InterRent Real Estate Investment Trust

Consolidated Financial Statements

For the Years Ended December 31, 2011 and 2010

Collins Barrow
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INDEPENDENT AUDITORS' REPORT

To the Unitholders of
InterRent Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of InterRent Real Estate Investment Trust and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income, changes in unitholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of InterRent Real Estate Investment Trust and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010, in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Accountants
February 29, 2012
Toronto, Ontario

InterRent Real Estate Investment Trust

Consolidated Balance Sheets
(Cdn $ Thousands)

	Note	**December 31, 2011**	December 31, 2010	January 1, 2010
Assets			(Note 24)	(Note 24)
Investment properties	5	**$363,639**	$305,726	$277,134
Prepaids and deposits		**2,529**	1,721	2,060
Other assets	6	**5,445**	1,930	1,508
Cash		**24,793**	-	12
Assets held for sale	7	**9,943**	26,917	-
		$406,349	$336,294	$280,714
Liabilities				
Mortgages and loans payable	8	**$166,753**	$154,340	$156,306
Subordinated convertible debentures	9	**24,657**	20,861	24,732
Credit facilities	10	**-**	3,966	1,220
Bank indebtedness		**-**	239	-
Accounts payable and accrued liabilities	11	**6,504**	8,958	4,931
Tenant rental deposits		**3,130**	2,940	2,712
LP Class B unit liability	12	**592**	-	511
Unit-based compensation liabilities	13	**2,332**	320	44
Conversion feature of convertible debentures	9	**-**	1,745	3,486
Liabilities related to assets held for sale	7	**6,187**	13,350	-
		210,155	206,719	193,942
Trust unit liability	14	**-**	-	42,098
Unitholders' equity				
Unit capital	14	**79,459**	48,049	
Retained earnings		**116,735**	81,526	44,674
		196,194	129,575	44,674
		$406,349	$336,294	$280,714

Subsequent events (note 23)

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

InterRent Real Estate Investment Trust

Consolidated Statements of Income
For the Years Ended December 31
(Cdn $ Thousands)

	Note	2011	2010
Operating revenues			
Revenue from investment properties		**$38,471**	$35,352
Operating expenses			
Property operating costs		**7,166**	8,042
Property taxes		**5,638**	5,692
Utilities		**5,161**	5,705
		17,965	19,439
Net operating income		**$20,506**	$15,913
Financing costs	16	**$12,649**	12,087
Administrative costs		**3,485**	3,572
		16,134	15,659
Income from operations before other income and expenses		**4,372**	254
Other income and expenses			
Loss on disposition of investment properties	7	**(453)**	(176)
Fair value adjustments of investment properties	5	**37,002**	38,075
Adjustment to carrying value of convertible debenture	9	**(1,982)**	-
Other fair value gains	15	**409**	2,324
Interest on units classified as financial liabilities	17	**(78)**	(3,354)
Net income for the year		**$39,270**	$37,123

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

InterRent Real Estate Investment Trust

Consolidated Statements of Unitholders' Equity
For the Years Ended December 31
(Cdn $ Thousands)

	Trust units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings	Total Unitholders' equity
Balance, January 1, 2010 (note 24)	$ -	$44,674	$ -	$44,674	$44,674
Units reclassified from liability to equity	48,049	-	-	-	48,049
Profit for the year	-	37,123	-	37,123	37,123
Distributions declared to Unitholders	-	-	(271)	(271)	(271)
Balance, December 31, 2010 (note 24)	$ 48,049	$81,797	$(271)	$81,526	$129,575
Balance, January 1, 2011	$48,049	$81,797	$(271)	$81,526	$129,575
Units issued	31,410	-	-	-	31,410
Profit for the year	-	39,270	-	39,270	39,270
Distributions declared to Unitholders	-	-	(4,061)	(4,061)	(4,061)
Balance, December 31, 2011	**$79,459**	**$121,067**	**$(4,332)**	**$116,735**	**$196,194**

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

InterRent Real Estate Investment Trust

Consolidated Statements of Cash Flows
For the Years Ended December 31
(Cdn $ Thousands)

	Note	2011	2010
Cash flows from (used in) operating activities			(Note 24)
Net income for the year		**$39,270**	$37,123
Add items not affecting cash			
Amortization		**19**	25
Loss on disposition of investment properties	7	**453**	176
Fair value adjustments of investment properties	5	**(37,002)**	(38,075)
Adjustment to carrying value of convertible debt	9	**1,982**	-
Other fair value gains	15	**(409)**	(2,324)
Unit-based compensation expense	13	**1,203**	306
Amortization of deferred finance costs on mortgages and premiums on assumed debt		**1,022**	497
Accretion of discount and amortization of deferred finance cost on convertible debt		**1,814**	1,646
Tenant inducements		**480**	263
		8,832	(363)
Net income items related to financing activities	16/17	**9,876**	13,305
Changes in non-cash operating assets and liabilities:			
Other assets		**(4,181)**	(552)
Prepaids and deposits		**(723)**	205
Accounts payable and accrued liabilities		**(2,529)**	4,753
Tenant rental deposits		**48**	480
Cash from operating activities		**11,323**	17,828
Cash flows from (used in) investing activities			
Acquisition of investment properties	4	**(15,457)**	-
Proceeds from sale of investment properties	7	**27,392**	3,226
Additions to investment properties	5	**(15,887)**	(20,572)
		(3,952)	(17,346)
Cash flows from (used in) financing activities			
Mortgage and loan repayments		**(38,431)**	(12,241)
Mortgage advances		**43,392**	22,289
Interest paid on mortgages and loans payable	16	**(7,849)**	(7,552)
Financing fees		**(505)**	(77)
Credit facility advances (repayments)		**(3,966)**	2,746
Interest paid on credit facilities	16	**(271)**	(383)
Subordinated convertible debenture repayments		**-**	(5,517)
Interest paid on subordinated convertible debentures	16	**(1,750)**	(2,039)
Trust units issued, net of issue costs		**30,428**	5,372
Deferred units purchased and cancelled		**(92)**	-
Interest paid on units classified as financial liabilities	17	**(6)**	(3,331)
Distributions paid		**(3,289)**	-
		17,661	(733)
Increase (decrease) in cash during the year		**25,032**	(251)
Cash (bank indebtedness) at the beginning of year		**(239)**	12
Cash (bank indebtedness) at end of year		**$24,793**	$(239)

