were reclassified from liabilities to unitholders' equity at the fair value at December 29, 2010.

LP Class B Units

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

As a result of this change, unit holders' capital was reduced by the LP Class B units' carrying value and the LP Class B Units were recognized as a liability at their fair value of $511, with the difference recorded as a decrease in the deficit within unitholders' equity on January 1, 2010. LP Class B units were re-measured each reporting date at fair value with any change recognized through earnings.

On October 1, 2010, all of the outstanding LP Class B units were exchanged for trust units on a one-for-one basis.

Distributions

Distributions earned on trust units and Class B units when classified as liabilities during 2010 were recorded as interest expense and not a reduction of equity.

Subordinated debentures

Under Canadian GAAP, the conversion feature of the subordinated convertible debentures was classified as equity. The subordinated convertible debentures are convertible into trust units, which in turn are redeemable into cash at the option of the holder. As such, under IFRS the conversion feature of the subordinated convertible debentures are considered a derivative instrument and classified as a liability. The conversion feature of the convertible debentures is re-measured to fair value each reporting period, with changes recorded in the statement of income.

As a result of this change, the carrying value of the equity portion of the subordinated convertible debentures of $7 million was eliminated on January 1, 2010. The conversion feature of the subordinated convertible debentures was recognized as a liability at the fair value of $4.4 million, with the difference recorded as a decrease in the deficit within unitholders' equity. The convertible feature is re-measured each reporting date at fair value with any change recognized through earnings.

Unit-based compensation (deferred unit plan and option plan)

The awards of unit options and deferred units under the Trust's compensation plans are settled in trust units. Under Canadian GAAP, these were considered equity-settled instruments and were recorded within unitholders' equity. Due to the fact that the trust units are considered cash-settled instruments and are recorded as a liability. The liability is re-measured to fair value each reporting period with changes recognized in the statement of income.

As a result of this change, the carrying value within unitholders' equity of contributed surplus and of deferred unit capital were eliminated on January 1, 2010. The combined fair value of the unit options and deferred units was recorded as a liability, with the difference recorded as a decrease in the deficit within unitholders' equity. Unit-based compensation liability is re-measured each reporting date at fair value with any change recognized through earnings.

Leases

Under IFRS deferred leasing commissions are not recognized as a separate asset, instead they form part of the carrying value of the investment properties. As a result of this change, the carrying value of the deferred leasing commissions was eliminated, with a corresponding increase in investment properties before being re-measured to fair value.

Assets held for sale and discontinued operations

The definition of a discontinued operation under IFRS is more restrictive than under GAAP. IFRS 5 contains an additional test to qualify as a discontinued operation – that the component that is being disposed of represents a separate major line of business or geographical area of operations. It is expected that the disposal of an individual property would not constitute a significant operation to be classified as discontinued under IFRS, which differs from the accounting policy under GAAP. As such, the results from assets held for sale are no longer presented separately as discontinued operations, affecting income from continuing operations, but not net income.

Reconciliations from Canadian GAAP to IFRS

Note 24 to the accompanying condensed consolidated financial statements contain a number of reconciliations of previous Canadian GAAP financial information to those adjusted for IFRS, along with further explanations.

RISKS AND UNCERTAINTIES

A comprehensive description of the risks and uncertainties can be found in InterRent REIT's December 31, 2010 MD&A and other securities filings at www.sedar.com.

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 accounts receivable, loan receivable long-term incentive plan, mortgage holdbacks and mortgages receivable.

The amounts disclosed as accounts receivable in the consolidated balance sheet 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 accounts receivable. 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 September 30, 2011, the Trust had accounts receivable of $1.0 million net of an allowance for doubtful accounts of $0.6 million 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 throughout Ontario.

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 sheet 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.

c) Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The Trust manages liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 20 in the September 30, 2011 condensed consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust's reputation.

As at September 30, 2011, the Trust had a $1.1 million 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 September 30, 2011, the Trust had utilized $0.5 million of this facility. In addition, the Trust had a $10 million operating facility with a financial institution bearing interest at prime plus 2.0%. This line of credit is secured by collateral second mortgages on twelve of the Trust’s properties. As at September 30, 2011, the Trust had utilized $4.8 million of this facility.

Notes 8 and 9 in the September 30, 2011 condensed consolidated financial statements reflect the contractual maturities for mortgage and debenture debt of the Trust at September 30, 2011, 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 and vendor take back loans, 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 vendor take back loans 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 debentures is approximately $189 million.

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.

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2011 the Trust did not have any off-balance sheet arrangements in place.

RELATED PARTY TRANSACTIONS

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

(i) Accounts Payable and Mortgage Payable

As at September 30, 2011, $0.2 million (December 31, 2010 - $0.3 million) was included in accounts payable and accrued liabilities which is due to a company that is controlled by an officer of the Trust. The amounts were non-interest bearing and due on demand.

(ii) Services

During the nine month period ended September 30, 2011 the Trust incurred $2.4 million (September 30, 2010 - $2.5 million) in services from a company controlled by an officer of the Trust. Of the services received approximately $0.7 million (September 30, 2010 - $1.1 million) has been capitalized to the income producing properties and the remaining amounts are included in operating and administrative costs.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. The preparation of this information is supported by a set of disclosure controls and procedures implemented by management.

Pursuant to Canadian Securities Administrators requirements 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, InterRent REIT's Chief Executive Officer and Chief Financial Officer have satisfied themselves that as at September 30, 2011:

1. the design of disclosure controls and procedures was appropriate in order to provide reasonable assurance that material information relating to InterRent REIT is made known to us by others;

2. the design of internal controls over financial reporting was appropriate in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement for external purposes in accordance with GAAP; and,

3. there have been no changes in InterRent REIT's internal controls over financial reporting during the quarter that has materially affected, or is reasonably likely to materially affect, InterRent REIT's internal controls over financial reporting.

SUBSEQUENT EVENTS

The Trust purchased one property (52 suites) on October 25, 2011.

The Trust completed the sale of three properties (69 suites) from October 1, 2011 to November 11, 2011 that were included in assets held for sale.

OUTSTANDING SECURITIES DATA

As of November 11, 2011, the Trust had issued and outstanding: (i) 32,688,366 units; (ii) LP B Units that are exchangeable for 186,250 units of the Trust; (iii) options exercisable to acquire 690,000 units of the Trust; (iv) deferred units that are redeemable for 685,345 units of the Trust; and (v) $25,000,000 principal amount of a convertible unsecured subordinated debenture due January 31, 2013 with a coupon rate of 7.0% per annum that are convertible at a price of $4.60 per trust unit at the option of the holder.

ADDITIONAL INFORMATION

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