InterRent Real Estate Investment Trust

Interim Consolidated Financial Statements

June 30, 2010
(unaudited - See Notice to Reader)

Notice to Reader

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

InterRent Real Estate Investment Trust

Interim Consolidated Balance Sheets
(unaudited - See Notice to Reader)

	Note	June 30 2010	December 31 2009
			(audited - Note 17)
Assets			
Income producing properties	3	**$ 259,715,617**	$ 258,585,184
Intangibles assets	4	**37,593**	122,306
Prepaids and deposits		**2,045,713**	2,046,992
Cash		**2,962,511**	11,768
Other assets	5	**1,850,830**	1,614,069
Assets related to discontinued operations	14	**1,645,365**	1,606,815
		$ 268,257,629	$ 263,987,134
Liabilities			
Mortgages and vendor take-back loans	7	**$ 155,067,035**	$ 155,621,377
Subordinated convertible debenture	8	**25,543,824**	24,732,368
Below market leases	4	**12,054**	44,621
Credit facilities	6	**6,530,000**	1,220,000
Accounts payable and accrued liabilities		**5,189,108**	4,910,210
Tenant deposits		**2,707,480**	2,697,606
Liabilities related to discontinued operations	14	**702,631**	719,983
		195,752,132	189,946,165
Unitholders' Equity			
Unitholders' capital	9	**107,524,776**	102,883,385
Deferred unit capital	10	**184,843**	44,650
Contributed surplus		**1,959,807**	1,959,807
Equity portion of convertible debenture	8	**6,974,115**	6,974,115
Deficit		**(44,138,044)**	(37,820,988)
		72,505,497	74,040,969
		$ 268,257,629	$ 263,987,134

Subsequent Events (Note 19)

On behalf of the Trust **"Mike McGahan"** Trustee **"Jacie Levinson"** Trustee
(Signed) (Signed)

See accompanying notes.

InterRent Real Estate Investment Trust

Interim Consolidated Statements of Operations and Deficit

(unaudited - See Notice to Reader)

	Note	Six Months Ended June 30 2010	Six Months Ended June 30 2009	Three Months Ended June 30 2010	Three Months Ended June 30 2009
Revenue					
Rental income		**$ 16,946,310**	$ 17,535,382	**$ 8,392,398**	$ 8,792,401
Expenses					
Income producing properties					
Operating costs		**3,947,278**	3,205,314	**1,927,661**	1,622,530
Property taxes		**2,947,110**	2,830,320	**1,472,333**	1,415,074
Utilities		**3,214,330**	3,362,013	**1,130,159**	1,209,674
		10,108,718	9,397,647	**4,530,153**	4,247,278
Earnings before undernoted		**6,837,592**	8,137,735	**3,862,245**	4,545,123
Financing costs		**5,972,086**	6,029,819	**3,036,463**	2,998,656
Administrative costs		**1,804,594**	2,345,895	**954,616**	1,624,300
Amortization		**3,657,570**	3,915,967	**1,873,008**	1,884,082
		11,434,250	12,291,681	**5,864,087**	6,507,038
Net loss from continuing operations		**(4,596,658)**	(4,153,946)	**(2,001,842)**	(1,961,915)
Results from discontinued operations	14	**(16,875)**	(29,273)	**6,150**	(6,448)
Net loss for the period		**(4,613,533)**	(4,183,219)	**(1,995,692)**	(1,968,363)
Deficit at beginning of period		**(37,820,988)**	(25,105,375)	**(41,281,940)**	(27,868,600)
Distributions		**(1,703,523)**	(1,096,971)	**(860,412)**	(548,602)
Deficit at end of period		**$(44,138,044)**	$(30,385,565)	**$(44,138,044)**	$(30,385,565)
Loss per unit					
Basic and diluted - from continuing operations		**$ (0.1626)**	$ (0.2272)	**$ (0.0703)**	$ (0.1073)
Basic and diluted - from discontinued operations		**$ (0.0006)**	$ (0.0016)	**$ 0.0002**	$ (0.0004)
Basic and diluted		**$ (0.1632)**	$ (0.2288)	**$ (0.0701)**	$ (0.1077)
Weighted average units outstanding					
Basic and diluted		**28,269,933**	18,282,874	**28,486,967**	18,286,719

See accompanying notes.

