InterRent Real Estate Investment Trust

Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

Collins Barrow
Chartered Accountants

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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 statement of financial position as at December 31, 2010 and 2009 and the consolidated statements of operations, deficit and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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 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 of 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, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants
March 24, 2011

InterRent Real Estate Investment Trust

Consolidated Balance Sheets
As at December 31

	Note	2010	2009
			(Note 22)
Assets			
Income producing properties	4	**$ 244,827,824**	$ 233,805,466
Intangible assets	5	**5,673**	122,306
Prepaids and deposits		**1,721,080**	1,834,653
Cash		**-**	11,768
Other assets	6	**2,298,750**	1,525,942
Assets held for sale	10	**25,506,545**	26,687,000
		$ 274,359,872	**$ 263,987,135**
Liabilities			
Mortgages and vendor take-back loans	8	**$ 154,340,214**	$ 142,884,186
Subordinated convertible debentures	9	**20,861,220**	24,732,368
Below market leases	5	**2,025**	44,621
Credit facilities	7	**3,966,237**	1,220,000
Bank indebtedness	7	**239,483**	-
Accounts payable and accrued liabilities		**8,957,414**	4,634,824
Tenant deposits		**2,939,537**	2,483,876
Liabilities related to assets held for sale	10	**13,350,043**	13,946,291
		204,656,173	189,946,166
Unitholders' Equity			
Unitholders' capital	12	**108,903,895**	102,883,385
Deferred unit capital	11	**309,191**	44,650
Contributed surplus	15	**2,422,554**	1,959,807
Equity portion of convertible debentures	9	**6,511,368**	6,974,115
Deficit		**(48,443,309)**	(37,820,988)
		69,703,699	74,040,969
		$ 274,359,872	$ 263,987,135

On behalf of the Trust **"David Nicholds"** Trustee **"Jacie Levinson"** Trustee
(Signed) (Signed)

See accompanying notes.

InterRent Real Estate Investment Trust

Consolidated Statements of Operations and Deficit
For the Years Ended December 31

	Note	2010	2009 (Note 22)
Revenue			
Rental income		**$ 31,922,034**	$ 31,773,178
Expenses			
Income producing properties			
Operating costs		**6,756,434**	6,149,731
Property taxes		**5,031,688**	5,036,079
Utilities		**5,156,793**	5,413,180
		16,944,915	16,598,990
Earnings before undernoted		**14,977,119**	15,174,188
Financing costs		**11,380,895**	11,325,132
Administrative costs		**3,507,705**	6,956,922
Amortization	16	**7,113,370**	6,696,828
		22,001,970	24,978,882
Net loss from continuing operations		**(7,024,851)**	(9,804,694)
Net income (loss) from discontinued operations	10	**28,475**	(272,680)
Net loss for the year		**(6,996,376)**	(10,077,374)
Deficit at beginning of year		**(37,820,988)**	(25,105,375)
Distributions		**(3,625,945)**	(2,638,239)
Deficit at end of year		**$ (48,443,309)**	$ (37,820,988)
Income (loss per unit)			
Basic and diluted - from continuing operations		**$ (0.233)**	$ (0.449)
Basic and diluted - from discontinued operations		**0.001**	(0.012)
Basic and diluted		**$ (0.232)**	$ (0.462)
Weighted average units outstanding			
Basic and diluted		**30,172,250**	21,817,403

See accompanying notes.