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 consolidated financial statements were authorized for issuance by the Trustees of the Trust on February 29, 2012.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”). Previously, the Trust prepared its annual consolidated financial statements in accordance with Canadian GAAP.

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented. They also have been applied in the preparation of an opening IFRS balance sheet as at January 1, 2010, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from Canadian GAAP to IFRS is explained in Note 24.

Basis of presentation

These consolidated 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 consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. Subsidiaries are consolidated from date control commences until control ceases.

Functional currency

The Trust’s functional currency is Canadian dollars.

2. BASIS OF PRESENTATION (Continued)

Critical accounting estimates

The preparation of these consolidated financial statements requires management to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the financial statements.

Investment properties

Investment properties are re-measured to fair value at each reporting date, determined based on internal valuation models incorporating market evidence and valuations performed by third-party appraisers. When estimating the fair value of investment properties, management makes estimate and assumptions that have a significant effect on the measurement of investment properties. Estimates used in determining the fair value of the investment properties include capitalization rates, inflation rates, vacancy rates, standard costs and net operating income.

Financial liabilities

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

Assets held for sale

Assets held for sale are measured at the lower of carrying value and fair value less costs to sell except for investment properties which are measured at fair value at each reporting period. To determine fair value less costs to sell, management must make estimates regarding the expected outcome of a sale of the assets.

3. SIGNIFICANT ACCOUNTING POLICIES

Investment properties

The Trust's Investment properties include multi-family residential properties that are held to earn rental income. Investment properties acquired through an asset purchase are initially recognized at cost, which includes all amounts directly related to the acquisition of the properties. Investment properties acquired through a business combination are recognized at fair value. All costs associated with upgrading and extending the economic life of the existing properties, other than ordinary repairs and maintenance, are capitalized to investment properties.

Investment properties are re-measured to fair value at each reporting date. Fair value is determined based on internal valuation models incorporating market evidence and valuations performed by third-party appraisers. Changes in the fair value of investment properties are recorded in the statement of income in the period in which they arise. Investment properties are not amortized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets held for sale

Investment properties and related assets are reclassified to assets held for sale when it is expected that its carrying amount will be recovered principally through a sale transaction rather than continuing use, the property is available for immediate sale, and a sale is highly probable. The Trust presents assets classified as held for sale and their associated liabilities separately from other assets and liabilities beginning from the period in which they were first classified as 'for sale'. Assets held for sale are measured at the lower of carrying value and fair value less costs to sell except for investment properties which are measured at fair value at each reporting period.

Revenue recognition

Revenue from investment properties includes rents, parking and other sundry revenues. Most leases are for one-year terms or less; consequently, the Trust accounts for leases with its tenants as operating leases. Revenue from investment properties is recognized as revenue over the terms of the related lease agreements as they become due and collection is reasonably assured.

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

Ancillary rental income includes laundry and income earned from telephone and cable providers and is recorded as earned.

The gain or loss from the sale of an investment property is recognized when title passes to the purchaser (control is transferred) upon closing at which time all or substantially all of the funds are receivable, or have been received, and the conditions of the sale have been completed.

Financial instruments

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

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

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

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income.

The Trust's financial assets classified as FVTPL include cash and cash equivalents. The Trust does not currently hold any derivative assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost, using the effective interest method, less a provision for impairment. A provision for impairment is established when there is objective evidence that collection will not be possible under the original terms of the contract. Indicators of impairment include delinquency of payment and significant financial difficulty of the holder. The carrying amount of the financial asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statements of income. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Rents and other receivables, mortgage holdbacks and mortgages receivables are classified as loans and receivables.

Financial liabilities at FVTPL

Financial liabilities are classified as FVTPL if they are designated as such by management, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statement of income.

Management has designated the trust unit liability and the LP Class B unit liability as FVTPL. The conversion feature of the convertible debentures is considered to be a derivative liability, and as such, is classified as FVTPL.

Other financial liabilities

Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Trust's other financial liabilities include the convertible debentures, credit facilities, accounts payable and accrued liabilities, tenant rental deposits, bank indebtedness and mortgages and loans payable.

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

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

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

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trust unit liability

Under the terms of the Declaration of Trust in place at January 1, 2010, the trust units are classified as a liability due to a contractual obligation to deliver cash in the form of mandatory distributions. Management has designated the trust unit liability as FVTPL, and as such the liability is re-measured to fair value at each reporting date with changes recorded in the statement of income.

