INTERRENT

REIT

InterRent Real Estate Investment Trust

Management's Discussion and Analysis

For The Year Ended December 31, 2010

March 24, 2011

Table of Contents

FORWARD-LOOKING STATEMENTS

Caution Regarding Forward-Looking Statements

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

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

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

- Overall national economic activity
- Regional economic factors, such as employment rates
- Inflationary/deflationary factors
- Long, medium and short term interest rates
- Availability of financing
- Housing starts
- The impact of accounting principles to be adopted by the Trust effective January 1, 2011 under International Financial Reporting Standards ("IFRS") which includes application to the Trust's 2010 comparative financial results

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

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

INTERRENT REAL ESTATE INVESTMENT TRUST

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

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

DECLARATION OF TRUST

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

INVESTMENT GUIDELINES

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

OPERATING POLICIES

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

At December 31, 2010 the Trust was in material compliance with all investment guidelines and operating policies stipulated in the DOT.

ACCOUNTING POLICIES

InterRent REIT's accounting policies are described in Note 2 of the audited consolidated financial statements for the year ended December 31, 2010. These statements were prepared in accordance with the recommendations of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In applying these policies, in certain cases it is necessary to use estimates, which management determines using information available to the Trust at the time. Management reviews key estimates on a quarterly basis to determine their appropriateness and any change to these estimates is applied prospectively in compliance with Canadian generally accepted accounting principles. 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.

NON-GAAP MEASURES

Distributable Income, Funds from Operations and Net Operating Income (or, in each case, substantially similar terms) are measures sometimes used by Canadian real estate investment trusts as indicators of financial performance, however they do not have standardized meanings prescribed by Canadian generally accepted accounting principles ("GAAP").

Distributable Income ("DI") reflects the ability of the Trust to earn income and to make distributions of cash to Unitholders and therefore is considered a measure of cash available for distribution. DI is not a measure defined by GAAP. DI as computed by the Trust may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to distributable income reported by other such issuers. Generally, DI differs from net income, a GAAP measure, in that to determine DI for any period, net income is adjusted by:

1. adding or adding back the following items, as the case may be: depreciation, amortization (except for amortization of deferred financing costs incurred after the date of Closing), future income tax expense, losses on dispositions of assets and amortization of any net discount on long-term debt assumed from vendors of properties at rates of interest less than fair value incurred after the date of Closing;
2. deducting the following items: future income tax credits, maintenance capital expenditures, interest on convertible debentures to the extent not already deducted in computing net income, gains on dispositions of assets and amortization of any net premium on long-term debt assumed from vendors of properties at rates of interest greater than fair value incurred after the date of Closing; and,
3. any other adjustments as determined by the Trustees in their discretion.

Funds from Operations ("FFO") is a measure of the operating performance of the Trust based on the funds generated from the business before reinvestment or provision for other capital needs. FFO is not a measure defined by GAAP. FFO as computed by the Trust may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to FFO reported by other such issuers. Management considers FFO to be an important measure of the Trust's operating performance and is an indicative measure of the Trust's cash generating activities. FFO differs from net income, a GAAP measure, in that to determine FFO for any period, net income is adjusted by excluding gains or losses from sales of depreciable real estate and extraordinary items plus certain depreciation and amortization expenses.

Net Operating Income ("NOI") is a key measure of operating performance used in the real estate industry and includes all rental revenues generated at the property level, less related direct costs such as utilities, realty taxes, insurance and on site maintenance wages and salaries. NOI is not a measure defined by GAAP. NOI as computed by the Trust may not be comparable to similar measures by other real estate investment trusts or companies. As one of the factors that may be considered relevant by readers, management believes that NOI is a useful supplemental measure that may assist prospective investors in assessing the Trust.

Readers are cautioned that DI, FFO and NOI are not alternatives to measures under GAAP and should not, on their own, be construed as indicators of the Trust's performance or cash flows, measures of liquidity or as measures of actual return on Units of the Trust. These non-GAAP measures, as presented, should only be used in conjunction with the consolidated financial statements of the Trust. See "*Risks and Uncertainties".* For a complete description of the Trust's definition of Distributable Income, Funds from Operations and Net Operating Income, refer to the "*Glossary" in the AIF.*

OVERVIEW

BUSINESS OVERVIEW AND STRATEGY

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

InterRent REIT's strategy is to maintain and develop a portfolio of properties to generate an attractive long term return to unitholders. This will be achieved primarily within secondary population centres that have growing and stable economies and stable market vacancies. To realize this strategy, it has been determined that the present focus should be on stabilizing the existing portfolio by improving operating efficiencies, improving the impression of the properties, and minimizing vacancies. In addition, management will be looking to potential acquisitions at reasonable costs to further strengthen the portfolio.

The Trust believes that Ontario multi-residential real estate is a favourable asset class to operate within because it offers stability of cash flow and an opportunity for expansion.

InterRent REIT is focused on medium-sized, multi-residential properties in Ontario, targeting working and middle class, long term renters. Within this market, we believe there are a total of approximately 624,000 suites. Many of these properties are held within a fragmented and aging ownership profile and offer significant opportunities to complete strategic acquisitions.

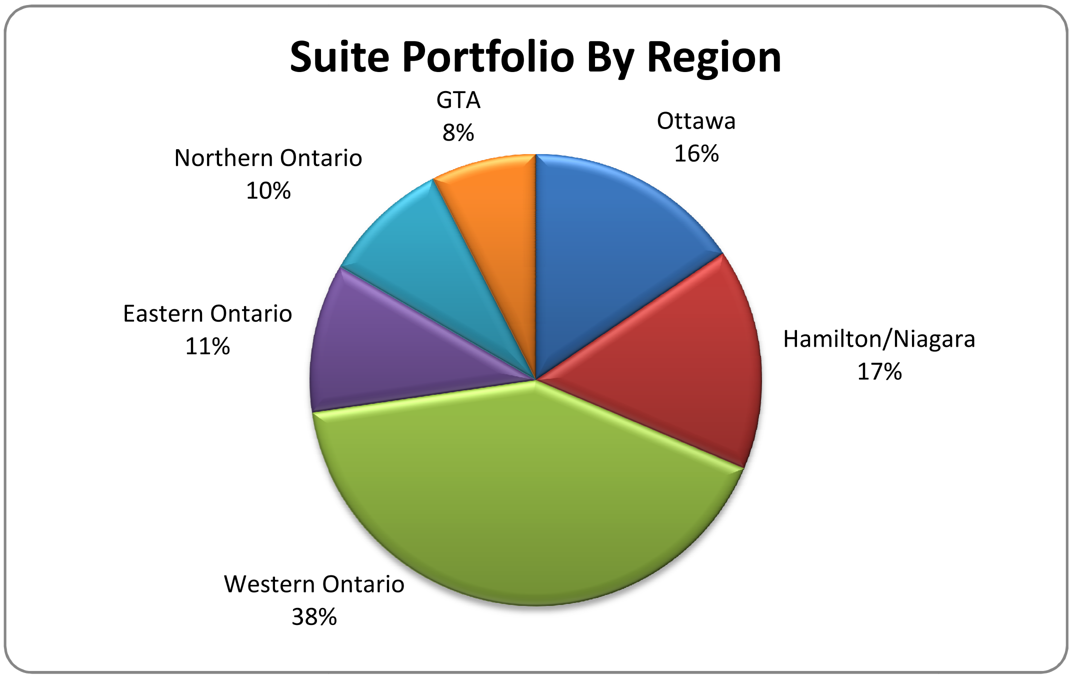
OUTLOOK

- Management continues to focus attention on continuous improvement throughout the portfolio with the goal of driving higher rents and maintaining stable occupancy rates.

- Management will continue to focus attention on energy saving initiatives such as replacing old boilers with newer energy efficient systems and moving from hydro to natural gas wherever feasible. Management has completed, for the most part, replacement of all common area light fixtures with energy efficient light fixtures, installed water saving devices throughout the portfolio, and the first phase of its boiler replacement program.
- Management will continue to implement a comprehensive marketing program to reinforce branding, drive rent and maintain occupancy levels.
- Management is aggressively pursuing above guideline increases for rent given the capital expenditures invested in the properties over the past twelve months. Each property has been reviewed and applications are in various states of preparation and review before submission to the Landlord and Tenant Board. Management expects to begin rolling out the increases in the early part of Q2.
- The Trust continues to refinance maturing mortgage debt at attractive market rates. The Trust believes that it is well positioned to meet its financing objectives at reasonable rates.
- The Trust is focusing efforts on training programs and reinforcing best practices for its staff to ensure that operational efficiencies are achieved. All operational and customer-facing staff have undergone a service excellence training program.
- Management is looking to grow InterRent REIT in a strategic structured manner. The purchase of a property representing 70 suites was closed on March 24, 2011.

PORTFOLIO SUMMARY

Currently, InterRent REIT's entire portfolio is situated in the province of Ontario. The majority of the Trust's properties are located in Ontario's secondary population centres. Management believes that secondary population centres tend to be more stable, providing higher capitalization rates and less exposure to the condominium units available in the Greater Toronto Area (GTA). In keeping with management's strategy of maximizing returns for unitholders and focusing on clusters of buildings within geographical proximity to each other in order to build operational efficiencies and attract focused, professional staff, properties are reviewed on a regular basis to determine if they should be kept or sold. The Trust started the year with 4,033 suites. During the year the Trust sold four properties totalling 35 suites and has seventeen properties totalling 482 suites classified as discontinued operations. Continuing operations as at December 31, 2010, consists of 3,516 suites. This review process will continue through 2011 as Management expects to sell other properties that are not consistent with our strategy. Management has identified several cities within its geographical clusters for growth. We are actively looking for purchase opportunities within the target cities in order to build our acquisition pipeline. The following graph and table shows our suite mix by region as well as our average rent by region for December 2010.