InterRent Real Estate Investment Trust

Consolidated Statements of Cash Flows
For the Years Ended December 31

	Note	2010	2009 (Note 22)
Cash flows from operating activities			
Net loss from continuing operations		**$ (7,024,851)**	$ (9,804,694)
Add items not affecting cash			
Amortization	16	**7,113,370**	6,696,828
Unit-based compensation	11	**267,284**	992,847
Amortization of deferred finance costs and fair value adjustments on assumed debt		**462,556**	557,003
Tenant inducement		**218,245**	140,390
Accretion of discount on convertible debenture		**1,645,852**	1,432,553
Amortization of deferred leasing commissions		**320,666**	139,734
		3,003,122	154,661
Changes in non-cash operating assets and liabilities			
Other assets		**(1,060,495)**	(560,426)
Prepaids and deposits		**113,573**	(199,596)
Accounts payable and accrued liabilities		**4,331,424**	1,241,499
Tenant deposits		**455,662**	(14,720)
Cash from continuing operating activities		**6,843,286**	621,418
Cash flows used in investing activities			
Acquisition of income producing properties, net of cash acquired		**-**	(3,395,572)
Purchase of furniture, equipment and leasehold improvements		**(7,843)**	(5,486)
Additions to income producing properties		**(18,036,666)**	(4,622,370)
		(18,044,509)	(8,023,428)
Cash flows from financing activities			
Mortgage and vendor take-back loans repayments		**(11,226,041)**	(22,768,700)
Mortgage advances		**22,288,517**	22,451,550
Credit facility advances (repayments)		**2,746,237**	(2,100,000)
Financing fees		**(69,004)**	(208,361)
Units issued, net of unit issue costs		**5,366,374**	13,077,400
Units issued upon the exercise of stock options		**-**	558,231
Units purchased and cancelled		**-**	(873,340)
Repayment of subordinated convertible debenture		**(5,517,000)**	-
Deferred units purchased and cancelled		**-**	(466,800)
Distributions paid		**(3,251,794)**	(2,468,453)
		10,337,289	7,201,527
Cash from discontinued operations		**612,683**	(8,980)
Increase (decrease) in cash during the year		**(251,251)**	(209,463)
Cash at the beginning of year		**11,768**	221,231
Cash (bank indebtedness) at end of year		**$ (239,483)**	$ 11,768

Supplemental disclosure

Cash paid for interest		**$ 10,044,463**	$ 9,311,734

See accompanying notes.

1. FORMATION OF TRUST

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, under the laws of the Province of Ontario. The Trust was created to invest in income producing residential properties within Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Basis of Consolidation

The consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated upon consolidation.

Income Producing Properties and Intangibles

Income producing properties and intangibles are stated at cost less accumulated amortization.

The Trust records an impairment loss whenever the carrying amount of an income producing property or intangible is not recoverable and exceeds its fair value. These assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

In accordance with the requirements of the CICA Handbook, when acquiring revenue producing properties, the Trust allocates a portion of the purchase price to in-place operating leases that are acquired in connection with the real estate property, to a separate tenant relationship intangible asset relating to the possibility or probability that existing tenants will renew their leases and to above or below market lease values.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments

The Trust follows the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income and Section 3855, Financial Instruments - Recognition and Measurement.

All financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are re-measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

Financial assets

Held for trading assets are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity assets are subsequently re-measured at amortized cost using the effective interest rate method.

Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available-for-sale assets are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.

Financial liabilities

Held for trading liabilities are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities are subsequently re-measured at amortized cost using the effective interest rate method.

Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income. To date there has not been any other comprehensive income and accordingly, a statement of comprehensive income has not been presented.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The Trust has classified its financial instruments as follows:

Financial Instrument	Classification
Cash (bank indebtedness)	Held for trading
Rents and other receivables	Loans and receivables
Mortgage holdbacks	Loans and receivables
Mortgages receivable	Loans and receivables
Credit facilities	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Tenant deposits	Other liabilities
Mortgages and vendor take-back loans	Other liabilities
Subordinated convertible debentures	Other liabilities

The Trusts financial instruments measured at fair value on the balance sheet consist of cash which is measured at level 1 of the fair value hierarchy. There are three levels of the fair value hierarchy as follows:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Amortization

Amortization of income producing properties, intangibles, other assets and below market leases is provided on the following basis and rates:

	Basis	Years
Income producing properties		
• Buildings	Straight-line	40
• Building improvements	Straight-line	4-7
• Appliances and equipment	Straight-line	7
Intangibles		
• Tenant relationships	Straight-line	2
• In-place leases	Straight-line	2
Other assets		
• Furniture and equipment	Straight-line	7
• Leasehold improvements	Over the life of the lease	
Below market leases	Straight-line	2

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Disposal of Long-Lived Assets

Disposal of income producing properties and the related intangibles are classified as held for sale, and the results of operations and cash flows associated with the assets disposed of are reported separately as discontinued operations. A long-lived asset is classified as an asset held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one-year period. For unsolicited interest in a long-lived asset, the asset is classified as held for sale only if all the conditions of the purchase and sale agreement have been met, a sufficient purchaser deposit has been received and the sale is probable and expected to be completed shortly after the end of the current period.