Trust units

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

LP Class B unit liability

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, the LP Class B units are classified as a liability. Management has designated the trust unit liability as FVTPL, and the LP Class B unit liability is re-measured to fair value at each reporting date with changes recorded in the statement of income.

Convertible debentures

The convertible debentures are comprised of two components, the debt component and the conversion feature. The debt component of the convertible debt is initially recognized at fair value and carried at amortized cost, with the residual being allocated to the conversion feature.

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

Unit-based compensation

The Trust maintains compensation plans which include the granting of unit options and deferred units to Trustees and employees. The Trust records the expense associated with these awards over the vesting period. 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.

Provisions

Provisions are recognized when the REIT has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value when the effect is material.

Income taxes

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

Throughout 2011, the Trust and its wholly owned subsidiaries satisfied certain conditions available to REITs (the "REIT Exception") under amendments to the Tax Act, intended to permit a corporate income tax rate of nil as long as the specified conditions continue to be met. Without satisfying these conditions, the Trust would have been liable for income taxes.

Critical judgments in applying accounting policies

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

Leases

Management makes judgements in determining whether leases in which the Trust is the lessor are operating or finance leases, and determined that all of its leases are operating leases. The accounting treatment of leases as finance leases would have a significant effect on the measurement of transactions and balances in the financial statements.

Property acquisitions

When investment properties are acquired, management is required to apply judgment as to whether or not the transaction should be accounted for as an asset acquisition or business combination. All of the Trust's property acquisitions have been accounted for as asset acquisition. Accounting treatment of property acquisitions as business combinations could result in significant differences in the measurement of balances and transactions.

Income tax

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

Assets held for sale

Investment properties are reclassified to assets held for sale when it is expected that its carrying amount will be recovered principally through a sale transaction rather than continuing use, the property is available for immediate sale, and a sale is highly probable. Application of this accounting policy requires management to make judgments regarding the likelihood assets will be sold.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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.

IFRS 12 Disclosure of Interests in Other Entities

On May 12, 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities". The standard includes disclosure requirements about subsidiaries, joint ventures, and associates, replacing existing requirements. Additional disclosures include judgments and assumptions made in determining how to classify involvement with another entity, interests that non-controlling interests have in the consolidated entities, and the nature and risks associated with interests in other entities. IAS 28 has been amended and will provide the accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates. This standard is effective for annual periods beginning on or after January 1, 2012 with early adoption permitted. Management is currently evaluating the potential impact of this amendment.

(Cdn $ Thousands except unit amounts)

4. INVESTMENT PROPERTY ACQUISITIONS

(i) During the year ended December 31, 2011, 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
March 24, 2011	70	$ 3,718	$ 1,901	5.53%	July 1, 2020
August 4, 2011	120	$ 6,037	$ 4,500	3.23%	August 15, 2012
October 25, 2011	52	$ 6,068	$ 3,426	3.55%	May 1, 2014

(ii) The Trust acquired no investment properties during the year ended December 31, 2010.

5. INVESTMENT PROPERTIES

	December 31, 2011	December 31, 2010
Balance, beginning of year	**$ 332,379**	$ 277,134
Acquisitions (Note 4 and 12)	**15,823**	-
Property capital investments	**15,887**	20,571
Fair value gains	**37,002**	38,075
Dispositions	**(27,846)**	(3,401)
	$ 373,245	$ 332,379
Reclassification to assets held for sale (Note 7)	**(9,606)**	(26,653)
Balance, end of year	**$ 363,639**	$ 305,726

An independent valuation was completed by accredited appraisal firms for approximately 90% of the value 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 similar assumptions and valuation techniques used by the external valuation professionals.

The fair value of the portfolio at December 31, 2011 was determined internally by the Trust. The Trust determined the fair value of each income property internally based upon the direct capitalization income approach method of valuation. The fair value was determined by applying a capitalization rate 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, approximately 29% of the portfolio was appraised by external valuation professionals. These external appraisals provided the Trust with a summary of the 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:

	December 31, 2011		**December 31, 2010**		**January 1, 2010**	
	Range	**Weighted average**	**Range**	**Weighted average**	**Range**	**Weighted average**
Capitalization rate	5.25% - 10.00%	5.93%	5.70% - 10.00%	6.41%	6.06% - 13.22%	7.21%

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 ($15,200) for an increase and $16,580 for a decrease.

(Cdn $ Thousands except unit amounts)

6. OTHER ASSETS

	December 31, 2011	December 31, 2010	January 1, 2010
Mortgage holdbacks	**$ 162**	$ 270	$ 265
Rents and other receivables, net of allowance for uncollectable amounts	**419**	512	453
Furniture and fixtures, net of accumulated amortization of $138 (2010 - $129)	**45**	64	110
Deferred finance fees on line of credit, net of accumulated amortization of $9 (2010 - $nil)	**84**	-	-
Mortgages receivable [1]	**4,306**	560	560
Tenant inducements [2]	**184**	256	120
Loan receivable long-term incentive plan (Note 18)	**245**	268	-
	$ 5,445	$ 1,930	$ 1,508

[1] 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%. All mortgages are secured by the related property and a general security agreement. At December 31, 2010 and January 1, 2010 the balance is comprised of one mortgage with a maturity date of 14 and 26 months respectively at an interest rate of 3.5%.