Region	Number of Suites	Average Rent
Eastern Ontario	397	$780
GTA	263	$971
Hamilton/Niagara	592	$858
Northern Ontario	341	$706
Ottawa	579	$949
Western Ontario	1,344	$759
Total Continuing Operations	3,516	$820

PERFORMANCE HIGHLIGHTS

The following table presents a summary of InterRent's operating performance for the past eight quarters:

In $000's, except per Unit amounts	2010				2009			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	$8,593	$7,972	$7,615	$7,742	$7,953	$7,973	$7,948	$7,899
Property NOI	4,408	4,205	3,574	2,790	3,236	4,448	4,170	3,321
Net Income (loss) from continuing operations	(1,488)	(1,174)	(1,938)	(2,425)	(2,025)	(3,723)	(1,973)	(2,084)
Results from discontinued operations	48	231	(58)	(193)	(225)	79	5	(131)
Net Income (loss) for the period	(1,440)	(943)	(1,996)	(2,618)	(2,250)	(3,644)	(1,968)	(2,215)
Income (loss) per unit	$(0.04)	$(0.03)	$(0.07)	$(0.09)	$(0.08)	$(0.17)	$(0.11)	$(0.12)
DI	$(504)	$34	$(354)	$(613)	$(378)	$(1,321)	$(221)	$(73)
DI per unit	$(0.02)	$0.00	$(0.01)	$(0.02)	$(0.01)	$(0.06)	$(0.01)	$0.00
FFO	$1,295	$1,376	$465	$(134)	$162	$(715)	$344	$364
FFO per unit	$0.04	$0.04	$0.02	$(0.00)	$0.01	$(0.03)	$0.02	$0.02
Weighted average O/S units (000's)	32,194	31,882	28,487	28,045	28,453	21,782	18,287	18,279

- On a per suite basis, occupancy as at December 31, 2010 for continuing operations increased to 97.4% from 93.2% at December 31, 2009 and 94.7% at September 30, 2010.
- Average rents for continuing operations increased to $820 per suite for December 2010, which represents an increase of 4.6% from December 2009 and 1.0% over the previous quarter.
- As of December 31, 2010, four properties have been sold and seventeen others have been listed for sale. Of the four properties sold, the net average gain on sale (after factoring in all closing costs) averaged 24%.
- Over the year, $18.0 million was invested in the continuing operations portfolio as part of management's repositioning strategy. This represents an average investment of $5,131 per suite.

ANALYSIS OF OPERATING RESULTS

In $ OOO's	3 Months Ended December 31, 2010	3 Months Ended December 31, 2009	12 Months Ended December 31, 2010	12 Months Ended December 31, 2009
Gross rental revenue	**$8,627**	$8,264	**$33,976**	$32,719
Less: vacancy & rebates	**(380)**	(528)	**(3,056)**	(1,883)
Other revenue	**345**	217	**1,002**	937
Net revenue	**$8,592**	7,953	**$31,922**	$31,773
Expenses				
Operating expenses	**$1,496**	$1,968	**$6,756**	$6,150
Property taxes	**1,241**	1,236	**5,032**	5,036
Utilities	**1,448**	1,513	**5,157**	5,413
Total expenses	**$4,185**	$4,717	**$16,945**	$16,599
Net operating income	**$4,407**	$3,236	**$14,977**	$15,174
Operating margins	**51.3%**	40.7%	**46.9%**	47.8%

REVENUE

Gross rental revenue for the twelve months ended December 31, 2010 increased 3.8% to $34.0 million compared to $32.7 million for the twelve months ended December 31, 2009. Net revenue for the year increased 0.5% over prior year as vacancies increased in Q1, peaked in Q2 and began to return to stabilized levels by the end of Q3. This trend was anticipated and management believed necessary in order to remove undesireable tenants, put in place the right operational model and staff and invest capital in making the properties more attractive, safer and operationally more efficient.

For the three months ended December 31, 2010, net rental revenue amounted to $8.6 million compared to $8.3 million for the three months ended December 31, 2009. This 4.4% increase is attributable to the management's decision to move vacant suites to market rent combined with the higher occupancy rates that aided in not having to discount rents. Annualized gross rental revenue of the properties, before vacancies, owned by the Trust at December 31, 2010 is approximately $34.2 million. The Trust is sensitive to vacancy rates and a 1% change in vacancy rates would impact the Trust's annualized rental revenue by approximately $0.3 million.

The Trust's average monthly rents were $820 for December 2010 compared to $784 for December 2009. Management shall continue to move rents to market throughout the portfolio as well as rollout above guideline increases for suites that do not turnover and that are not at market rates.

	December 2010	September 2010	June 2010	March 2010	December 2009
Average monthly rents	$820	$812	$803	$794	$784

Portfolio Occupancy

Overall economic vacancy was 2.6% for December 2010 compared to 6.8% over the same period last year. As discussed in our Q3 MD&A, this decrease was expected given the suite vacancy at the end of Q3. The increased rents and reduction in vacancies that InterRent REIT is now achieving supports and strengthens management's belief that changing the tenant profile and investing capital in the properties will lead to a stronger and more sustainable portfolio of properties. The objectives are being achieved as a direct result of having been:

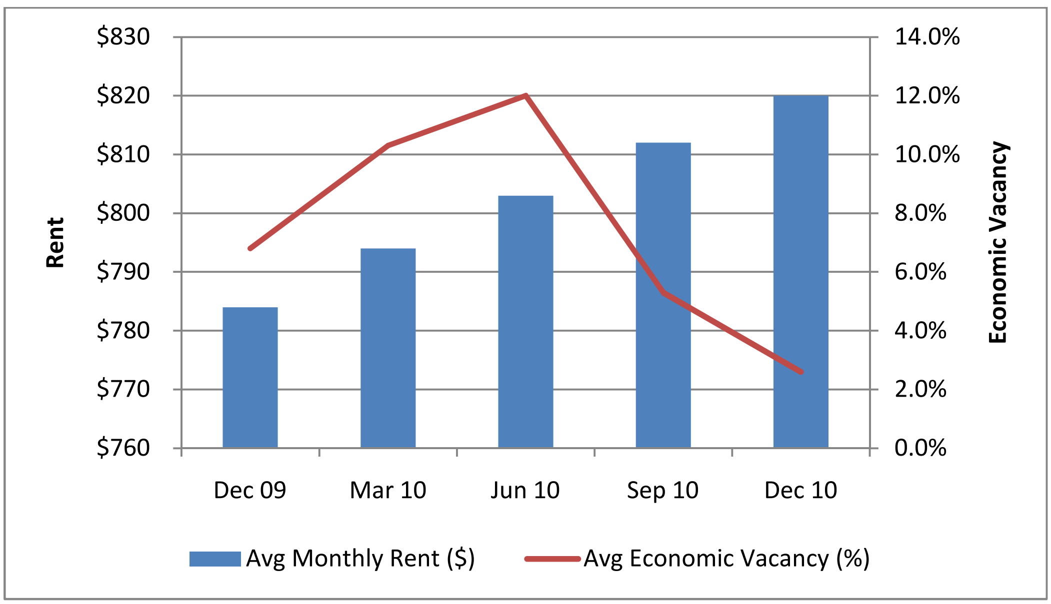
1. proactive in evicting tenants that are not desirable based on our repositioning strategy;

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

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

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

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



The overall economic vacancy for December 2010 across the portfolio of continuing operations was 2.6%. On a per region basis, the economic vacancy breaks down as follows: Eastern Ontario – 1.8%; GTA – 1.2%; Hamilton/Niagara – 3.6%; Northern Ontario – 0.0%; Ottawa – 1.8%; and, Western Ontario – 3.6%.

Vacancy on a per suite basis is a leading indicator of economic vacancy (assuming no significant change in portfolio mix). On a regional basis, as of December 31, 2010, the following represents the Trust's vacancy rates, on a per suite basis, for suites that did not have rental agreements (either currently occupied or for occupation within the near term):

Region	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Eastern Ontario	0.5%	5.8%	18.6%	21.4%
GTA	0.8%	1.1%	4.2%	3.4%
Hamilton/Niagara	1.5%	1.6%	9.5%	10.3%
Northern Ontario	0.3%	0.0%	0.3%	0.0%
Ottawa	1.5%	1.5%	3.4%	2.4%
Western Ontario	3.2%	3.4%	17.3%	14.0%
Total	1.9%	2.6%	11.3%	10.2%

Based on the above, management believes economic vacancy for continuing operations has stabilized. Going forward, management believe that minor variations in economic vacancy to occur form one quarter to another given the seasonal nature of rental activity.

OPERATING EXPENSES

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

Operating costs for the twelve months ended December 31, 2010 amounted to $6.8 million or 21.2% of revenue compared to $6.2 million or 19.4% of revenue for the twelve months ended December 31, 2009. The net difference of $0.6 million is attributable to leasing costs which increased due to the increased activity and number of suites that were turned over in the year. The Trust moved the property management function to an external company for all properties in the Trust's portfolio. This change was in place for all of 2010 as compared to only three months in 2009. The increase in third party management fees of $1.0 million were partially offset by operating changes that resulted in a reduction in staffing of $(0.4) million and a reduction in repairs and maintenance.

PROPERTY TAXES

Property taxes for the twelve months ended December 31, 2010 and December 31, 2009 amounted to $5.0 million or 15.8% of revenue. The Trust is constantly reviewing property tax assessments for its properties and this active approach shall continue to help drive down costs. Where appropriate, the Trust will appeal individual property assessments.

UTILITY COSTS

Utility costs for the twelve months ended December 31, 2010 amounted to $5.2 million or 16.2% of revenue compared to $5.4 million or 17.0% of revenue for the twelve months ended December 31, 2009. The $(0.2) million decrease is a result of a reduction in gas expense of $(0.3) million and water of $(0.1) million offset by an increase in electricity of $0.2 million. For the three months ended December 31, 2010, utility costs amounted to $1.4 million or 16.9% of revenue compared to $1.5 million or 19.0% of revenue for the three months ended December 31, 2009. The Trust continues to implement energy savings programs. These programs include replacing boilers, domestic hot water systems, and lighting fixtures with new energy efficient fixtures. In addition, over the course of the year, all toilets have been replaced at all of the major properties. Based on third party consulting reports, management believes that these initiatives should reduce costs.