InterRent Real Estate Investment Trust

Interim Consolidated Statements of Cash Flows

(unaudited - See Notice to Reader)

	Note	Six Months Ended June 30 2010	Six Months Ended June 30 2009	Three Months Ended June 30 2010	Three Months Ended June 30 2009
Cash flows from operating activities					
Net loss from continuing operations		**$ (4,596,658)**	$ (4,153,946)	**$ (2,001,842)**	$ (1,961,915)
Add (deduct) items not affecting cash					
Amortization of deferred leasing commissions		**99,747**	65,428	**55,366**	32,088
Unit Based Compensation		**133,363**	130,000	**33,802**	65,000
Amortization of deferred finance costs and fair value adjustment on assumed debt		**293,625**	281,073	**178,362**	143,294
Amortization of tenant inducements		**97,088**	85,389	**47,426**	41,691
Accretion of discount on convertible debenture		**811,456**	691,108	**418,565**	355,344
Amortization		**3,657,570**	3,915,967	**1,873,009**	1,884,082
		496,191	1,015,019	**604,688**	559,584
Changes in non-cash operating assets and liabilities					
Other assets		**(449,173)**	(416,247)	**(415,789)**	(380,987)
Prepaids and deposits		**1,279**	(202,345)	**23,346**	323,663
Accounts payable and accrued liabilities		**272,848**	864,616	**891,799**	1,473,243
Tenant deposits		**9,874**	(4,383)	**51,392**	(34,990)
Cash from operating activities		**331,019**	1,256,660	**1,155,436**	1,940,513
Cash from discontinued operations		**(72,767)**	475,501	**(25,762)**	(23,264)
		258,252	1,732,161	**1,129,674**	1,917,249
Cash flows used in investing activities					
Acquisition of income producing properties		**-**	(3,395,572)	**-**	-
Additions to income producing properties		**(4,720,281)**	(2,422,720)	**(3,203,943)**	(1,527,237)
		(4,720,281)	(5,818,292)	**(3,203,943)**	(1,527,237)
Cash flows from financing activities					
Mortgage and vendor take back loans repayments		**(2,837,518)**	(19,586,612)	**(1,904,059)**	(18,690,489)
Mortgage advances		**2,000,000**	20,671,300	**2,000,000**	18,271,300
Credit facility advances (repayments)		**5,310,000**	4,218,651	**1,615,000**	998,168
Financing fees		**(10,449)**	(155,545)	**(10,451)**	(92,802)
Units issued, net of unit issue costs		**4,501,007**	(23,993)	**4,501,007**	-
Distributions paid		**(1,550,268)**	(1,077,405)	**(772,521)**	(541,427)
		7,412,772	4,046,396	**5,428,976**	(55,250)
Increase in cash during the period		**2,950,743**	(39,735)	**3,354,707**	334,762
Cash (bank indebtedness) at the beginning of period		**11,768**	221,231	**(392,196)**	(153,266)
Cash (bank indebtedness) at end of period		**$ 2,962,511**	$ 181,496	**$ 2,962,511**	$ 181,496
Cash paid for interest		**(4,857,867)**	(5,022,232)	**(1,900,869)**	(1,948,241)

See accompanying notes.

1. FORMATION OF TRUST

InterRent Real Estate Investment Trust (the "Trust") is an unincorporated, open-ended real estate investment trust created pursuant to a Declaration of Trust, dated October 10, 2006, under the laws of the Province of Ontario. The Trust was created to invest in income producing residential properties within Canada.

2. BASIS OF PRESENTATION

The REIT prepares its financial statements in accordance with Canadian generally accepted accounting principles. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2009. The unaudited interim financial statements should be read in conjunction with the audited financial statements of the Trust for the year ended December 31, 2009.

Recent Accounting Pronouncements Issued and Not Yet Applied

Section 1582 – Business Combinations will replace the current Section 1581 – Business Combinations while Sections 1601 – Consolidated Financial Statements and 1602 – Non controlling Interests will replace the current Section 1600 – Consolidated Financial Statements. These new sections are effective for years beginning on or after January 1, 2011 with earlier adoption permitted. Sections 1582 and 1602 will require net assets, non controlling interests and goodwill acquired in a business combination to be recorded at fair value and non controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners, members or participants. The Trust is currently evaluating the impact of adopting these sections on its consolidated financial statements.