[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 December 31, 2011, the Trust classified five investment properties (196 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.

	December 31, 2011	December 31, 2010	January 1, 2010
Properties	**5**	17	-
Suites	**196**	482	-
Investment properties (Note 5)	**$ 9,606**	$ 26,653	$ -
Prepaids and deposits	**49**	134	-
Other assets	**288**	130	-
Assets held for sale	**$ 9,943**	$ 26,917	$ -
Mortgages and loans payable	**$ 5,488**	$ 12,434	$ -
Accounts payable and accrued liabilities	**588**	663	-
Tenant rental deposits	**111**	253	-
Liabilities related to assets held for sale	**$ 6,187**	$ 13,350	$ -

(Cdn $ Thousands except unit amounts)

7. ASSETS HELD FOR SALE (Continued)

During the years ended December 31, 2011 and 2010, 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	Cash 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	-
April 29, 2011	18	1,700	1,601	704
May 5, 2011	7	575	541	-
May 5, 2011	7	575	541	-
August 8, 2011	9	915	833	-
August 15, 2011	44	2,050	1,950	597
September 26, 2011	38	2,505	2,360	1,159
November 3, 2011	9	1,415	1,290	567
November 4, 2011	48	2,850	2,717	1,388
November 9, 2011	12	720	674	277
December 21, 2011	60	3,370	3,197	1,462
December 21, 2011	23	1,380	1,310	431
December 21, 2011	28	1,840	1,750	930
December 23, 2011	21	1,510	1,412	641
December 23, 2011	23	1,410	1,318	756
Total	**431**	**$ 29,097**	**$ 27,392**	**$ 10,584**

Disposition Date	Suite Count	Sale Price	Cash Proceeds	Mortgage(s) Repaid
September 24, 2010	5	$ 662	$ 629	-
October 15, 2010	22	1,375	1,310	$ 650
October 18, 2010	4	630	596	-
November 30, 2010	4	735	691	-
Total	**35**	**$ 3,402**	**$ 3,226**	**$ 650**

A loss of $453 was recognized in the year ended December 31, 2011 (December 31, 2010 - $176) in connection with these property dispositions.

(Cdn $ Thousands except unit amounts)

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 4.28%.

The mortgages and vendor take-back loans mature at various dates between the years 2011 and 2021.

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

2012	$ 76,413
2013	40,283
2014	12,902
2015	2,229
2016	9,235
Thereafter	27,724
	168,786
Less: Deferred finance costs and mortgage premiums	2,033
	$ 166,753

9. SUBORDINATED CONVERTIBLE DEBENTURES

The Trust accounts for its convertible debentures as a compound financial instrument in accordance with IAS 32, financial instruments presentation, which requires both elements of debt and equity be accounted for separately. The subordinated convertible debentures are comprised of two components, the debt component and the conversion feature. The debt component of the convertible debt is initially recognized at fair value and carried at amortized cost.

Convertible debenture

	December 31, 2011	December 31, 2010	January 1, 2010
Convertible debenture 1 (i)	**$ 24,657**	$ 20,861	$ 19,317
Convertible debenture 2 (ii)	**-**	-	$ 5,415
	$ 24,657	$ 20,861	$ 24,732

(i) On January 15, 2008, the Trust issued a $25,000 subordinated convertible debenture which bears interest at 7.0% per annum and is due on January 31, 2013. The debentures are 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 is being 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 has been allocated to the liability component and $401 has been allocated to the equity component. The discount on the debt results 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.

(ii) The Trust had a $5,517 subordinated convertible debenture which bore interest at 7.25% which was settled with cash on its maturity date of September 22, 2010.

(Cdn $ Thousands except unit amounts)

9. SUBORDINATED CONVERTIBLE DEBENTURES (Continued)

Conversion feature of convertible debenture

The convertible debentures are convertible into trust units, which in turn are redeemable into cash at the option of the holder. As such, the conversion feature of the subordinated convertible debentures are considered a derivative instrument classified as a liability. The conversion feature of the subordinated convertible debenture is re-measured to fair value at each reporting period, by adjusting market-based valuation assumptions (such as expected term, risk free rate and volatility) with changes recorded in the statement of income. At December 31, 2011 the intrinsic value of the conversion feature of the convertible debenture is nil (December 31, 2010 - nil and January 1, 2010 – nil).

	December 31, 2011	December 31, 2010	January 1, 2010
Conversion feature of convertible debenture 1	**$ -**	$ 1,745	$ 3,486
Conversion feature of convertible debenture 2	**-**	-	-
	$ -	$ 1,745	$ 3,486

10. CREDIT FACILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Demand operating loan (i)	**$ -**	$ 310	$ 1,220
Demand credit facility (ii)	**-**	3,656	-
	$ -	$ 3,966	$ 1,220

(i) The Trust has a $1,175 (2010 - $5,000) 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 (2010 - $5,000) constituting a second fixed charge on thirteen (2010 – eighteen) of the Trust's properties.

(ii) The Trust has a $9,617 (2010 - $4,103) demand credit facility with a financial institution bearing interest at prime plus 2.0%, secured by collateral mortgages on ten (2010 - seven) of the Trust's properties.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable	**$ 1,587**	$ 1,362	$ 44
Accrued liabilities	**3,663**	6,334	4,045
Mortgage interest payable	**523**	531	-
Convertible debenture interest payable	**731**	731	842
	$ 6,504	$ 8,958	$ 4,931

(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 – January 1, 2010	**336,106**
Units exchanged for Trust units (Note 14)	(336,106)
Balance - December 31, 2010	**-**
Units issued	186,250
Balance – December 31, 2011	**186,250**

On October 25, 2011, 186,250 LP Class B units were issued at $373 as partial consideration for the acquisition of a property.