NET OPERATING INCOME (NOI)

NOI for the three months ended December 31, 2010 amounted to $4.4 million or 51.3% of revenue compared to $3.2 million or 40.7% of revenue for the three months ended December 31, 2009. The $1.2 million increase in the quarter is as a result of net revenue increasing by $0.6 million, operating costs reducing by $0.5 million and utilities decreasing by $0.1 million.

NOI for the twelve months ended December 31, 2010 amounted to $15.0 million or 46.9% of revenue compared to $15.2 million or 47.8% of revenue for the twelve months ended December 31, 2009. The decrease of $0.2 million is mainly as a result of an increase in operating expense of $0.6 million offset by a decrease in utility costs of $0.2 million and an increase in revenue of $0.1 million.

Over the course of the year, and in order to implement the aggressive repositioning strategy management was attempting to implement, the operational staffing levels increased in Q1, Q2 and most of Q3. By the end of Q3 and through Q4, staffing has been reduced to end the year at a more normalized level that management believes is in-line with current operational requirements.

FINANCING, ADMINISTRATION AND AMORTIZATION

In $ OOO's	3 Months Ended December 31, 2010	3 Months Ended December 31, 2009	12 Months Ended December 31, 2010	12 Months Ended December 31, 2009
Net operating income	**$4,408**	$3,236	**$14,977**	$15,174
Expenses				
Financing costs	**$2,858**	$2,822	**$11,381**	$11,325
Administrative costs	**1,020**	864	**3,508**	6,957
Amortization	**2,018**	1,574	**7,113**	6,697
Net loss from continuing	**$(1,488)**	$(2,024)	**$(7,025)**	$(9,805)

FINANCING COSTS

Financing costs amounted to $2.9 million or 33.3% of revenue for the three months ended December 31, 2010 compared to $2.8 million or 35.5% of revenue for the three months ended December 31, 2009.

	3 Months Ended December 31, 2010		3 Months Ended December 31, 2009	
In $ OOO's	**Amount**	**% of Revenue**	**Amount**	**% of Revenue**
Cash based:				
Mortgage interest	$1,827	21.3%	$1,729	21.8%
Debenture interest	441	5.1%	542	6.8%
Credit facilities	118	1.4%	66	0.8%
Interest income	(10)	(0.1%)	(9)	(0.1%)
Non Cash based:				
Accretive portion of debenture interest	351	4.1%	333	4.2%
Amortization of debt funding expense	100	1.2%	116	1.5%
Amortization of FV of debt	31	0.4%	45	0.6%
Total	$2,858	33.3%	$2,822	35.5%

Financing costs amounted to $11.4 million or 35.6% of revenue for the twelve months ended December 31, 2010 compared to $11.3 million or 35.6% of revenue for the twelve months ended December 31, 2009.

In $ OOO's	12 Months Ended December 31, 2010		12 Months Ended December 31, 2009	
	Amount	**% of Revenue**	**Amount**	**% of Revenue**
Cash based:				
Mortgage interest	$6,891	21.6%	$6,859	21.6%
Debenture interest	2,039	6.4%	2,150	6.8%
Credit facilities	371	1.2%	343	1.1%
Interest income	(30)	(0.1%)	(28)	(0.1%)
Non Cash based:				
Accretive portion of debenture interest	1,452	4.5%	1,287	4.1%
Amortization of debt funding expense	432	1.4%	533	1.7%
Amortization of FV of debt	225	0.7%	181	0.6%
Total	$11,380	35.6%	$11,325	35.6%

Mortgage Interest

Mortgage interest (including interest on vendor take-back loans) is one of the single largest expense line items for InterRent REIT. Given the current rates in the market for both CMHC insured and conventional mortgages, it is management's expectation that it will be able to continue to refinance existing mortgages as they come due at rates that are often significantly lower than the maturing mortgage rate. There is approximately $22.9 million of mortgage debt at a weighted average rate of 5.7% that is scheduled to mature in 2011.

Subordinated Convertible Debenture

As at December 31, 2010, InterRent REIT had one convertible subordinated debenture issue outstanding.

The Trust issued a $25,000,000 subordinated convertible debenture on January 15, 2008 which bears interest at 7% and is due on January 31, 2013. The debenture is convertible into Trust Units at $4.60 per Trust Unit at the option of the holder prior to maturity.

The Trust had a $5,517,000 subordinated convertible debenture which bore interest at 7.25% which was settled for cash on its maturity date of September 22, 2010.

The Trust accounts for its convertible debenture as a financial instrument in accordance with section 3861 of the CICA handbook, Financial Instrument - Presentation and Disclosure. CICA 3861 requires financial instruments that consist of both elements of debt and equity be accounted for in accordance with the substance of the contractual arrangement on initial recognition. Therefore, as a result of the conversion feature of the debenture, the convertible instrument has been 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) is $6,912,408 and is reflected as "Equity portion of convertible debt" in unitholders' equity. This discount is being amortized to earnings as financing costs over the term of the debenture. In addition, the Trust incurred costs of $1,451,478 in connection with issuing the convertible debt. Of these costs, $1,050,438 has been allocated to the liability component and $401,040 has been allocated to the equity component. The discount on the debt results in a weighted average effective interest rate of 16.7%.

GENERAL AND ADMINISTRATIVE COSTS (“G&A”)

G&A costs include such items as salaries and incentive payments, employee benefits, investor relations, transfer agent listing and filing fees, legal, tax, audit and other professional fees.

G&A costs for the twelve months ended December 31, 2010 amounted to $3.5 million or 11.0% of revenue compared to $7.0 million or 21.9% of revenue for the twelve months ended December 31, 2009.

Non-recurring costs for 2010 were $0.7 million relating to corporate restructuring and fees associated with the cancellation of energy contracts. For the 2009 year, non-recurring costs totalled $3.7 million related to the strategic review process, litigation and corporate restructuring.

With non-recurring items removed, G&A costs for 2010 were $2.8 million compared to $3.3 million for the 2009 year. The $(0.5) million decrease in G&A costs is due primarily to the decrease in staffing costs of $(0.6) million offset by an increase in professional fees associated with the conversion to IFRS of $0.2 million.

G&A costs for the three months ended December 31, 2010 amounting to $1.0 million or 11.9% of revenue compared to $0.9 million or 10.9% of revenue for the three months ended December 31, 2009. The increase for the quarter ended December 31, 2010, included a charge of $0.3 million in one-time costs associated with the cancellation of energy contracts and $0.1 million in professional fees associated with the conversion to IFRS and offset by a $(0.1) million reduction in legal expenses, $(0.1) million reduction in one-time costs and ($0.1) million in staffing expenses.

Management has worked at reducing G&A expenses throughout the year to what it believes is a stabilized level of G&A going forward.

AMORTIZATION

Amortization of capital assets from continuing operations amounted to $7.1 million for the twelve months ended December 31, 2010 compared to $6.7 million for the twelve months ended December 31, 2009. Amortization of capital assets from continuing operations amounted to $2.0 million for the three months ended December 31, 2010 compared to $1.6 million for the three months ended December 31, 2009. The increase in amortization is directly related to the investment in the properties of $18 million in continuing operations in the year.

PERFORMANCE MEASURES

Management believes that Funds from Operations (FFO) and Distributable Income (DI) are both key measures for real estate investment trusts. The Trust has seen continued improvements in both FFO and DI for the quarter and year to date results.

FFO Reconciliation In $000's, except per Unit amounts and Units outstanding	**3 Months Ended December 31, 2010**	**3 Months Ended December 31, 2009**	**12 Months Ended December 31, 2010**	**12 Months Ended December 31, 2009**
Net loss from continuing operations	**$(1,488)**	$(2,025)	**$(7,025)**	$(9,805)
Add (deduct) items not affecting cash:				
Amortization of capital assets and intangibles	**2,018**	1,574	**7,113**	6,697
Accretion of discount on convertible debentures	**403**	373	**1,646**	1,433
Amortization of deferred finance costs & fair value of assumed debt	**78**	118	**463**	557
Amortization of tenant inducements	**81**	36	**218**	140
Amortization of deferred leasing commissions	**123**	40	**321**	140
Unit based compensation	**80**	45	**267**	993
Funds from operations	**$1,295**	$162	**$3,003**	$155
Funds from operations – per Unit	**$0.04**	$0.01	**$0.10**	$0.01
Weighted average Units outstanding	**32,193,796**	28,453,000	**30,172,250**	21,817,403

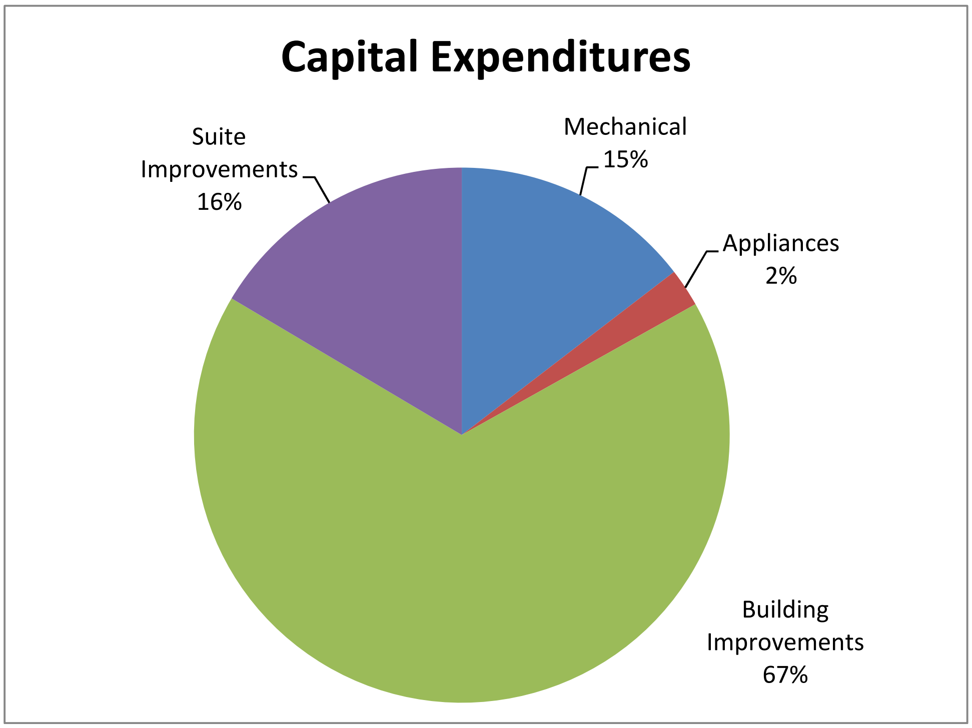
DI Reconciliation In $000's, except per Unit amounts and Units outstanding	**3 Months Ended December 31, 2010**	**3 Months Ended December 31, 2009**	**12 Months Ended December 31, 2010**	**12 Months Ended December 31, 2009**
Net loss from continuing operations	**$(1,488)**	$(2,025)	**$(7,025)**	$(9,805)
Add (deduct) items not affecting cash:				
Amortization of capital assets and intangibles	**2,018**	1,574	**7,113**	6,697
Accretion of discount on convertible debentures	**403**	373	**1,646**	1,433
Amortization of deferred finance costs & fair value of assumed debt	**78**	118	**463**	557
Unit based compensation	**80**	45	**267**	993
Less:				
Amortization of deferred finance charges post December 6, 2006	**87**	103	**382**	482
Maintenance capital expenditures	**1,508**	362	**3,519**	1,386
Distributable income	**$(504)**	$(378)	**$(1,437)**	$(1,993)
Distributable income – per Unit	**$(0.02)**	$(0.01)	**$(0.05)**	$(0.09)
Weighted average Units outstanding	**32,193,796**	28,453,000	**30,172,250**	21,817,403