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011, when IFRS will be fully adopted. The impact of the adoption of IFRS on the consolidated financial statements of the Trust will be significant and, as such, the Trust has developed a convergence plan in order to transition its financial statement reporting, presentation and disclosure for IFRS to meet the January 1, 2011 deadline. The Trust continues the process of evaluating the potential impact of IFRS on its consolidated financial statements. The process will be an ongoing one as new standards and recommendations are issued by the International Accounting Standards Board and AcSB.

3. INCOME PRODUCING PROPERTIES

The Trust's income producing properties consist of residential rental properties located in Ontario. Two of the Trust's income producing properties are not included below but included in assets relating to discontinued operations (see note 14).

June 30, 2010

	Cost	Accumulated Amortization	Net
Land	**$ 77,862,041**	**$ -**	**$ 77,862,041**
Buildings	**182,286,958**	**14,759,948**	**167,527,010**
Appliances	**3,500,173**	**1,239,562**	**2,260,611**
Building improvements	**15,619,257**	**3,553,302**	**12,065,955**
	$ 279,268,429	**$ 19,552,812**	**$ 259,715,617**

December 31, 2009 (audited)

	Cost	Accumulated Amortization	Net
Land	$ 77,862,041	$ -	$ 77,862,041
Buildings	182,286,958	12,481,361	169,805,597
Appliances	3,310,444	1,001,734	2,308,710
Building improvements	11,088,705	2,479,869	8,608,836
	$ 274,548,148	$ 15,962,964	$ 258,585,184

4. INTANGIBLE ASSETS AND BELOW MARKET LEASES

June 30, 2010

	Cost	Accumulated Amortization	Net
Value of tenant relationships	**$ 5,596,410**	**$ 5,572,204**	**$ 24,206**
Value of in-place leases	**3,095,288**	**3,081,901**	**13,387**
	8,691,698	**8,654,105**	**37,593**
Value of below market leases	**(1,332,662)**	**(1,320,608)**	**(12,054)**
	$ 7,359,036	**$ 7,333,497**	**$ 25,539**

December 31, 2009 (audited)

	Cost	Accumulated Amortization	Net
Value of tenant relationships	$ 5,596,410	$ 5,517,660	$ 78,750
Value of in-place leases	3,095,288	3,051,732	43,556
	8,691,698	8,569,392	122,306
Value of below market leases	(1,332,662)	(1,288,041)	(44,621)
	$ 7,359,036	$ 7,281,351	$ 77,685

5. OTHER ASSETS

	June 30 2010	December 31 2009(audited)
Mortgage holdbacks	**$ 265,000**	$ 265,000
Rents and other receivables, net of allowance for uncollectible amounts	**330,917**	451,277
Furniture and equipment, net of accumulated amortization of $119,411 (2009 - $110,465)	**73,591**	74,697
Mortgages receivable	**560,000**	560,000
Leasehold improvements, net of accumulated amortization $nil (2009 - $44,056)	**-**	35,495
Deferred leasing commissions	**228,004**	108,252
Tenant Inducements, net of the value recognized in the period of $133,397 (2008 - $68,174)	**120,460**	119,348
Loan receivable long-term incentive plan	**272,858**	-
	$ 1,850,830	$ 1,614,069

6. CREDIT FACILITIES

	June 30 2010	December 31 2009 (audited)
Demand operating loan (i)	**$ 2,720,000**	$ 1,220,000
Demand credit facility (ii)	**3,810,000**	-
	$ 6,530,000	$ 1,220,000

(i) The Trust has a $5,000,000 demand operating loan bearing interest at prime plus 1%, secured by a general security agreement and a collateral mortgage in the amount of $5,000,000 constituting a second fixed charge on eighteen of the Trust's properties.

(ii) The Trust has a $4,483,000 demand credit facility with a financial institution bearing interest at prime plus 1.5%, secured by a collateral second mortgage on twelve of the Trust's properties.

7. MORTGAGES AND VENDOR TAKE-BACK LOANS

Mortgages and vendor take back loans are secured by the income producing properties and bear interest at fixed and variable rates (ranging from 2.5% to 9.0%) with a weighted average interest rate of 4.74%.

The mortgages and vendor take-back loans mature at various dates between the years 2010 and 2021.