Leasing Commissions

Compensation paid to leasing agents are initially deferred and included in other assets and amortized over the respective term of the lease and included in the determination of operating costs for the income producing properties. In the event that a tenant vacates its leased space prior to the contracted term of the lease, any unamortized balance will be written-off to operations.

Tenant Inducements

Tenant inducements such as free rent or move-in allowances, which are provided upon signing a lease with a term of one year or more, are initially deferred and included in other assets, and amortized over the respective term of the lease and included in the determination of revenues from income producing properties. In the event that a tenant vacates its leased space prior to the contractual term of the lease, any unamortized balance will be written-off to operations.

Convertible Debentures

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 accreted to the principal face amount as additional interest expense over the term of the liability using the effective interest rate method.

Deferred Financing Costs

Financing costs, including Canada Mortgage and Housing Corporation ("CHMC") insurance premiums and fees for mortgages, are netted against the carrying value of the related debt and amortized into interest expense using the effective interest rate method over the term of the respective debt.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognition

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

Revenue from the sale of income producing properties held for sale is recognized when all conditions of the purchase and sale agreement have been met, a sufficient purchaser deposit has been received and there is reasonable assurance on the collectability of any outstanding balance.

Unit Issuance Costs

Costs incurred in connection with the issuance of units are netted against the proceeds received.

Income Taxes

The Trust is following the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Income (Loss) Per Unit

Basic income (loss) per unit is calculated based on the weighted average number of units outstanding during the reporting period. The treasury stock method is used to compute the dilutive effect of options, warrants and similar instruments.

Unit-Based Compensation and Unit-Based Payments

The Trust uses the fair value method of accounting for unit-based compensation granted to trustees, officers and employees. The Trust records the expenses associated with such compensation on a straight-line basis over the vesting period of such compensation payments with a corresponding increase to contributed surplus. Upon exercise of the unit options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to unitholders capital. The Trust has not incorporated an estimated forfeiture rate for unit options that will not vest, rather, the Trust accounts for actual forfeitures as they occur.

Units issued as consideration in the acquisition of income producing properties are valued based on the fair value of the units at the time the Trust enters into binding purchase agreements.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Deferred Unit Plan

The deferred unit plan is described in Note 11. Deferred units granted to trustees, officers and employees in respect of their trustee fees and management incentive plan, respectively, are considered to be in respect of past services and are recognized as compensation expense upon grant. Deferred units granted relating to amounts matched by the Trust are considered to be in respect of future services and are recognized in compensation expense over the vesting period. The unvested deferred units earn additional deferred units for the distributions that would otherwise have been paid on the deferred units had they instead been issued as Trust Units on the date of grant (or the date they were exchangeable for Trust Units). No additional compensation cost is recorded for additional deferred units issued.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Significant estimates are made with respect to:

i) economic useful life of depreciable assets for purposes of calculating amortization;

ii) fair values of financial instruments;

iii) the valuation of unit-based compensation and unit-based payments;

iv) the valuation of intangible assets and impairment of income producing properties;

v) the allocation of purchase price on acquisitions of income producing properties.

Future Accounting Changes

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. 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. All three sections come into effect for financial periods beginning January 1, 2011 with prospective application. All three sections must be adopted concurrently. Early adoption of these sections is permitted but the Trust has elected not to early adopt.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

In February 2008, the Canadian Accounting standards Board ("AcSB") confirmed that Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Trust will apply accounting policies consistent with IFRS beginning with its interim financial statements for the quarter ended March 31, 2011. The Trust's 2011 interim and annual financial statements will include comparative 2010 financial statements, adjusted to comply with IFRS. The impact of the adoption of IFRS on the consolidated financial statements of the Trust will be significant and, as such, the Trust is in the process of executing its convergence plan to transition its financial statement reporting, presentation and disclosure to IFRS. The Trust will continue to evaluate the impact of IFRS on its consolidated financial statements. The process will be ongoing as new standards and recommendations are issued by the International Accounting Standards Board.