RESULTS FROM DISCONTINUED OPERATIONS

For the twelve months ended December 31, 2010 the Trust disposed of three properties (13 suites) located in Toronto and one property in Hamilton (22 suites) for a total gain on disposal of $0.6 million and net income of $28 thousand compared to net loss of $(0.3) million for the twelve months ended December 31, 2009. Seventeen other income producing properties (482 suites) were classified as discontinued operations as a result of the Trust initiating an active program to dispose of these properties

CAPITAL EXPENDITURES

For the twelve months ended December 31, 2010, InterRent REIT invested $18.0 million ($5,131 per suite) in its continuing operations compared to $4.8 million ($1,355 per suite) in the same period last year. The breakdown of expenditures for the year are itemized in the following graph:



Much of the deferred capital expenditures from previous years were completed in 2010 and management expects these expenditures to stay at a more normalized level going forward as it has been able to thoroughly identify, investigate and prioritize the requirements for the next five years. This is not a static plan, but one that must be reviewed, updated and re-prioritized as events occur and new information becomes available.

UNITHOLDERS' EQUITY

The following chart shows the changes in reported Unitholders' equity from December 31, 2009 to December 31, 2010.

Summary of Unitholders' Capital Contributions	Units	$Amount
December 31, 2009	28,032,206	$102,883,385
Units issued from private placement	3,743,787	5,371,878
Unit issue costs	-	(25,095)
Units issued under the deferred unit plan	17,232	26,080
Units issued under the distribution reinvestment plan	254,293	359,647
Units issued under the long term incentive plan	200,000	288,000
December 31, 2010	32,247,518	$108,903,895

As at December 31, 2010 there were 32,247,518 Units issued and outstanding. 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.

DISTRIBUTIONS

The Trust is currently making monthly distributions of $0.01 per Unit. For the twelve months ended December 31, 2010, the Trust's Distributable Income was $(0.05) per unit, compared to $(0.09) for the twelve months ended December 31, 2009, while the distributions were $0.12 per unit for both years.

LIQUIDITY AND CAPITAL RESOURCES

InterRent REIT's overall debt level was at 64.7% of Gross Book Value ("GBV") at December 31, 2010. GBV is a non-GAAP term that is defined in the DOT and includes all continuing and discontinued operations. The following chart sets out the Trust's computed debt to GBV:

In $ OOO's	December 31, 2010	December 31, 2009
Total assets per Balance Sheet	$274,360	$263,987
Accumulated amortization on buildings	21,970	15,067
Total assets	$296,330	$279,054
Mortgages payable and vendor take-back loans	$166,774	$156,306
Debentures	20,861	24,732
Lines of credit and bank indebtedness	4,206	1,220
Total debt	$191,841	$182,258
Debt to GBV	64.7%	65.3%

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

As at December 31, 2010, InterRent REIT had a $5.0 million demand operating facility with a Canadian chartered bank bearing interest at 1% above the prime lending rate. This line of credit is secured by collateral mortgages on eighteen of the Trust's properties. As at December 31, 2010, the Trust had utilized $0.3 million of this facility.

In addition, InterRent REIT had a $4.1 million operating facility with a financial institution bearing interest at 3.0% above the prime bank lending rate. This line of credit is secured by collateral mortgages on seven of the Trust's properties. As at December 31, 2010, the Trust had utilized $3.7 million of this facility.

MORTGAGE AND DEBT SCHEDULE

The following schedule summarizes the aggregate future minimum principal payments and debt maturities for the mortgages, vendor take-back loans and the convertible debenture of InterRent REIT.

Year Maturing	Mortgage and Debt Balances At December 31, 2010 (in $ 000's)	Weighted Average by Maturity	Weighted Average Interest Rate
2011	$26,406	14.5%	5.67%
2012	$53,223	29.3%	4.20%
2013	$52,956	29.1%	5.67%
2014	$9,793	5.4%	4.04%
2015	$3,501	1.9%	4.62%
Thereafter	$35,952	19.8%	5.07%
Total	$181,831	100%	5.01%

At December 31, 2010, the average term to maturity of the mortgage debt was approximately 3.0 years and the weighted average cost of fixed mortgage debt was 4.69%. The weighted average cost of mortgages and convertible debt was 5.01%. At December 31, 2010, approximately 70% of InterRent REIT's mortgage debt was backed by CMHC insurance.

The Trust had either refinanced or has been approved for refinancing on all of the mortgage debt scheduled to mature in Q1 of 2011 and continues to refinance the outstanding mortgages as they mature in 2011.

ACCOUNTING

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 InterRent REIT has elected not to early adopt.

In February 2008, the Canadian Accounting standards Board ("AcSB") confirmed that Canadian publicly accountable enterprises will be required to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. Accordingly, InterRent REIT 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 InterRent REIT will be significant and, as such, InterRent REIT is in the process of executing its convergence plan to transition its financial statement reporting, presentation and disclosure to IFRS. InterRent REIT 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.

TRANSITION TO IFRS

The adoption of IFRS is expected to have a significant impact on the Trust's financial statements, financial ratios and key non- GAAP financial measures which are widely accepted indicators of the performance of Canadian real estate investment trusts.

Management is continuing to provide the Audit Committee and Board of Trustees with regular reports on the status of the IFRS project, and the expected changes to the Trust's accounting policies.

Key elements of the transition plan and their status are outlined below..

Key Elements	Status
Accounting Policies • Identify differences in GAAP and IFRS accounting policies • Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives • Final determination of expected changes to accounting policies and choices to be made with respect to first-time adoption • Design revised financial statements format and note disclosure	• The detailed analysis of the Trust's accounting policies is substantially complete • Final determination of the expected changes to significant accounting policies is pending the resolution of certain issues (refer to "Impact of Adopting IFRS on the Trust's Financial Statements" below) • The Trust has not yet quantified the impact of changes in accounting policies on its IFRS opening balance sheet (as at January 1, 2010). • The final design of financial statement and note disclosures is underway.
Information Technology and Systems • Identify new information requirements under IFRS and develop IT strategies to meet these requirements.	• The review of Information Technology and Systems indicates that changes are minimal and the technology and systems are able to provide the information required. • Management will continue to review the Information Technology and Systems in order to ensure requirements are met for any changes from initial assessment. • The Trust will maintain both GAAP and IFRS accounting records for 2010.
Internal Control over Financial Reporting and Disclosure Controls • A full review of all existing control procedures and the impact on internal control over financial reporting on new accounting policies	• The IFRS project team has completed its review of the internal controls over financial reporting. • No material changes to internal controls over financial reporting are expected on adoption of IFRS.

Key Elements	Status
Financial Reporting Expertise • Define the appropriate level of IFRS expertise for the transition team, senior management and the Audit Committee	• A project team with the appropriate level of financial reporting experience has been working on the transition. • Appropriate on-going training will occur throughout the project with both staff and members of the Audit Committee.
Business Activities • Assess the impact of IFRS transition on such activities as debt covenants, capital requirements, hedging activities and compensation arrangements.	• The Trust is continuing to assess whether any contractual arrangements may impacted by the expected changes to accounting policies.

IMPACT OF IFRS ADOPTION ON THE TRUST'S FINANCIAL STATEMENTS

The adoption of IFRS is expected to result in changes to significant accounting policies and have an impact on the recognition and measurement of transactions and balances within the Trust's financial statements.

The Trust has not yet determined the full effects of adopting IFRS on its financial statements. Included below are highlights of the areas that are expected to result in a change to significant accounting policies. The list is not intended to be complete list of areas where the adoption of IFRS will require a change in accounting policies, but to highlight the areas identified to have the most potential for significant changes.

The Trust is in the process of finalizing its determination of changes to its accounting policies that will result from adopting IFRS, and may identify other changes that will have an impact on the financial statements

Investment Properties

IFRS defines investment property (IAS 40) as a property held to earn rentals or for capital appreciation or both. Investment property will include all properties currently classified as "income producing properties".

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

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

- The cost model is generally consistent with Canadian GAAP. Under the cost model for depreciation purposes, investment property will be broken down into significant components including land, building structures, significant improvements and facilities of the building, amounts relating to in-place leases, and other components. If the cost model is selected, the Trust will be required to disclose the fair value of investment properties in the notes to the consolidated financial statements in each reporting period

The Trust has decided to adopt the fair value model for its investment properties. This will result in the Trust's opening balance sheet reflecting an initial revaluation adjustment to the Trust's investment properties to fair value as at January 1, 2010, with a corresponding adjustment to opening equity.