The LP Class B Units represented an aggregate fair value of $592 at December 31, 2011 ($nil – December 31, 2010 and $511 at January 1, 2010). 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:

	December 31, 2011	December 31, 2010
Unit-based liabilities, beginning of period	**$ 320**	$ 44
Compensation expense – deferred unit plan	**683**	283
Compensation expense – unit option plan	**448**	-
DRIP[1] expense – deferred unit plan	**72**	23
DUP units converted, cancelled and forfeited	**(302)**	(26)
(Gain)/loss on fair value of liability	**1,111**	(4)
Unit-based liabilities, end of period	**$ 2,332**	$ 320

[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.

(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 – January 1, 2010	**57,905**
Units issued under deferred unit plan	322,543
Reinvested distributions on deferred units	16,383
Deferred units exercised into Trust Units	(17,232)
Deferred units forfeited	(5,584)
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**

During the year ended December 31, 2011, 147,990 deferred units vested of which 101,779 were exercised into Trust Units and 46,207 were purchased and cancelled. As of December 31, 2011, the 349,122 deferred units, which represent the vested portion, have 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.

InterRent Real Estate Investment Trust

Notes to Consolidated Financial Statements

(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 and expired during the year ended December 31 are as follows:

	2011		2010	
	Number of units	**Weighted average exercise price**	**Number of units**	**Weighted average exercise price**
Balance, beginning of period	25,000	$ 4.81	90,000	$4.81
Granted	665,000	$ 2.13	-	-
Expired	-	-	(65,000)	$ 4.81
Balance, end of period	**690,000**	**$ 2.23**	**25,000**	**$ 4.81**

Options outstanding at December 31, 2011:

Exercise price	**Number of units**	**Remaining life in years**	**Number of units exercisable**
$ 4.81	25,000	0.42	25,000
$ 2.13	665,000	9.48	665,000
	690,000		**690,000**

Compensation expense related to the unit options granted for the year ended December 31, 2011 amounted to $448 (2010 – nil). Compensation expense was determined based on an estimate of the fair value using the Black-Scholes option pricing model at date of grant using the following assumptions: Expected option life 5 years, risk-free interest rate 2.1%, expected volatility 54% and expected distribution yield 5.6%.

The fair value of unit options is re-valued at each reporting period based on an estimate of the fair value using the Black-Scholes option pricing model using the following weighted average valuation assumptions:

	December 31, 2011	**December 31, 2010**
Expected option life	4.3 years	1.5 years
Risk-free interest rate	1.26%	1.67%
Expected volatility	52%	56%
Expected distribution yield	5.6%	5.6%

The intrinsic value of the options at December 31, 2011 is $698.

(Cdn $ Thousands except unit amounts)

14. TRUST UNITS

Under the terms of the Declaration of Trust in place at January 1, 2010, the trust units were classified as a liability due to a contractual obligation to deliver cash in the form of mandatory distributions.

Effective December 29, 2010, changes were made to the Declaration of Trust so that distributions are made at the discretion of the Trustees. Subsequent to this change the trust units, while still defined as a liability, meet the conditions that permit classification as equity. At this time, the trust units were reclassified from liabilities to unitholders' equity.

Trust unit liability

	Trust Units	Amount
Balance – January 1, 2010	**27,696,100**	**$ 42,098**
Issued from private placement	3,743,787	5,372
Units Issued under distribution reinvestment plan	254,293	360
Units issued under long-term incentive plan (Note 18)	200,000	288
Units issued under the deferred unit plan	17,232	26
LP Class B Units exchanged for Trust Units	336,106	1,251
Fair value gain		(1,346)
Balance - December 28, 2010	**32,247,518**	**$ 48,049**
Reclassified to unit holders' equity	(32,247,518)	(48,049)
Trust unit liability – December 31, 2010 and December 31, 2011	**-**	**$ -**

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.

Trust units (within unitholders' equity)

	Trust Units	Amount
Balance – January 1, 2010	**-**	**$ -**
Reclassified from trust unit liability	32,247,518	48,049
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**

Trust units reclassified from the trust unit liability were reclassified at their fair value on the effective date of the changes to the Declaration of Trust (December 29, 2010).

14. TRUST UNITS (Continued)

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.

(Cdn $ Thousands except unit amounts)

15. OTHER FAIR VALUE GAINS (LOSSES)

	2011	2010
Trust unit liability	**$ -**	$ 590
LP Class B unit liability	**(226)**	(10)
Unit-based compensation liability (deferred unit plan)	**(773)**	4
Unit-based compensation liability (option plan)	**(338)**	-
Conversion feature of convertible debenture	**1,746**	1,740
	$ 409	$ 2,324

16. FINANCING COSTS

	2011	2010
Mortgages and loans payable	**$ 7,849**	$ 7,552
Convertible debentures	**1,750**	2,039
Credit facilities	**271**	383
Interest income	**(57)**	(30)
Interest expense	**$ 9,813**	$ 9,944
Amortization of deferred finance costs on mortgages	**827**	270
Amortization of deferred finance costs on debenture	**251**	194
Amortization of deferred finance costs on credit facilities	**10**	-
Amortization of accretion on convertible debenture	**1,563**	1,452
Amortization of fair value on assumed debt	**185**	227
	$ 12,649	$ 12,087

17. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	2011	2010
Trust unit liability	**$ -**	$ 3,301
LP Class B unit liability	**6**	30
Unit-based compensation liability (deferred unit plan)	**72**	23
	$ 78	$ 3,354

18. LONG-TERM INCENTIVE PLAN

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

(Cdn $ Thousands except unit amounts)

19. RELATED PARTY TRANSACTIONS

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

(i) Accounts Payable

As at December 31, 2011, $409 (December 31, 2010 - $317, January 1, 2010 - $85) 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 year ended December 31, 2011, the Trust incurred $3,684 (2010 - $3,732) 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 $1,093 (2010 - $1,659) has been capitalized to the income producing properties and the remaining amounts are included in operating and administrative costs.

(iii) Key management remuneration

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

	2011	2010
Salaries and other short-term employee benefits	**$ 450**	$ 399
Deferred unit plan	**697**	393
Option plan	**305**	-
Deferred unit plan – gain on fair value of liability	**1,025**	4
Termination benefits	**-**	185
Total	**$ 2,477**	$ 981

Loans outstanding from key management for indebtedness relating to the LTIP at December 31, 2011 were $245 (December 31, 2010 - $255, January 1, 2010 - $277). Accrued compensation for key management at December 30, 2011 was $435 (December 31, 2010 - $355, January 1, 2010 - nil).

20. CAPITAL RISK MANAGEMENT

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

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

20. CAPITAL RISK MANAGEMENT (Continued)

The Trust monitors capital using a debt to gross book value ratio, as defined in the declaration of trust which requires the Trust to maintain a debt to gross book value ratio below 75%. As at December 31, 2011, the debt to gross book value ratio is 48.5% (December 31, 2010 – 58.3%, January 1, 2010 – 66.2%).

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) Overview

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

b) Credit Risk

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

The amounts disclosed as rents and other receivables in the consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Trust's management based on prior experience and their assessment of the current economic environment. The Trust establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of rents and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and an overall loss component established based on historical trends. At December 31, 2011, the Trust had past due rents and other receivables of $1,012 (2010 - $890), net of an allowance for doubtful accounts of $593 (2010 - $378) 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 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.

(Cdn $ Thousands except unit amounts)

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

c) Liquidity Risk

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

As at December 31, 2011, 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 December 31, 2011, the Trust had utilized nil 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 December 31, 2011, the Trust had utilized nil of this facility.

Notes 8 and 9 reflect the contractual maturities for mortgage and debenture debt of the Trust at December 31, 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 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 debentures is approximately $195,162 (December 31, 2010 - $182,986 , January 1, 2010 - $185,400).

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:

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	-
Conversion feature of convertible debenture	-	-	-

(Cdn $ Thousands except unit amounts)

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

December 31, 2010	Level 1	Level 2	Level 3
Financial liabilities			
Bank indebtedness	$ 239	$ -	$ -
Unit-based compensation liability	-	320	-
Conversion feature of convertible debenture	-	1,745	-

January 1, 2010	Level 1	Level 2	Level 3
Financial assets			
Cash	$ 12	$ -	$ -
Financial liabilities			
Unit-based compensation liability	-	44	-
LP Class B unit liability	-	511	-
Trust unit liability	42,098	-	-
Conversion feature of convertible debenture	-	3,486	-

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 December 31, 2011, approximately 13% 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 $104 for the year ended December 31, 2011.

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.

22. CONTINGENCIES

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

23. SUBSEQUENT EVENTS

The Trust redeemed the $25,000 subordinated convertible debenture, with an original maturity date of January 31, 2013, on February 1, 2012 at par.

The Trust purchased a property (490 suites) that closed on January 5, 2012.

24. TRANSITION TO IFRS

Overview

IFRS replaced current Canadian GAAP for publicly accountable enterprises, effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. These are the Trust's first annual consolidated financial statements that have been prepared in accordance with IFRS using accounting policies consistent with IFRS.

The accounting policies have been selected to be consistent with IFRS. Previously, the Trust prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

First-time adoption of IFRS

The adoption of IFRS required the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally required retrospective application of IFRS effective at the end of an entity's first annual IFRS reporting period. However, IFRS 1 also provided certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Trust has elected to apply the following optional exemptions in its preparation of its opening IFRS consolidated balance sheet as at January 1, 2010, (Transition Date):

- To apply IFRS 3 *Business Combinations* prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.

- To apply IAS 23 Borrowing Costs prospectively from the Transition Date. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.

- To designate certain existing financial liabilities as FVTPL at the Transition Date.

IFRS 1 does not permit changes to estimates that have been made previously. Estimates used in the preparation of the Trust's opening IFRS statement of financial position, and other comparative information restated to comply with IFRS, are consistent with those made previously under current Canadian GAAP.

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

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

24. TRANSITION TO IFRS (Continued)

Investment properties

IFRS defines investment property as a property held to earn rentals or for capital appreciation or both. Investment property includes all properties previously classified as income producing properties.

Under Canadian GAAP, the Trust measured its investment properties using the historical cost model and recognized various tangible and intangible assets related to the investment property. IFRS permits an accounting policy choice for investment property between the fair value model and the cost model. The cost model is generally consistent with Canadian GAAP.