3. ACQUISITIONS

(i) The Trust acquired no income producing properties during the year ended December 31, 2010.

(ii) During the year ended December 31, 2009, the Trust acquired an income producing property for a total acquisition cost of $3,395,572.

Acquisitions

Cash paid	**$**	**3,395,572**
Allocation of purchase price to income producing properties	$	3,267,202
Allocation of purchase price to intangibles and below market leases and other assets		128,370
	$	**3,395,572**
Suites acquired		**68**

4. INCOME PRODUCING PROPERTIES

The Trust's income producing properties consist of residential rental properties located in Ontario. The Trust has a total of 3,998 suites of which 482 suites, represented by seventeen properties, are not included below but included in assets related to discontinued operations (see Note 10).

December 31, 2010

	Cost	Accumulated Amortization	Net
Land	**$ 70,276,408**	**$ -**	**$ 70,276,408**
Buildings	**165,063,871**	**15,408,233**	**149,655,638**
Appliances and equipment	**3,277,760**	**1,310,792**	**1,966,968**
Building improvements	**27,552,632**	**4,623,822**	**22,928,810**
	$ 266,170,671	**$ 21,342,847**	**$ 244,827,824**

December 31, 2009

	Cost	Accumulated Amortization	Net
Land	$ 70,276,408	$ -	$ 70,276,408
Buildings	165,063,871	11,281,636	153,782,235
Appliances and equipment	2,889,089	877,345	2,011,744
Building improvements	9,904,637	2,169,558	7,735,079
	$ 248,134,005	$ 14,328,539	$ 233,805,466

5. INTANGIBLE ASSETS AND BELOW MARKET LEASES

December 31, 2010

	Cost	Accumulated Amortization	Net
Value of tenant relationships	**$ 4,985,330**	**$ 4,981,677**	**$ 3,653**
Value of in-place leases	**2,759,576**	**2,757,556**	**2,020**
	7,744,906	**7,739,233**	**5,673**
Value of below market leases	**(1,230,310)**	**(1,228,285)**	**(2,025)**
	$ 6,514,596	**$ 6,510,947**	**$ 3,648**

December 31, 2009

	Cost	Accumulated Amortization	Net
Value of tenant relationships	$ 4,985,330	$ 4,906,580	$ 78,750
Value of in-place leases	2,759,576	2,716,020	43,556
	7,744,906	7,622,600	122,306
Value of below market leases	(1,230,310)	(1,185,689)	(44,621)
	$ 6,514,596	$ 6,436,911	$ 77,685

6. OTHER ASSETS

	2010	2009
Mortgage holdbacks	**$ 270,000**	$ 255,000
Rents and other receivables, net of allowance for uncollectable amounts	**511,446**	403,236
Furniture and fixtures, net of accumulated amortization of $128,859 (2009 - $110,746)	**64,143**	74,697
Mortgages receivable	**560,000**	560,000
Leasehold improvements, net of accumulated amortization $nil (2009 - $44,056)	**-**	35,495
Deferred leasing commissions	**368,602**	103,930
Tenant inducements	**256,151**	93,584
Loan receivable long-term incentive plan (Note 14)	**268,408**	-
	$ 2,298,750	$ 1,525,942

7. CREDIT FACILITIES

	2010	2009
Demand operating loan (i)	**$ 310,000**	$ 1,220,000
Demand credit facility (ii)	**3,656,237**	-
	$ 3,966,237	$ 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 (2009 – eighteen) of the Trust's properties.

(ii) The Trust has a $4,103,000 (2009 - $4,483,000) demand credit facility with a financial institution bearing interest at prime plus 3.0%, secured by collateral mortgages on seven (2009 - eleven) of the Trust's properties.

8. MORTGAGES AND VENDOR TAKE-BACK LOANS

Mortgages and vendor take-back loans are secured by the income producing properties and bear interest at fixed rates with a weighted average interest rate of 4.69%.