Management has engaged third party consultants to provide independent appraisals of substantially all of the continuing operations of the Trust's portfolio. Based on the valuations completed to date, management expects:

1. the opening balance as at January 1, 2010, the "Transition Date", will increase by approximately 5% over the Canadian GAAP carrying value at that date. The impact of this change will be reflected in the opening Balance Sheet for January 1, 2010 and will not impact the Consolidated Statement of Operations; and,

2. the closing balance as at December 31,2010 will increase by approximately 25% over the current Canadian GAAP carrying value. The impact of this change will flow through both the Balance Sheet and the Consolidated Statements of Operations and Deficit for the 2010 comparative year.

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

Income Taxes

There is uncertainty as to whether the guidance under IAS 12 – *Income Taxes* ("IAS 12") is applicable to InterRent REIT. If IAS 12 is applicable, InterRent REIT will be required to record future income taxes, despite the fact that InterRent REIT may satisfy the REIT exemption provided as part of the updated SIFT legislation enacted in 2007. If IAS 12 is not applicable, InterRent REIT would not be required to record future income taxes if the income earned by InterRent REIT is distributed in full.

This issue has not yet been resolved, and the Trust is continuing to discuss with its advisors.

In the event that IAS 12 is applied, all deferred tax assets will need to be assessed based on the 'probable' criteria. Deferred tax assets mainly relate to operating losses, which can be carried forward and applied against future taxable income. Currently under Canadian GAAP, the potential benefit of these losses has not been recognized in the financial statements as deferred income tax assets and a full valuation allowance has been made. Upon transition, all deferred taxes will be assessed based on the 'probable' criteria.

Leases

Canadian GAAP and IFRS both require tenant allowances to be recorded as a reduction to rental revenue over the term of the lease. Currently, tenant inducements are capitalized and presented as a separate line on the consolidated financial statements and amortized as a reduction of rental revenue over the term of the lease which is consistent with IFRS.

Leasing commissions will continue to be deferred on the consolidated balance sheet, but under IFRS they form a component of investment property and will not be amortized. This will have an effect on the opening deficit at the Transition Date and an increase in NOI for 2010 comparative periods.

Assets held for sale and discontinued operations

The definition of a discontinued operation under IFRS is more restrictive than under GAAP. IFRS 5 contains an additional test to qualify as a discontinued operation – that the component that is being disposed of represents a separate major line of business or geographical area of operations. It is expected that the disposal of an individual property would not constitute a significant operation to be classified as discontinued under IFRS, which differs from the accounting policy under GAAP. As such, prior period Consolidated Income Statement will not separately disclose the results from assets held for sale separately as discontinued operations, affecting income from continuing operations, but not net income. IFRS 5 further prescribes that assets classified as non-current shall not be reclassified as current assets until they meet the criteria to be classified as held for sale.

Classified Balance Sheet

Under IFRS, a classified balance sheet, whereby assets and liabilities are classified as current or non-current, is required unless the Trust makes a determination that a presentation based on liquidity would provide information that is reliable and more relevant. The Trust currently presents a non-classified balance sheet which is similar to the liquidity method of presentation. Management is reviewing the presentation method of the Trust's balance sheet under IFRS. Adopting a classified balance sheet approach would significantly affect the presentation of the organization's balance sheet.

Trust Units

InterRent currently accounts for their trust units as equity. IAS 32 – Financial Instruments, has a definition of what constitutes a financial liability which includes equity instruments if they have a contractual obligation to deliver cash or other financial assets to another entity.

The Board has received approval at the Annual and Special Meeting of Unitholders held on June 28, 2010 to adjust the Declaration of Trust in reference to any requirements relating to IFRS and it is expected that with these changes the Trust Units qualify for equity presentation under IFRS. Changes were made to the amended Declaration of Trust dated December 29, 2010 and notwithstanding the Trust Units meet the definition of a liability as a result of their redemption feature, the Trust expects they will meet the conditions under IFRS that will permit Trust Units to be presented as equity and distributions on Trust Units will continue to be presented as a reduction in the statement of equity.

Management is evaluating this section and its impact on the presentation of the Trust's units in the financial statements for comparative purposes. The amendments to the Declaration of Trust were not in place by January 1, 2010 and as such, it is expected that these units need to be presented initially as liabilities on the Transition Date, and subsequently reclassified to equity based on aforementioned changes.

Business Combinations

IFRS and current Canadian GAAP require the acquisition method of accounting for all business combinations. IFRS 3R – *Business Combinations*, differs from GAAP in that all transactions costs are expensed immediately. As well, IFRS has a broader definition of what constitutes a business. Currently under GAAP, InterRent REIT accounts for the acquisitions of investment properties as asset acquisitions rather than business combinations. Under IFRS, single property acquisitions may be required to be accounted for as business combinations. Management has reviewed prior property acquisitions and has determined that none of the acquisitions meet the IFRS definition of a business combination. Therefore, at transition the implementation of this standard will have no impact on InterRent REIT's consolidated financial statements.

First-time adoption of IFRS

The adoption of IFRS will initially require retrospective application as of the changeover date, on the basis that an entity has prepared its financial statements in accordance with IFRS since its formation. Certain adoptive relief mechanisms are put forward in the standard, to assist with difficulties associated with reformulating historical accounting information. The general relief mechanism is to allow for prospective, rather than retrospective treatment, under certain conditions, as prescribed by IFRS 1. The standard specifies that adjustments arising on the convergence of IFRS from GAAP should be recognized in opening retained earnings.

The Trust expects to elect the following IFRS optional exemptions in our preparation of an opening IFRS statement of financial position as at the Transition Date:

- To apply IFRS 2 *Share-based Payments* only to equity instruments that were issued after November 7, 2002 and had not vested by the 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.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the opening IFRS statement of financial position as at the Transition Date will be consistent with those made under current Canadian GAAP. If necessary, estimates will be adjusted to reflect any difference in accounting policy.

Subsequent Disclosures

Further disclosures of the IFRS transition process are expected as follows:

- The Trust's first financial statements prepared with accounting policies consistent with IFRS will be the interim financial statements for the three months ending March 31, 2011, which will include notes disclosing transitional information and disclosure of the new accounting policies consistent with IFRS. The interim financial statements for the three months ending March 31, 2011 will also include 2010 financial statements for the comparative period, adjusted to comply with IFRS, and the Trust's transition date IFRS statement of financial position (as at January 1, 2010).

RISKS AND UNCERTAINTIES

The Trust, its business and the transactions contemplated in this MD&A are subject to material risks, both known and unknown, including, but not limited to the following:

The Trust is exposed to a variety of risks, general and specific. General risks are the risks associated with general conditions in the real estate sector, and consist largely of commonly exposed risks affecting the real estate industry as a whole. Specific risks are the risks specific to the Trust and its operations, such as credit, market, liquidity and operational risks.

Current Economic Risks

InterRent REIT must raise mortgage funds for mortgages as they mature and for acquisitions. Given the interconnectivity of the global economy and the current global economic environment, there is no guarantee that the Trust will be able to secure such funds on a commercially beneficial basis, or at all, and the failure to raise sufficient funds could have a material adverse effect on the business of the Trust and the market value of its securities.

Real Estate Industry Risk

Real estate investments are generally subject to varying degrees of risk depending on the nature of the property. These risks include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations (such as new or revised residential tenant legislation), the attractiveness of the properties to tenants, competition from others with available space and the ability of the owner to provide adequate maintenance at an economic cost. The performance of the economy in each of the areas in which the Trust's properties are located, including the financial results and labour decisions of major local employers, can have an impact on revenues from the properties and their underlying values.

Additional factors which may further adversely affect revenues from the Trust's properties and their underlying values include the general economic climate, local conditions in the areas in which properties are located, such as an abundance of supply or a reduction in demand, the attractiveness of the properties, competition from other properties, the Trust's ability to provide adequate facilities maintenance, services and amenities, the ability of residents to pay rent, the ability of the Trust to rent vacant units on favourable terms.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made regardless of whether or not a property is producing sufficient income to service these expenses. The Trust's properties are subject to mortgages, which require significant debt service payments. If the Trust were unable or unwilling to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale. Real estate is relatively illiquid. Such illiquidity will tend to limit the Trust's ability to vary its portfolio promptly in response to changing economic or investment conditions. In addition, financial difficulties of other property owners resulting in distress sales may depress real estate values in the markets in which the Trust operates. The majority of the Trust's properties were constructed in the 1960's and 1970's and require ongoing capital expenditures, the amount and timing of which is difficult to predict. These expenditures could exceed the Trust's existing reserve estimates which could have a material adverse effect upon Distributable Income.

The nature of the Trust's business is such that refurbishment and structural repairs are required periodically, in addition to regular on-going maintenance.

Multi-Unit Residential Sector Risk

Income producing properties generate income through rent payments made by tenants of the properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the Trust than the existing lease. The Trust is dependent on leasing markets to ensure vacant residential space is leased, expiring leases are renewed and new tenants are found to fill vacancies. A disruption in the economy could have a significant impact on how much space tenants will lease and the rental rates paid by tenants. This would affect the income produced by the Trust's properties as a result of downward pressure on rents.

Environmental Risks

As an owner and manager of real property, the Trust is subject to various Canadian federal, provincial, and municipal laws relating to environmental matters. These laws could encumber the Trust with liability for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the Trust's ability to sell its real estate, or to borrow using real estate as collateral, and could potentially also result in claims or other proceedings against the Trust. Although the Trust is not aware of any material non-compliance with environmental laws at any of its properties nor is it aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any material pending or threatened claims relating to environmental conditions at its properties, no assurance can be given that environmental laws will not result in significant liability to the Trust in the future or otherwise adversely affect the Trust's business, financial condition or results of operations. The Trust has formal policies and procedures to review and monitor environmental exposure. The Trust has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and the Trust may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on the Trust's business, financial condition or results of operation. In connection with the Silverstone Transaction, IIP did not obtain updated environmental reports on the properties being acquired although it did review environmental reports dated November 13, 2002 with respect to 90-102 Silvercreek Parkway, July 14, 2000 with respect to 25 Kappele Circle, and September 21, 2005 with respect to 10 Reid Drive, which reports disclosed no material issues. The Arrangement Agreement contains representations and warranties from members of the Silverstone Group as to environmental matters pertaining to those properties transferred by it.