On adoption of IFRS, the Trust decided to adopt the fair value model for its investment properties. Under the fair value model, investment properties initially recognized at cost and then re-measured to fair value at each reporting date with changes recorded in the statement of income. Investment properties are not amortized.

The effect of applying this change in accounting policy at January 1, 2010 was a net increase in the carrying value of investment properties of $16,772 and a corresponding decrease in the deficit within unitholders' equity. The fair value of the investment properties at January 1, 2010 was determined based on independent appraisals of substantially all the Trust's investment property portfolio.

Intangible assets and below market leases

Under Canadian GAAP when investment properties are acquired, a portion of the purchase price is allocated to in-place operating leases that are acquired in connection with the real estate property, to a separate tenant relationship intangible asset or a below market lease liability relating to the possibility or probability that existing tenants will renew their leases and to above or below market lease values. Under IFRS these assets and liabilities are not recognized as separate assets and liabilities, instead they form part of the carrying value of the investment properties.

As a result of this change, the carrying value of the intangible assets ($122) and below market leases ($45) were eliminated at January 1, 2010, with a corresponding net increase in investment properties before being re-measured to fair value.

Deferred leasing commissions

Under Canadian GAAP, leasing commissions were deferred and amortized over the related lease term. Deferred leasing commissions were included in other assets on the consolidated balance sheet. 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 of $108 was eliminated, with a corresponding increase in investment properties before being re-measured to fair value.

24. TRANSITION TO IFRS (Continued)

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 terms of 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 of mandatory distributions.

As a result of this change, unit holders' capital was reduced by the trust units' carrying value of $101,632. The trust units were recognized as a liability at their fair value of $42,098 (based on the price of the Trust Units on the TSX on the reporting date, or the first trading date after the reporting date), with the difference recorded as a decrease in the deficit within unitholders' equity on January 1, 2010.

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.

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 are classified as a liability.

As a result of this change, unit holders' capital was reduced by the LP Class B units' carrying value of $1,251. The LP Class B Units were recognized as a liability at their fair value of $511 (based on the price of the Trust Units on the TSX on the reporting date, or the first trading date after the reporting date), with the difference recorded as a decrease in the deficit within unitholders' equity on January 1, 2010.

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

Conversion feature of the subordinated convertible 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 at 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 $6,974 was eliminated on January 1, 2010. The conversion feature of the subordinated convertible debentures was recognized as a liability at the fair value of $3,486, with the difference recorded as a decrease in the deficit within unitholders' equity.

24. TRANSITION TO IFRS (Continued)

Unit-based compensation

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 under IFRS, they are recorded as a liability. The liability is re-measured to fair value at 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 ($1,960), and of deferred unit capital ($45) were eliminated on January 1, 2010. The combined fair value of the unit options and deferred units of $44 was recorded as a liability, with the difference recorded as a decrease in the deficit within unitholders' equity.

Earnings per unit

Under Canadian GAAP, the number of trust units included in the calculation of basic and diluted earnings included all trust units and LP Class B units as they were classified as equity.

As a result of the change in accounting policy to classify the trust units and LP Class B units as liabilities, they may not be considered equity for the purposes of calculating net income on a per unit basis. Accordingly, the Trust has elected not to present an earnings per unit calculation, as is permitted under IFRS.

(Cdn $ Thousands except unit amounts)

24. TRANSITION TO IFRS (Continued)

Reconciliations of Canadian GAAP to IFRS

The following provides reconciliations of unit holders' equity and comprehensive income from Canadian GAAP to IFRS for the respective periods. Reconciliations of the consolidated balance sheet at certain dates are included in Note 25.

		December 31, 2010	January 1, 2010
Unitholders' Equity as reported under Canadian GAAP		**$ 69,704**	**$ 74,041**
IFRS Adjustments			
Opening cumulative adjustments		(29,367)	-
Fair value adjustment of investment properties	(i)	37,760	(6,587)
Investment properties Accumulated depreciation	(i)	7,405	23,359
Trust units – remove from unitholders' equity	(ii)	(6,021)	(101,632)
Trust unit liability	(ii)	1,321	59,534
Trust units – reclassify to unitholders' equity	(ii)	48,049	-
LP Class B units – remove from unitholders' equity	(iii)	-	(1,251)
LP Class B unit liability	(iii)	(741)	741
Deferred units – remove from unitholders' equity	(iv)	(255)	(45)
Contributed surplus – remove from unitholders' equity associated with equity items moved to liability and recorded in opening deficit	(iv)	-	-
Unit-based compensation liability	(iv)	(20)	-
Equity component of convertible debentures – remove from unitholders' equity	(v)	-	(6,974)
Conversion feature of convertible debentures (liability)	(v)	1,740	3,488
Unitholders' equity as reported under IFRS		**$129,575**	**$44,674**

		Year Ended December 31, 2010
Loss as reported under Canadian GAAP		**$ (6,996)**
IFRS adjustments		
Fair value adjustment of investment properties	(i)	37,760
Depreciation on investment properties	(i)	7,660
Loss on sale of investment property	(vi)	(255)
Trust unit liability	(ii)	591
Trust Units – Interest expense (distributions)	(ii)	(3,298)
LP Class B Units – Fair value adjustments	(iii)	(10)
LP Class B Units – Interest expense (distributions)	(iii)	(34)
Unit-based compensation expense	(iv)	(39)
Unit-based compensation expense – fair value adjustment	(iv)	4
Conversion feature of convertible debentures (liability)	(v)	1,740
Income as reported under IFRS		**$37,123**