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

Excluding mortgages on the seventeen properties included in discontinued operations (see Note 10), the aggregate future minimum principal payments, including maturities, are as follows:

2011	$ 26,405,733
2012	53,223,098
2013	27,955,881
2014	9,792,605
2015	3,501,585
Thereafter	35,951,742
	156,830,644
Less: Deferred finance costs and fair value adjustments	2,490,430
	$ 154,340,214

9. SUBORDINATED CONVERTIBLE DEBENTURES

	2010	2009
Convertible debenture 1 [(i)]	$ -	$ 5,415,697
Convertible debenture 2 [(ii)]	20,861,220	19,316,671
	$ 20,861,220	$ 24,732,368

(i) The Trust had a $5,517,000 subordinated convertible debenture which bore interest at 7.25% which was settled with cash on its maturity date of September 22, 2010. The difference between the estimated fair value of the debt and the face amount was $462,747 and was initially recorded in unitholders equity and moved to contributed surplus on settlement. The discount on the debt resulted 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%

10. DISCONTINUED OPERATIONS

In 2010, the Trust disposed of four properties (35 suites) (2009 – one property, 22 suites) and classified seventeen income producing properties (482 suites) 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.

	2010	2009
Income producing properties	**$ 25,187,527**	$ 26,371,943
Prepaids and deposits	**133,678**	225,034
Other assets	**185,340**	90,023
Assets held for sale	**$ 25,506,545**	$ 26,687,000
Mortgages and vendor take-back loans	**$ 12,433,941**	$ 13,421,472
Accounts payable and accrued liabilities	**662,835**	296,151
Tenant deposits	**253,267**	228,668
Liabilities related to assets held for sale	**$ 13,350,043**	$ 13,946,291

The following table sets forth the results of operations associated with the properties, reported as discontinued operations:

	2010	2009
Rental revenue	**$ 3,431,268**	$ 3,646,424
Rental expenses	**3,472,609**	3,871,399
Loss	**(41,341)**	(224,975)
Gain on disposal	**595,958**	(47,705)
Loss on write-down of properties held for sale	**(526,142)**	-
Discontinued operations	**$ 28,475**	$ (272,680)

Four income producing properties that were classified as discontinued operations were written down to the estimated recoverable amount based on the expected net proceeds on sale.

11. 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 deferred unit plan was approved, without change, on June 28, 2010. The changes in deferred unit capital are as follow:

Deferred unit capital		**Amount**
Balance - December 31, 2008	**$**	**1,073,382**
Units issued under deferred unit plan		102,026
Reinvested distributions on deferred units		19,912
Accretion of value of matched units over the vesting period		890,821
Value allocated to unit capital on exercise of deferred units		(1,429,091)
Deferred units purchased and cancelled		(612,400)
Balance - December 31, 2009	**$**	**44,650**
Units issued under deferred unit plan		235,695
Reinvested distributions on deferred units		23,337
Accretion of value of matched units over the vesting period		31,589
Deferred units exercised into Trust Units		(26,080)
Balance - December 31, 2010	**$**	**309,191**

Deferred units issued	**Amount**
Balance - December 31, 2008	**354,362**
Units issued under deferred unit plan	748,623
Reinvested distributions on deferred units	28,074
Deferred units exercised into Trust Units	(751,208)
Deferred units purchased and cancelled	(321,946)
Balance - December 31, 2009	**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**

During 2009, 1,073,154 deferred units vested of which 751,208 were exercised into Trust Units and 321,946 were purchased and cancelled for approximately $466,800. The excess of the average value of the deferred units over the cash paid amounted to $145,600 and was credited to contributed surplus.

As of December 31, 2010, none of the deferred units awarded and outstanding either through the matching or reinvestment of distributions have vested.

12. 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.

(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.

12. UNITHOLDERS' CAPITAL (Cont'd)

The changes in unitholders' capital are as follows:

Unitholders' capital contributions	**Number of Units**	**Amount**
Balance - December 31, 2008	**18,275,700**	**$ 89,454,925**
Units Issued under distribution reinvestment plan	32,411	48,347
Issued from private placement	9,333,333	14,000,000
Unit issuance costs	-	(922,600)
Units issued from options exercised	115,100	626,722
Issued under the deferred unit plan (Note 11)	751,208	1,429,091
Units purchased and cancelled (i)	(475,546)	(1,753,100)
Balance - December 31, 2009	**28,032,206**	**$ 102,883,385**
Units Issued under distribution reinvestment plan	254,293	359,647
Issued from private placement	3,743,787	5,371,878
Unit issuance costs	-	(25,095)
Units issued under long-term incentive plan (Note 14)	200,000	288,000
Units issued under the deferred unit plan	17,232	26,080
Balance - December 31, 2010	**32,247,518**	**$ 108,903,895**

(i) In December 2009, the Trust agreed to purchase and cancel 475,546 units held by a former officer and trustee of the Trust for approximately $873,000. The excess of the average stated capital over the cash paid amounted to $879,760 and was credited to contributed surplus (see Note 15).