Competition Risk

Each segment of the real estate business is competitive. Numerous other residential developers and apartment owners compete in seeking tenants. Although the Trust's strategy is to own multi-residential properties in desirable locations in each market in which it operates, some of the properties of the Trust's competitors may be newer, better located or better capitalized. The existence of alternative housing could have a material adverse effect on the Trust's ability to lease space in its properties and on the rents charged or concessions granted, and could adversely affect the Trust's revenues and its ability to meet its obligations.

General Uninsured Losses

The Trust carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as war or environmental contamination), which are either uninsurable or not economically insurable. The Trust will continue to procure insurance for such risks, subject to certain standard policy limits and deductibles and will continue to carry such insurance if it is economical to do so. Should an uninsured or underinsured loss occur, the Trust could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, and would continue to be obligated to repay any recourse mortgage indebtedness on such properties. There is a risk that any significant increase in insurance costs will impact negatively upon the profitability of the Trust.

Credit Risk - Leases

The key credit risk to the Trust is the possibility that its tenants will be unable or unwilling to fulfill their lease term commitments. Key drivers of demand include employment levels, population growth, demographic trends and consumer confidence. The failure by tenants to fulfill their lease commitments could have a material adverse effect upon Distributable Income.

Local Real Estate Market Risk and Asset Concentration

There is a risk that the Trust would be negatively affected by the new supply of, and demand for, multi-unit residential suites in its local market areas. Any significant amount of new construction will typically result in an imbalance in supply and cause downward price pressure on rents. 100% of the Trust's portfolio is currently located in Ontario.

Rent Control Legislation Risk

Rent control legislation risk is the risk of the implementation or amendment of new or existing legislative rent controls in the markets the Trust operates, which may have an adverse impact on the Trust's operations. The *Residential Tenancies Act, 2006* (Ontario) (the "**RTA**"), which came into force January 1, 2008, provides restrictions upon the ability of a landlord to increase rents above an annually prescribed guideline, and requires that the landlord give tenants 90 days' prior written notice of an increase in rent. The guideline for 2011 is 0.7% (2.1% in 2010). For subsequent years, the guideline will be the percentage change from year to year in the Consumer Price Index for Ontario for prices of goods and services as reported monthly by Statistics Canada, averaged over the 12 month period that ends at the end of May of the previous calendar year. In order to increase rents above the guideline, a landlord must make an application to the Landlord and Tenant Board based on an extraordinary increase in the cost for municipal or utility levies and charges, certain eligible capital expenditures incurred with respect to a residential complex or rental suite therein, or operating costs related to third-party security services provided in respect of a residential complex or building in which rental suites are located. Furthermore, a landlord's application to increase rent can be dismissed in the event that the landlord has not completed items in work orders for which the compliance period has expired and which were found by the Landlord and Tenant Board to be related to a serious breach of a health, safety, housing or maintenance standard. Similarly, a tenant can make an application to the Landlord and Tenant Board on the grounds that the residential complex or suites in it do not comply with health, safety, housing and maintenance standards, and in such event, the Landlord and Tenant Board can order, among other things, that the landlord complete related items in work orders. As a result, the Trust may, in the future, incur capital expenditures which may not be fully recoverable from tenants.

The RTA also permits tenants to bring proceedings to reduce rent due to reductions or discontinuances in services or facilities or due to a reduction in the applicable municipal taxes. The RTA also provides for automatic rental reductions upon expiry of prescribed periods where rent has been increased in connection with eligible capital expenditures or upon reductions in municipal taxes.

The RTA provides tenants of residential rental properties with a high level of security of tenure and prescribes certain procedures, including mandatory notice periods, which must be followed by a landlord in order to terminate a residential tenancy. As certain proceedings may need to be brought before the Landlord and Tenant Board it may take several months to terminate a residential lease, even where the tenant's rent is in arrears. The applicable legislation may be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner which will materially adversely affect the ability of the Trust to maintain earnings from its properties.

Utility and Property Tax Risk

Utility and property tax risk relates to the potential loss the Trust may experience as a result of higher resource prices as well as its exposure to significant increases in property taxes. Over the past few years, property taxes have increased as a result of re-valuations of municipal properties and their adherent tax rates. For the Trust, these re-valuations have resulted in significant increases in some property assessments due to enhancements. Utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. Any significant increase in these resource costs that the Trust cannot to pass on to the tenant may have a negative material impact on the Trust.

Operational Risk

Operational risk is the risk that a direct or indirect loss may result from an inadequate or failed technology, from a human process or from external events. The impact of this loss may be financial loss, loss of reputation or legal and regulatory proceedings.

Fluctuations and Availability of Cash Distributions

Although the Trust intends to continue distribute its Distributable Income, the actual amount of Distributable Income distributed in respect of the Units will depend upon numerous factors, some of which may be beyond the control of the Trust. The distribution policy of the Trust is established by the Trustees and is subject to change at the discretion of the Trustees. The recourse of Unitholders who disagree with any change in policy is limited and could require such Unitholders to seek to replace the Trustees. Distributable Income may exceed actual cash available to the Trust from time to time because of items such as principal repayments, tenant allowances, leasing commissions and capital expenditures and redemption of Units, if any. The Trust may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items.

Market Price of Units

One of the factors that may influence the market price of the Units is the annual yield thereon. Accordingly, an increase in market interest rates may lead purchasers of Units to expect a higher annual yield which could adversely affect the market price of the Units. In addition, the market price for the Units may fluctuate significantly and may be affected by changes in general market conditions, fluctuations in the markets for equity securities, short-term supply and demand factors for real estate investment trusts and numerous other factors beyond the control of the Trust. The Trust has no obligation to distribute to Unitholders any fixed amount, and reductions in, or suspensions of, cash distributions may occur that would reduce yield. There is no assurance that there will exist a liquid market for trading in the Units which may have an adverse effect on the market price of the Units. Trading prices of the Units may not correspond to the underlying value of the Trust's assets.

Legal Rights Normally Associated with the Ownership of Shares of a Corporation

As holders of Units, Unitholders do not have all of the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring "oppression" or "derivative" actions against the Trust. The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Ac*t (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Ability of Unitholders to Redeem Units

It is anticipated that the redemption right attached to the Units will not be the primary mechanism by which holders of such Units liquidate their investments. The entitlement of holders of Units to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by the Trust in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed $50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such Units are tendered for redemption, the outstanding Units shall be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion provides representative fair market value prices for such Units; and (iii) the normal trading of the Units is not suspended or halted on any stock exchange on which the Units are quoted for trading or, if not so listed, on any market on which the Units are quoted for trading, on the redemption date or for more than five trading days during the ten trading day period ending on the redemption date.

Regulatory Approvals Risk

Upon a redemption of Units or termination of the Trust, the Trustees may distribute securities directly to the Unitholders, subject to obtaining any required regulatory approvals. No established market may exist for the securities so distributed at the time of the distribution and no market may ever develop. In addition, the securities so distributed may not be qualified investments for Plans, depending upon the circumstances at the time.

Changes in Legislation

There can be no assurance that the Canadian federal income tax laws (or the judicial interpretation thereof), the administrative and/or assessing practices of the CRA and/or the treatment of mutual fund trusts (including real estate investment trusts) and/or SIFTs will not be changed in a manner which adversely affects the InterRent REIT or Unitholders.

Investment Eligibility

The Trust will endeavour to ensure that the Units, continue to be qualified investments for Plans, as defined in the AIF. The Trust will also endeavour to ensure that the 2008 Debentures continue to be qualified investments for Plans (other than a Plan that is a trust governed by a deferred profit sharing plan to which the Trust has made a contribution). However, there can be no assurance that this will be so. The Tax Act imposes penalties for the acquisition or holding by Plans of non-qualified investments. Any Notes distributed to, and received by, a Unitholder on an in specie redemption of Units will not be a qualified investment for Plans.

The Units will continue to be qualified investments for Plans, provided that the Trust qualifies as a “mutual fund trust” under the Tax Act or the Units are listed on a designated stock exchange (which includes the TSX). The 2008 Debentures will continue to be qualified investments for Plans (other than a Plan that is a trust governed by a deferred profit sharing plan to which the Trust has made a contribution), provided that the Trust qualifies as a “mutual fund trust” under the Tax Act and its Units are listed on a designated stock exchange, or, in the case of the 2008 Debentures, the 2008 Debentures themselves are listed on a designated stock exchange.

SIFT Rules

On March 12, 2009, legislation (the “**SIFT Rules**”) relating to the federal income taxation of publicly-listed or traded trusts (such as income trusts and real estate investment trusts) and partnerships received royal assent. On December 16, 2010 further proposed amendments and draft legislation (“the **Draft Legislation**”) were released for consideration. The SIFT Rules modify the manner in which certain flow-through entities and the distributions from such entities are taxed. Under the SIFT Rules, certain publicly-traded flow-through trusts and partnerships referred to as “specified investment flow-throughs” or “SIFTs” will be taxed in a manner similar to the taxation of corporations, and investors in SIFTs will be taxed in a manner similar to shareholders of a corporation. These changes generally take effect beginning with the 2007 taxation year for SIFT trusts and SIFT partnerships that began to be publicly-traded after October 2006. Unless the Trust qualifies for the REIT Exception from the SIFT Rules, as discussed below, in a taxation year, the Trust will be subject to the SIFT taxation regime for that taxation year.

SIFT Taxation Regime

Pursuant to the SIFT Rules, a "specified investment flow-through" trust (a "**SIFT trust**") is prevented from deducting any part of the amounts payable to its unitholders in respect of (i) aggregate net income from a business it carries on in Canada or from a "non-portfolio property" (other than taxable dividends); and (ii) aggregate net taxable capital gains from its dispositions of non-portfolio properties. "Non-portfolio properties" are (i) certain securities in a "subject entity" that (a) have a total fair market value that is greater than 10% of the "equity value", as defined in the SIFT Rules, of the subject entity, or (b) together with any securities that the trust holds of entities affiliated with the subject entity have a total fair market value that is greater than 50% of the equity value of the trust itself; (ii) Canadian resource properties, timber resource properties and real property situated in Canada if the total fair market value of the trust's Canadian resource properties, timber resource properties and real property situated in Canada is greater than 50% of the equity value of the trust itself; and (iii) property that the trust (or a non-arm's length person or partnership) uses in the course of carrying on a business in Canada. A subject entity is a corporation resident in Canada, a trust resident in Canada, a Canadian resident partnerships as defined in the SIFT Rules or a Non-Resident, the principal source of income of which is one or any combination of sources in Canada. Distributions which a SIFT trust is unable to deduct are taxed in the SIFT trust at rates of tax similar to the combined federal and provincial corporate tax rate.