The aggregate future minimum principal payments, including maturities, excluding two mortgages on properties included in discontinued operations (see note 14) are as follows:

2010 (remaining 6 months)	$ 12,915,218
2011	18,879,648
2012	40,415,378
2013	32,726,682
2014	10,290,923
Thereafter	42,748,722
	157,976,571
Less: Deferred finance costs and fair value adjustments	2,909,536
	$ 155,067,035

8. SUBORDINATED CONVERTIBLE DEBENTURES

	June 30 2010	December 31 2009 (audited)
Convertible debenture 1 (i)	$ 5,483,232	$ 5,415,697
Convertible debenture 2 (ii)	20,060,592	19,316,671
	$ 25,543,824	$ 24,732,368

The Trust accounts for its convertible debentures in accordance with the substance of the contractual arrangement on initial recognition. Therefore, as a result of the conversion feature of the debentures, the Trust's convertible instruments have been segregated between debt and equity based on the fair value of the debt components. The difference between the estimated fair value of the debt at issuance and the face amount is reflected as "Equity portion of convertible debt" in unitholders' equity and as a discount in that amount to the liability portion of the debenture. This discount is being amortized to earnings as financing costs over the term of the debenture.

(i) The Trust has a $5,517,000 subordinated convertible debenture which bears interest at 7.25% and is due on September 22, 2010. The debentures are convertible into Units of the Trust at $5.50 per Unit at the option of the holder. The difference between the estimated fair value of the debt and the face amount was $462,747 and was recorded in unitholders equity. The discount on the debt results in an effective interest rate on the liability of 10%.

(ii) On January 15, 2008, the Trust issued a $25,000,000 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. The difference between the estimated fair value of the debt and the face amount was $6,912,408 and was recorded in unitholders equity. 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 an effective interest rate on the liability of 16.7%

9. UNITHOLDERS' CAPITAL

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.

9. UNITHOLDERS' CAPITAL (Cont'd)

(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.

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 changes in unitholders' capital are as follows:

Unitholders' capital contributions	**Number of Units**	**Amount**
Balance - December 31, 2009	**28,032,206**	**$102,883,385**
Units issued under private placement	2,931,522	4,210,339
Unit issuance costs	-	(23,411)
Units issued under deferred unit plan	17,232	26,080
Units issued under Distribution Reinvestment Plan	99,145	140,383
Units issued under long term incentive plan [note 12]	200,000	288,000
Balance - June 30, 2010	**31,280,105**	**$107,524,776**

The breakdown of unitholders capital is as follows:

	Number of Units	**Amount**
Trust Units	30,943,999	$106,273,291
LP Class B exchangeable units	336,106	1,251,485
	31,280,105	**$107,524,776**

10. 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 receive deferred units in consideration for trustee fees or bonus compensation under the management incentive plan, as the case may be, with the Trust matching the number of deferred units received. 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 changes in deferred unit capital are as follows:

Deferred unit capital		Amount
Balance - December 31, 2009	**$**	**44,650**
Units issued under deferred unit plan		144,095
Reinvested distributions on deferred units		6,830
Accretion of value of matched units over the vesting period		15,348
Units exercised into trust units		(26,080)
Balance - June 30, 2010	**$**	**184,843**

Deferred units issued	
Balance - December 31, 2009	**57,905**
Units issued under deferred unit plan	199,468
Reinvested distributions on deferred units	4,787
Units exercised into trust units	(17,232)
Units cancelled	(5,584)
Balance - June 30, 2010	**239,344**

As of June 30, 2010, none of the deferred units awarded and outstanding either through the matching or reinvestment of distributions have vested.

11. 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 third parties. The maximum number of units allocated to and made available to be issued under the Plan shall not exceed 530,000. 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 closing trading price for the units for the last trading day prior to the grant and otherwise the fair market price as determined by the Board of Trustees. The term of any option granted shall not exceed the maximum permitted time period under applicable regulations. Except as otherwise provided elsewhere in the Unit Option Plan, the options shall be cumulatively exercisable in instalments over the option period at a rate to be fixed by the Board of Trustees. Since inception all unit options granted by the Trust have vested immediately. The Trust will not provide financial assistance to any optionee in connection with the exercise of options.

The Trust had the following unit options outstanding at June 30, 2010:

Number of Options	Exercise Price	Expiry Date
25,000	$ 4.81	June 1, 2012

The above options were not included in the computation of diluted net loss per unit as they are anti-dilutive.