The breakdown of unitholders capital is as follows:

	Number of Units	**Amount**
Trust Units	32,247,518	$ 108,903,895
LP Class B exchangeable units (ii)	-	-
	32,247,518	**$ 108,903,895**

(ii) On October 1, 2010, all of the outstanding LP Class B units in InterRent Holdings Limited Partnership were exchanged, in accordance with the Exchange Agreement, for Trust units on a one-for-one basis. This exchange has helped to ensure that the Trust is compliant with the REIT exemption provided as part of the updated SIFT legislation enacted in 2007.

13. 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 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 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. Except as otherwise provided elsewhere in the unit option Plan, the options shall vest over the term of the option at time(s) fixed by the Board of Trustees. Since inception all 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 issued options to acquire units as follows:

	2010		2009	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	**90,000**	**$ 4.81**	505,000	$ 4.81
Exercised during the year	**-**	**$ -**	(115,100)	$ (4.81)
Expired during the year	**(65,000)**	**$ (4.81)**	(299,900)	$ (4.81)
Outstanding, end of year	**25,000**	**$ 4.81**	90,000	$ 4.81
Exercisable	**25,000**	**$ 4.81**	90,000	$ 4.81

The Trust had the following unit options outstanding at December 31, 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.

14. 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.

15. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

		2010		2009
Beginning balance	**$**	**1,959,807**	$	1,002,938
Equity portion of matured subordinated convertible debenture (Note 9)		**462,747**		-
Value of unit options exercised		**-**		(68,491)
Discount on repurchase of units (Note 12)		**-**		879,760
Discount on repurchase of deferred units (Note 11)		**-**		145,600
Ending balance	**$**	**2,422,554**	$	1,959,807

16. AMORTIZATION

		2010		2009
Amortization of income producing properties	**$**	**6,972,966**	$	5,780,825
Amortization of intangible assets and below market leases		**74,988**		834,985
Amortization of leasehold improvements, furniture and fixtures		**65,416**		81,018
	$	**7,113,370**	$	6,696,828

17. 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

As at December 31, 2010, $317,200 (2009 - $85,500) was included in accounts payable and accrued liabilities which is due to a company that is controlled by an officer of the Trust. The amounts were non-interest bearing and due on demand.

(ii) Services

During the year the Trust incurred $3,732,000 (2009 - $1,178,000) in property and project management services from a company controlled by an officer of the Trust. Of the services received approximately $1,659,000 (2009 - $192,000) has been capitalized to the income producing properties and the remaining amounts are included in operating and administrative costs.

(iii) Promissory Note

In 2009, the Trust was advanced $1,200,000 by way of a promissory note from a company controlled by an individual who became an officer and trustee of the Trust during that year. The loan was repaid in September 2009 along with interest of $10,750. Of the $1,200,000, $600,000 related to a reimbursement of legal fees to this company of which $367,500 was recorded as a unit issue cost and the remainder is included in administrative costs.

18. 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 below 75%. As at December 31, 2010, the debt to gross book value ratio is 64.7% (2009 – 65.3%).

19. INCOME TAXES

Future Income Taxes

The Trust is a "mutual fund trust" as that term is defined in the Income Tax Act (Canada) (the "Act"). Ordinarily, mutual fund trusts are not taxable on their income to the extent the income is distributed to their unit holders. Under the terms of the declaration of trust, the Trust is required to make income distributions not less than the amount necessary to ensure that the Trust would not be liable to pay income taxes. Under these circumstances GAAP would not ordinarily require the Trust to account for future income tax assets or liabilities.