Pursuant to the SIFT Rules, distributions of income of a SIFT trust received by its unitholders that are not deductible to the SIFT trust are treated as taxable dividends from a taxable Canadian corporation in the hands of the unitholders. Pursuant to the SIFT Rules, such distributions may be eligible for the enhanced gross-up and dividend tax credit if paid to any individual resident in Canada. Distributions that are paid as returns of capital will not attract this tax.

Similar SIFT Rules are applicable in the case of partnerships that are SIFT partnerships. As previously structured, certain units of InterRent Holdings Limited Partnership ("**Holdings Partnership**") could have been converted into publicly traded units of the Trust. This conversion feature would have caused the Holdings Partnership to be a SIFT Partnership that is subject to the SIFT Rules. 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 Exception provided as part of the updated SIFT legislation enacted in 2009.

The REIT Exception

The SIFT Rules apply to SIFT trusts, which include publicly traded income trusts resident in Canada. However, a publicly traded income trust will not be considered a SIFT trust for a taxation year if it qualifies as a "real estate investment trust" ("**REIT**") as defined in the SIFT Rules throughout the year (the "**REIT Exception**"). For these purposes, "real estate investment trusts" are defined as trusts that are resident in Canada throughout the taxation year and that meet a series of conditions relating to the nature of their income and investments. Specifically, in order for a trust to qualify for the REIT Exception for a given taxation year: (i) the trust must, at no time in the taxation year, hold non-portfolio property, as defined above, other than "qualified REIT property", as defined in the SIFT Rules; (ii) not less than 95% (reduced to 90% under the Draft Legislation) of the trust's revenues for the taxation year must be derived from one or more of the following: (a) rent from real or immovable properties, (b) interest, (c) capital gains from the dispositions of real or immovable properties, (d) dividends and (e) royalties; (iii) not less than 75% of the trust's revenues for the taxation year must be derived from one or more of the following: (a) rent from real or immovable properties, to the extent that it is derived from real or immovable properties situated in Canada, (b) interest from mortgages or hypothecs on real or immovable properties situated in Canada, and (c) capital gains from dispositions of real or immovable properties situated in Canada; and (iv) the trust must, throughout the taxation year, hold real or immovable properties situated in Canada, cash and debt or other obligations of governments in Canada with a total fair market value that is not less than 75% of the trust's equity value. For purposes of the REIT Exception, "real or immovable properties" does not include any depreciable property, other than: (i) a property included, otherwise than by an election permitted by regulation, in Class 1, 3 or 31 of Schedule II to the Income Tax Regulations (generally buildings), (ii) a property ancillary to the ownership or utilization of a property described in subparagraph (i), or (iii) a lease in, or a leasehold interest in respect of, land or property described in subparagraph (i). The Draft Legislation permits the holding of certain non-capital property in respect of their real estate activities. The SIFT Rules contain a rule to accommodate the situation where a real estate investment trust holds some or all of its Canadian real or immovable properties through intermediate entities.

The REIT Exception does not fully accommodate the current business structures used by many Canadian REITs, and contains a number of technical tests that many Canadian REITs, including the Trust, may find difficult to satisfy. Prior to amendments to the definition of "rent from real or immovable properties" added by the 2008 Budget, it was not clear whether the Trust's income from its interest in the InterRent Trust would qualify as income "derived from" the properties that are owned by the Trust and other subsidiaries of the Trust for the purposes of satisfying the requirement that a certain percentage of the Trust's revenue be derived from certain sources (generally, from real or immovable properties) as described above. However, the amendments have clarified that revenue from real or immovable property does not lose its character simply because it is paid through an intermediary trust. The Draft Legislation specifically provides for the retention in the character of the income.

The Trust will endeavour to ensure that the Trust will qualify for the REIT Exception at all times during each taxation year, and thus not be a SIFT Trust within the meaning of the SIFT Rules at any time; however, there can be no assurance that this will be so. There can also be no assurance that the investments or activities undertaken by the Trust in a taxation year will not result in the Trust failing to qualify for the REIT Exception for that taxation year.

If the Trust does not qualify for the REIT Exception for a taxation year, the SIFT Rules will apply to the Trust for that year. Application of the SIFT Rules may, depending on the nature of distributions from the REIT, including what portion of its distributions are income and what portion are returns of capital, have a material adverse effect on the after-tax returns of certain Unitholders. The Trust believes that it will qualify for the REIT Exception throughout 2011 and therefore the SIFT Rules will have no implication. In the unlikely event that the Trust does not qualify for the REIT Exception, the only impact would be on distributions of income as distributions of capital are not taxed and instead reduce the adjusted cost base of the Unitholder's Units. Since the Trust's formation, approximately 100% of the Trust's distributions have been characterized as returns of capital.If the Trust does not meet the conditions necessary to benefit from the REIT Exception, the application of the SIFT Rules would be expected to result in adverse tax consequences to the Trust and certain of its Unitholders.

Such adverse tax consequences may impact the future level of cash distributions made by the Trust, the ability of the Trust to undertake future financings and acquisitions and could also adversely affect the marketability of the Trust's securities.

The REIT Exception is applied on an annual basis. Accordingly, if the Trust did not qualify for the REIT Exception in a particular taxation year, it may be possible to restructure the Trust such that it may qualify in a subsequent taxation year. There can be no assurances, however, that the Trust will be able to restructure such that it will not be subject to the tax imposed by the SIFT Rules, or that any such restructuring, if implemented, would not result in material costs or other adverse consequences to the Trust and Unitholders. The Trust intends to take such steps as are necessary to ensure that, to the extent possible, it qualifies for the REIT Exception and any negative effects of the SIFT Rules on the Trust and Unitholders are minimized.

Other Canadian Tax Matters

Although the Trust is of the view that all expenses to be claimed by the Trust and/or its subsidiary entities will be reasonable and deductible and that the cost amount and capital cost allowance claims of such entities will have been correctly determined, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that the CRA will agree. If the CRA successfully challenges the deductibility of such expenses, the taxable income of the Trust and/or its subsidiary entities and indirectly the Unitholders may increase or change. The extent to which distributions will be non-taxable in the future will depend in part on the extent to which the Trust and/or its subsidiary entities is able to deduct capital cost allowance relating to its properties.

In structuring its affairs, the Trust consults with its tax and legal advisors and receives advice as to the optimal method in which to complete its business objectives while at the same time minimizing or deferring taxes, where possible. There is no guarantee that the relevant taxing authorities will not take a different view as to the ability of the Trust to utilize these strategies. It is possible that one or more taxing authorities may review these strategies and determine that tax should have been paid, in which case the Trust may be liable for such taxes. Such increased tax liability could have a material adverse effect upon the Trust's ability to make distributions to Unitholders.

Risks Associated with Disclosure Controls and Procedures on Internal Control over Financial Reporting

The Trust could be adversely affected if there are deficiencies in disclosure controls and procedures or internal control over financial reporting. The Trust has updated its internal controls to accommodate its transition to IFRS effective January 1, 2011.

The design and effectiveness of disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. Deficiencies, including material weaknesses, in internal control over financial reporting which may occur could result in misstatements of the Trust's results of operations, restatements of financial statements, a decline in the Unit price, or otherwise materially adversely affect the Trust's business, reputation, results of operations, financial condition or liquidity.

Unitholders Limited Liability

Recourse for any liability of the Trust is intended to be limited to the assets of the Trust. The Amended and Restated Declaration of Trust provides that no Unitholder or annuitant under a plan of which a Unitholder acts as trustee or carrier (an "**annuitant**") will be held to have any personal liability as such, and that no resort shall be had to the private property of any Unitholder or annuitant for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of the Trust or of the Trustees. Because of uncertainties in the law relating to investment trusts, there is a risk (which is considered by counsel to be remote in the circumstances) that a Unitholder or annuitant could be held personally liable for obligations of the Trust (to the extent that claims are not satisfied by the Trust) in respect of contracts which the Trust enters into and for certain liabilities arising other than out of contract including claims in tort, claims for taxes and possibly certain other statutory liabilities. The Trust will seek to limit recourse under all of its material contracts to the assets of the Trust. However, in conducting its affairs, the Trust will be indirectly acquiring real property investments, subject to existing contractual obligations, including obligations under mortgages and leases. Trustees will use all reasonable efforts to have any such obligations under mortgages on such properties and material contracts, other than leases, modified so as not to have such obligations binding upon any of the Unitholders or annuitants personally. However, the Trust may not be able to obtain such modification in all cases. To the extent that claims are not satisfied by the Trust, there is a risk that a Unitholder or annuitant will be held personally liable for obligations of the Trust where the liability is not disavowed as described above. Ontario has enacted legislation intended to remove uncertainty about the liability of Unitholders of publicly traded trusts. *The Trust Beneficiaries' Liability Act, 2004,* implemented on January 1, 2005, is a clear legislative statement that the Unitholders of a trust that is a reporting issuer and governed by the laws of Ontario will not be personally liable for the obligations and liabilities of the Trust or any of its trustees that arise after *The Trust Beneficiaries' Liability Act, 2004,* came into force, which *The Trust Beneficiaries' Liability Act, 2004,* states was December 16, 2004.

Structural Subordination of Debt

Liabilities of a parent entity with assets held by various subsidiaries may result in the structural subordination of the lenders to the parent entity. The parent entity is entitled only to the residual equity of its subsidiaries after all debt obligations of its subsidiaries are discharged. In the event of a bankruptcy, liquidation or reorganization of the Trust, holders of indebtedness of the Trust (including holders of Notes) may become subordinate to lenders to the subsidiaries of the Trust.