12. 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 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.

13. 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 financial statements.

(i) Accounts Payable and Mortgages Payable

As at June 30, 2010, $83,597 (December 31, 2009 - $85,500) was included in accounts payable and accrued liabilities which is due to a company controlled by an officer of the Trust. The amounts were non interest bearing and due on demand.

On May 10, 2010, two mortgages with balances outstanding totalling $665,195 were settled through the private placement issuance of 445,407 trust units. The mortgages were entered into before the related party became an officer of the Trust.

(ii) Services

During the six month period ended June 30, 2010 the Trust incurred $1,543,833 (June 30, 2009 – 269,152) in services from a company controlled by an officer of the Trust. Of the services received $563,320 (June 30, 2009 – 67,054) has been capitalized to the income producing properties and the remaining amounts are included in operating costs.

14. DISCONTINUED OPERATIONS

As at June 30, 2010, two revenue producing properties were classified as discontinued operations 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 the discontinued operations as well as the results from discontinued operations.

As at	**June 30 2010**	December 31 2009 (audited)
Income producing properties	**$ 1,629,948**	$ 1,592,225
Prepaids and deposits	**13,550**	12,695
Other assets	**1,867**	1,895
Assets related to discontinued operations	**$ 1,645,365**	$ 1,606,815
Mortgages and vendor take-back loans	**663,279**	684,280
Accounts payable and accrued liabilities	**18,852**	20,757
Tenant deposits	**20,502**	14,936
Liabilities related to discontinued operations	**$ 702,633**	$ 719,974

14. DISCONTINUED OPERATIONS (Cont'd)

For the six months ended		June 30 2010		June 30 2009
Rental income	**$**	**108,458**	$	119,318
Rental costs		**125,333**		148,591
Results from discontinued operations	**$**	**(16,875)**	$	(29,273)

15. 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, contributed surplus, deferred unit capital, warrants, equity portion of convertible debentures and deficit.

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 income-producing properties, as well as capital and operating budgets.

The Trust monitors capital using a debt to gross book value ratio, as defined in the declaration of trust which requires the Trust to maintain a debt to gross book value ratio not to exceed 75%. As at June 30, 2010, the debt to gross book value ratio is 65.5% (year ended December 31, 2009 - 65.3%).

16. 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, 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 June 30, 2010, the Trust had accounts receivable of $704,747 (December 31, 2009 - $667,136), net of an allowance for doubtful accounts of $373,830 (December 31, 2009 - $214,000) 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.

16. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Cont'd)

(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 15 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 when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust's reputation.

As at June 30, 2010, the Trust had a $4,483,000 operating facility with a financial institution bearing interest at prime plus 1.5%. This line of credit is secured by collateral second mortgages on twelve of the Trust’s properties. As at June 30, 2010, the Trust had utilized $3,810,000 (December 31, 2009 – nil) of this facility. In addition, the Trust had a $5,000,000 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 eighteen of the Trust’s properties. As at June 30, 2010, the Trust had utilized $2,720,000 (December 31, 2009 - $1,220,000) of this facility.

Notes 7 and 8 reflect the contractual maturities for mortgage and debenture debt of the Trust at June 30, 2010, 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 $190,909,000.

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.

16. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Cont'd)

(e) Market risk

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

At June 30, 2010, all but $2,337,322 or 1.48% of the Trust's long term debt included in note 7 is at fixed interest rates. The Trust's credit facilities bear interest at variable rates. If there was a 100 basis point change in the interest rate, interest expense would have changed by approximately $36,000 for the six month period ended June 30, 2010.

(f) Utilities

The Trust has also entered into supply contracts with utility companies which provide a degree of price certainty for usage. The contracts cover approximately 63% of the Trust’s natural gas and electrical requirements.

While the above utility contracts reduce the risk of exposure to adverse changes in commodity prices, they also reduce the potential benefits of favourable changes in commodity prices.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's financial statement presentation reflecting the additional properties that have been classified as discontinued operations.

18. 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.

19. SUBSEQUENT EVENTS

On July 28, 2010, The Trust completed an arm’s length non-brokered private placement to institutional and high net worth investors. The private placement of 812,265 trust units of InterRent was closed at a price of $1.43 per unit for aggregate gross proceeds of $1,161,539.