However, subsequent to the declaration of trust, legislation affecting the tax treatment of publicly traded specified investment flow-through entities (the" SIFT Rules") were announced in 2007 and 2008 and recently passed into law in March 2009. Under the SIFT rules, publicly traded trusts that do not meet the "REIT Exemption" are subject to tax on their income distributions. Similarly, SIFT partnerships are subject to tax on their "non-portfolio earnings". There are no similar REIT Exemptions for SIFT partnerships. The tax rates in both cases are substantially equivalent to general corporate income tax rates.

On December 16, 2010, proposed amendments to the legislation were announced easing the criteria regarding the characterization of income and the calculation of "gross REIT revenue". The proposed amendments were not substantially enacted as at December 31, 2010.

As the SIFT rules are currently worded in the Act the Trust may not have qualified for the REIT Exemption at the beginning of the year. Also, one of the partnerships within the Trust's organization would be considered a SIFT Partnership at the beginning of the year because certain outstanding units were exchangeable to units of the Trust during the year, and therefore be subject to tax under the SIFT rules. As the Trust has not made any income distributions and the partnership has no "non-portfolio earnings" the SIFT Rules although applicable have no impact.

In order to be exempt from the SIFT Rules it is necessary to meet the REIT Exemption throughout the year. By virtue of the exchange of all of the outstanding exchangeable partnership units into units of the Trust during the year and the announcement of the proposed amendments, should they become substantially enacted, the Trust would now meet the REIT Exemption and if it continues to do so throughout any subsequent year, will not be subject to the SIFT Rules.

As the Trust did not meet the REIT Exemption throughout 2010, GAAP requires the Trust to recognize future income tax assets and liabilities based on temporary differences. The temporary differences that give rise to future income tax assets and future income tax liabilities are presented below:

	2010	2009
Future tax assets		
Tax asset related to operating losses	**$ 7,032,000**	$ 5,385,000
Tax asset (liability) related to differences in tax and book values	**4,593,000**	3,246,000
	11,625,000	8,631,000
Less: Valuation allowance	**(11,625,000)**	(8,631,000)
Net future income tax assets	**$ -**	$ -

19. INCOME TAXES (Cont'd)

The Trust has approximately $28,128,000 of available non-capital losses for income tax purposes which can be used to reduce taxable income in future years. These losses begin to expire in the 2026 fiscal year-end.

20. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

a) Overview

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

b) Credit Risk

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

The amounts disclosed as accounts receivable in the consolidated balance sheet are net of allowances for doubtful accounts, estimated by the Trust's management based on prior experience and their assessment of the current economic environment. The Trust establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures and an overall loss component established based on historical trends. At December 31, 2010, the Trust had accounts receivable of $889,701, net of an allowance for doubtful accounts of $378,255 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.

20. 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 18 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 December 31, 2010, 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 December 31, 2010, the Trust had utilized $310,000 of this facility. In addition, the Trust had a $4,103,000 operating facility with a financial institution bearing interest at prime plus 3.0%. This line of credit is secured by collateral second mortgages on seven of the Trust's properties. As at December 31, 2010, the Trust had utilized $3,656,237 of this facility.

Notes 8 and 9 reflect the contractual maturities for mortgage and debenture debt of the Trust at December 31, 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 $182,986,000.

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.

20. 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 cash flows or the fair value of its financial instruments.

At December 31, 2010, all of the Trust's long-term debt is at fixed interest rates therefore, any change in the interest rate would not affect the cash flows. 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 $56,500 for the period ended December 31, 2010.

f) Utilities

The Trust has natural gas supply contracts which provide a degree of price certainty for usage. The contracts cover approximately 30% of the Trust’s natural gas requirements.

The Trust also has an electricity supply contract, which provides a degree of price certainty for usage. The contracts cover approximately 50% of the Trust’s electricity 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.

21. 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.

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's financial statement presentation reflecting properties that have been classified as discontinued operations (see Note 10).

23. SUBSEQUENT EVENTS

The Trust completed the sale of five properties (84 suites) from January 1, 2011 to March 24, 2011 that were included in discontinued operations (Note 10).

On March 24, 2011 the Trust acquired an income producing property (70 suites) for a purchase price of $3,600,000.