Market Value Fluctuation

Prevailing interest rates will affect the market value of the 2008 Debentures, as they carry a fixed interest rate. Assuming all other factors remain unchanged, the market value for the 2008 Debentures will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline.

Statutory Remedies

The Trust is not a legally recognized entity within the relevant definitions of the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Ac*t and in some cases, the *Winding Up and Restructuring Act*. As a result, in the event a restructuring of the Trust were necessary, the Trust would not be able to access the remedies available thereunder. In the event of a restructuring, a holder of debentures may be in a different position than a holder of secured indebtedness of a corporation.

Outstanding Indebtedness

The ability of the Trust to make cash distributions to Unitholders or to make other payments are subject to applicable law and contractual restrictions contained in instruments governing the Trust's indebtedness. Although the Trust is currently not in default under any existing loan agreements or guarantee agreements, any future default could have significant consequences for Unitholders. Further, the amount of InterRent REIT's indebtedness could have significant consequences to holders of Units, including the ability of InterRent REIT to obtain additional financing for working capital, capital expenditures or future acquisitions may be limited; and that a significant portion of InterRent REIT's cash flow from operations may be dedicated to the payment of principal and interest on its indebtedness thereby reducing funds available for future operations and distributions. Additionally, some of InterRent REIT's debt may be at variable rates of interest or may be renewed at higher rates of interest, which may affect cash flow from operations available for distributions. Also, in the event of a significant economic downtown, there can be no assurance that InterRent REIT will generate sufficient cash flow from operations to meet required interest and principal payments. InterRent REIT is subject to the risk that it may not be able to refinance existing indebtedness upon maturity or that the terms of such refinancing may be onerous. These factors may adversely affect the Trust's cash distributions.

Dependence on Key Personnel

The management of the Trust depends on the services of certain key personnel. The termination of employment by any of these key personnel could have a material adverse effect on the Trust.

Potential Conflicts of Interest

The Trust may be subject to various conflicts of interest because of the fact that Trustees and officers of the Trust are engaged in other real estate-related business activities. The Trust may become involved in transactions which conflict with the interests of the foregoing. Further, the Chief Executive Officer of the Trust is also the principal of the Trust's property management company. Trustees may from time to time deal with persons, firms, institutions or corporations with which the Trust may be dealing, or which may be seeking investments similar to those desired by the Trust. The interests of these persons could conflict with those of the Trust. In addition, from time to time, these persons may be competing with the Trust for available investment opportunities. The Amended and Restated Declaration of Trust contains "conflicts of interest" provisions requiring trustees to disclose material interests in material contracts and transactions and to refrain from voting thereon.

Dilution

The number of Units the Trust is authorized to issue is unlimited. The Trustees have the discretion to issue additional Units in other circumstances, including pursuant to the Unit Option Plan, the Deferred Unit Plan and the Long Term Incentive Plan and upon conversion or exercise of other convertible securities such as the 2008 Debentures. Any issuance of additional Units may have a dilutive effect on the existing holders of the Units. Future acquisitions and combinations with other entities could result in significant dilution.

Restrictions on Potential Growth and Reliance on Credit Facilities

The payout by the Trust of a substantial part of its operating cash flow could adversely affect the Trust's ability to grow unless it can obtain additional financing. Such financing may not be available, or renewable, on attractive terms or at all. In addition, if current credit facilities were to be cancelled or could not be renewed at maturity on similar terms, the Trust could be materially and adversely affected.

Acquisition Risks

The Arrangement involved the integration of entities that previously operated independently including, without limitation, Silverstone. An important factor in the success of the Trust is the ability of the management of the combined entities to coexist and, if appropriate, integrating all or part of the holdings, systems and personnel of such entities. The integration of businesses can result in unanticipated operational problems and interruptions, expenses and liabilities, the diversion of management attention and the loss of key employees, tenants or suppliers. There can be no assurance that the business integration will be successful or that future acquisitions will not adversely affect the business, financial condition or operating results of the combined entities. There can be no assurance that the combined entities will not incur additional material charges in subsequent quarters to reflect additional costs associated with the Trust or that that the benefits expected from the Trust will be realized. The Trust's policy of rapid portfolio expansion will require increasingly sophisticated financial and operational controls to be implemented. In the event that financial and operational controls do not keep pace with REIT's rapid expansion, the potential for unintended accounting and operational errors may increase.

Proposed Acquisitions

There can be no assurance that the Trust will complete any proposed acquisitions described herein on the basis described or on expected closing dates, if at all. In the event the Trust does not complete proposed acquisitions, the Trust's financial performance may be negatively impacted until suitable acquisitions with appropriate investment returns can be made. There is no assurance that such suitable investments will be available to the Trust in the near future or at all.

Interest Risk

Interest risk is the combined risk that the Trust would experience a loss as a result of its exposure to a higher interest rate environment (interest rate risk) and the possibility that at the term end of a mortgage the Trust would be unable to renew the maturing debt either with the existing or an additional lender (renewal risk). The Trust attempts to manage its interest rate risk by maintaining a balanced, maturing portfolio with mortgage debt being financed for varying lengths of time through the implementation of a structured mortgage debt ladder. There can however, be no assurance that the renewal of debt will be on as favourable of terms as the Trust's existing debt.

Appraisals of Properties

An appraisal is an estimate of market value and caution should be used in evaluating data with respect to appraisals. It is a measure of value based on information gathered in the investigation, appraisal techniques employed and reasoning both quantitative and qualitative, leading to an opinion of value. The analysis, opinions, and conclusions in an appraisal are typically developed based on, and in conformity with, or interpretation of the guidelines and recommendations set forth in the Canadian Uniform Standards of Appraisal Practice. Appraisals are based on various assumptions of future expectations of property performance and while the appraiser's internal forecast of net income for the properties appraised are considered to be reasonable at that time, some of the assumptions may not materialize or may differ materially from actual experience in the future.

Debt and Distributable Income

Distributable Income available for distribution to Unitholders is based, directly and indirectly, on the ability of the Trust to pay distributions on its Units, such ability, in each case, is dependent upon the performance of the business of the Trust and its ability to maintain certain debt levels. The Trust will be required to refinance certain debt as it expires. The Trust may be unable to refinance such debt on terms as favourable as existing debt, or at all. In addition, the Trust's ability to borrow is subject to certain restrictive covenants contained in the Declaration of Trust and certain credit agreements. The Trust's ability to make distributions may be materially affected should any of the foregoing conditions arise.

Legal Proceedings

In the normal course of operations, InterRent REIT may become subject to a variety of legal and other claims. Management and legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims.

InterRent REIT may remain subject to ongoing litigation with NorthWest Value Partners Inc. ("NWVP"). On September 8, 2009, NWVP issued a Notice of Application in the Superior Court of Justice of Ontario seeking a declaration, among other things, that the trustees of InterRent REIT did not have authority to complete the private placement that closed on September 3, 2009. While the Superior Court of Justice of Ontario directed a trial on certain matters, on September 28, 2009, that Court denied most of the requests by NWVP, including a declaration that the trustees of InterRent REIT did not have the authority to close the private placement and that the investors in the private placement not be permitted to vote at the annual and special meeting of unitholders of InterRent REIT held on September 30, 2009. The Superior Court of Justice of Ontario awarded InterRent REIT costs in excess of $100,000. NWVP has paid to InterRent REIT the awarded costs.

On October 15, 2009, NWVP filed a notice of appeal with the Court of Appeal for Ontario appealing the decision of the Superior Court of Justice. On June 7, 2010, the appeal by NWVP was dismissed with costs of $25,000 ordered payable by NWVP to InterRent REIT.

Future legal costs will be incurred if NWVP proceeds to trial on the other outstanding issues which remain from the September 8, 2009 Notice of Application relating to the private placement. While InterRent REIT maintains that the merits of NWVP's claims for damages are low, there is the possibility of an award of damages, in the event that NWVP was able to prove damages at trial. The foregoing litigation costs, if incurred without successfully recovering the costs, and an award of damages could have an adverse impact on the financial condition of InterRent REIT.

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.

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 16 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, 9 and 10 in the December 31, 2010 audit financial statements 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 $183 million.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2010 the Trust did not have any off-balance sheet arrangements in place.

RELATED PARTY TRANSACTIONS

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

(i) Accounts Payable and Mortgage Payable

As at December 31, 2010, $317,000 (December 31, 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 (December 31, 2009 - $1,178,000) in services from a company controlled by an officer of the Trust. Of the services received approximately $1,659,000 (December 31, 2009 - $192,000) has been capitalized to the income producing properties and the remaining amounts are included in operating and administrative costs.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As at December 31, 2010, the Chief Executive Officer and the Chief Financial Officer evaluated the design and operation of the Trust’s disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that the Trust’s disclosure controls and procedures was effective as at December 31, 2010. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) control framework adopted by the Trust and the requirements of National Instrument 52-109 - *Certification of Disclosure in Issuers’ Annual and Interim Filings* of the Canadian Securities Administrators.

As at December 31, 2010, the Chief Executive Officer and the Chief Financial Officer evaluated the design and operating effectiveness of the Trust’s internal controls over financial reporting. Based on that evaluation, the CEO and CFO concluded that the Trust’s internal controls over financial reporting was effective as at December 31, 2010.

SUBSEQUENT EVENTS

The Trust completed the sale of five properties (84 suites) from January 1, 2011 to March 24, 2011that were included in discontinued operations on December 31, 2010.

On March 24, 2011 the Trust acquired an income producing property (70 suites) for a purchase price of $3.6 million.

OUTSTANDING SECURITIES DATA

As of March 24, 2011, the Trust had issued and outstanding: (i) 32,355,020 units; (ii) options exercisable to acquire 25,000 units of the Trust; (iii) deferred units that are redeemable for 381,777 units of the Trust; and (iv) $25,000,000 principal amount of a convertible unsecured subordinated debenture due January 31, 2013 with a coupon rate of 7.0% per annum that are convertible at a price of $4.60 per trust unit at the option of the holder.

ADDITIONAL INFORMATION

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