24. TRANSITION TO IFRS (Continued)

i) The effect of the change in accounting policy to re-measure investment property at fair value at each reporting date, and the reversal of previously recorded depreciation, property related intangible assets and liabilities and deferred lease commissions included in fair value.

ii) The effect of the change in accounting policy to classify the trust units as a liability and re-measure at fair value at each reporting date until the change in the Declaration of Trust on December 29, 2010 at which time the fair value of the trust unit liability is reclassified to unitholders' equity. Distributions on the units are recorded as interest expense.

iii) The effect of the change in accounting policy to classify the LP Class B units as a liability and re-measure at fair value at each reporting date. Distributions on the units are recorded as interest expense.

iv) The effect of the change in accounting policy to classify the unit-based compensation grants as a liability and re-measure at fair value at each reporting date.

v) The effect of the change in accounting policy to classify the conversion feature of the convertible debentures as a liability and re-measure at fair value at each reporting date.

vi) The difference in loss on the sale of an investment property resulting from the different carrying values of that property under Canadian GAAP and IFRS.

Changes to the Statement of Cash Flows

As a result of the Trust Units and LP Class B Units being classified as a financial liability in 2010, the distributions related to these Units are treated as a financing expense and are recorded in the consolidated statement of income. As a result, these distributions now appear within operating activities on the statement of cash flows while they were previously recorded as a financing activity on the statement of cash flows under Canadian GAAP. This resulted in a $1,600 cash inflow for financing activities and a corresponding cash outflow for operating activities for the nine months ended December 31, 2010 from Canadian GAAP to IFRS.

There were no other material adjustments to the cash flow statement as a result of the conversion to IFRS.

(Cdn $ Thousands except unit amounts)

25. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The following are reconciliations of the consolidated balance sheet from Canadian GAAP to IFRS at the respective dates.

		December 31, 2010 (Canadian GAAP Comparative)	IFRS Adjustments	December 31, 2010 (IFRS)
Assets				
Investment properties	24 (i)	$244,828	$60,898	$305,726
Intangible assets	24 (i)	6	(6)	-
Prepaids and deposits		1,721	-	1,721
Other assets	24 (i)	2,299	(369)	1,930
Cash		-	-	-
Assets held for sale	24 (i)	25,506	1,411	26,917
		$274,360	**$61,934**	**$336,294**
Liabilities				
Mortgages and loans payable		$154,340	$ -	$154,340
Subordinated convertible debentures		20,861	-	20,861
Below-market leases	24 (i)	2	(2)	-
Credit facilities		3,966	-	3,966
Bank indebtedness		239	-	239
Accounts payable and accrued liabilities		8,958	-	8,958
Tenant rental deposits		2,940	-	2,940
LP Class B unit liability	24 (iii)	-	-	-
Unit-based compensation liability	24 (iv)	-	320	320
Conversion feature of convertible debentures	24 (v)	-	1,745	1,745
Liabilities related to assets held for sale	24 (i)	13,350	-	13,350
		204,656	**2,063**	**206,719**
Trust unit liability	23 (ii)		-	-
Unitholders' Equity				
Unitholders' capital	24 (ii)	108,904	(60,855)	48,049
Deferred unit capital	24 (iv)	309	(309)	-
Contributed surplus	24 (iv)	2,423	(2,423)	-
Equity portion of convertible debentures	24 (v)	6,511	(6,511)	-
Retained earnings (deficit)		(48,443)	129,969	81,526
		$274,360	**$61,934**	**$336,294**

(Cdn $ Thousands except unit amounts)

25. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Note	December 31, 2009 (Canadian GAAP Comparative)	IFRS Adjustments	January 1, 2010 (IFRS)
Assets				
Investment properties	24 (i)	$260,177	$16,957	$277,134
Intangible assets	24 (i)	122	(122)	-
Prepaids and deposits		2,060	-	2,060
Other assets	24 (i)	1,616	(108)	1,508
Cash		12	-	12
Assets held for sale	24 (i)	-	-	-
		$263,987	**$16,727**	**$280,714**
Liabilities				
Mortgages and loans payable		$156,306	$-	$156,306
Subordinated convertible debentures		24,732	-	24,732
Below-market leases	24 (i)	45	(45)	-
Credit facilities		1,220	-	1,220
Bank indebtedness		-	-	-
Accounts payable and accrued liabilities		4,931	-	4,931
Tenant rental deposits		2,712	-	2,712
LP Class B unit liability	24 (iii)	-	511	511
Unit-based compensation liability	24 (iv)	-	44	44
Conversion feature of convertible debentures	24 (v)		3,486	3,486
Liabilities related to assets held for sale	24 (i)	-	-	-
		189,946	**3,996**	**193,942**
Trust unit liability	24 (ii)	-	42,098	42,098
Unitholders' Equity				
Unitholders' capital	24 (ii)	102,883	(102,883)	-
Deferred unit capital	24 (iv)	45	(45)	-
Contributed surplus	24 (iv)	1,960	(1,960)	-
Equity portion of convertible debentures	24 (v)	6,974	(6,974)	-
Retained earnings (deficit)		(37,821)	82,495	44,674
		$263,987	**$16,727**	**$280,714**