INTERRENT
REIT

InterRent Real Estate Investment Trust

Management's Discussion and Analysis

For The Year Ended December 31, 2012

February 19, 2012

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FORWARD-LOOKING STATEMENTS

Caution Regarding Forward-Looking Statements

This Management's Discussion and Analysis ("MD&A") of InterRent Real Estate Investment Trust ("InterRent REIT" or the "Trust") contains "forward-looking statements" within the meaning of applicable securities legislation. This document should be read in conjunction with material contained in the Trust's audited consolidated financial statements for the year ended December 31, 2012 along with InterRent REIT's other publicly filed documents. Forward-looking statements appear in this MD&A under the heading "Outlook" and generally include, but are not limited to, statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results circumstances, performance or expectations, including but not limited to financial performance and equity or debt offerings, new markets for growth, financial position, comparable multi-residential REITs and proposed acquisitions. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved".

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

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

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

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

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

INTERRENT REAL ESTATE INVESTMENT TRUST

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

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

DECLARATION OF TRUST

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

INVESTMENT GUIDELINES

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

OPERATING POLICIES

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

At December 31, 2012 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 3 of the audited consolidated financial statements for the years ended December 31, 2012 and 2011.

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

NON-GAAP MEASURES

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

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

Funds from Operations ("FFO") is a financial measure which should not be considered as an alternative to net income, cash flow from operations, or any other operating or liquidity measure prescribed under GAAP. The Trust presents FFO in accordance with the Real Property Association of Canada (REALpac) White Paper on Funds from Operations revised November 2012.

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

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

Readers are cautioned that DI, FFO, AFFO and NOI are not alternatives to measures under 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.

As a result of the redeemable feature of the Trust Units, the Trust's Units are defined as a financial liability and not considered an equity instrument. Therefore no denominator exists to calculate per unit calculations. Consequently, all per unit calculations are considered non-GAAP measures. Management feels that certain per unit calculations are an important method of measuring results from period to period and as such has determined basic and diluted weighted average number of units. Per unit calculations as computed by the Trust may differ from similar computations as reported by other real estate investment trusts and, accordingly, may not be comparable to other such issuers.

OVERVIEW

BUSINESS OVERVIEW AND STRATEGY

InterRent REIT is a growth-oriented real estate investment trust engaged in increasing Unitholder value and creating a growing and sustainable distribution through the acquisition and ownership of multi-residential properties. The REIT generates revenues, cash flows and earnings from rental operations and from the sale of revenue producing properties. InterRent REIT's largest and most consistent source of income is its rental operations, which involves leasing individual suites to tenants for lease terms generally ranging from month-to-month to twelve-months.

InterRent's strategy is to expand its portfolio primarily within markets that have exhibited stable market vacancies, sufficient suites available to attain the critical mass necessary to implement an efficient portfolio management structure and, offer opportunities for accretive acquisitions.

InterRent's primary objective is to use the proven industry experience of the Trustees, Management and Operational Team to: (i) provide Unitholders with stable and growing cash distributions from investments in a diversified portfolio of multi-residential properties; (ii) enhance the value of the assets and maximize long-term Unit value through the active management of such assets; and (iii) expand the asset base and increase Distributable Income through accretive acquisitions.

The REIT spent 2010 and 2011 focused on re-positioning its portfolio of properties, hiring the right resources, training its team and ensuring the core beliefs of customer service and creation of value were firmly entrenched within the organization. With the re-positioning well in-hand, the focus in 2012 clearly shifted to finding good quality properties where we can drive down operating costs while increasing rents through sound capital investment, good management and exceptional customer service. The Team we have assembled has a proven track record and we believe we have both the experience and ability necessary to execute on our growth strategy in the years to come.

OUTLOOK

- Management is focused on growing InterRent REIT in a strategic and structured manner. In addition to the four acquisitions completed in 2012, management is working on numerous potential opportunities and believes it can continue to find similar accretive acquisitions. In line with this, the Trust has purchased a complex of 4 apartment buildings aggregating 174 residential suites, situated in Montreal, Quebec. This transaction closed on January 28, 2013.

- The sub-metering program has been rolled out to 16 properties (1,302 suites) with another 13 properties (1,019 suites) being rolled out in Q1 of 2013. Of the 1,302 suites that are currently sub-metered, 485 are paying for their hydro consumption through the program while the remaining 817 will convert to hydro extra on suite turnover. Of the 1,019 suites to be rolled out in Q1 of 2013, approximately 300 of the suites are on hydro extra leases and as such, will be moved from a nominal monthly hydro charge to paying for their consumption.

- Management is currently working on the early re-financing of mortgages that mature in 2013. Management expects to be able to renew these mortgages at rates that are substantially below the current contracted rates.

- As a result of the Capital Expenditures in 2011 and 2012, management has initiated another round of Above Guideline Increases (AGIs). Applications have been submitted to the Landlord and Tenant Board, representing approximately 14% of the portfolio which, when combined with previous applications, amounts to annualized AGIs of $250,000 expected in 2013.

- The Trust has built-out and rented 25 suites within existing properties over the past year and a half. The Trust is currently investigating further unit build-outs for 2013 and expects to complete a minimum of another 25 suite additions.

PERFORMANCE HIGHLIGHTS

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

Selected Consolidated Information In $000's, except per Unit amounts and other non-financial data	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total suites	4,695	4,695	4,652	4,489	3,820	3,985	3,952	3,914
Occupancy rate (last month of Q)	97.8%	98.6%	96.6%	97.3%	96.6%	96.6%	95.1%	95.5%
Average rent per suite (last month of	$888	$880	$850	$832	$843	$829	$812	$810
Operating revenues	$12,708	$12,448	$11,568	$10,806	$9,902	$9,714	$9,434	$9,421
Operating NOI	7,474	7,722	7,037	5,713	5,410	5,554	5,207	4,335
NOI %	58.8%	62.0%	60.8%	52.9%	54.6%	57.2%	55.2%	46.0%
NOI per unit - basic	$0.17	$0.17	$0.16	$0.13	$0.16	$0.17	$0.16	$0.13
NOI per unit - diluted	$0.17	$0.17	$0.16	$0.13	$0.16	$0.17	$0.16	$0.13
Funds from operations (FFO)	$3,839	$4,092	$3,548	$2,010	$1,324	$1,634	$749	$593
FFO per unit - basic	$0.09	$0.09	$0.08	$0.05	$0.04	$0.05	$0.02	$0.02
FFO per unit - diluted	$0.09	$0.09	$0.08	$0.05	$0.04	$0.05	$0.02	$0.02
Adjusted Funds from operations (AFFO)	$3,311	$3,564	$3,025	$1,848	$1,368	$1,653	$751	$571
AFFO per unit - basic	$0.07	$0.08	$0.07	$0.04	$0.04	$0.05	$0.02	$0.02
AFFO per unit - diluted	$0.07	$0.08	$0.07	$0.04	$0.04	$0.05	$0.02	$0.02
Distributable income (DI)	$3,107	$3,227	$2,915	$2,609	$572	$1,296	$1,277	$1,020
DI per unit - basic	$0.07	$0.07	$0.07	$0.06	$0.02	$0.04	$0.04	$0.03
DI per unit - diluted	$0.07	$0.07	$0.07	$0.06	$0.02	$0.04	$0.04	$0.03
Cash distributions per unit	$0.04	$0.04	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03
AFFO payout ratio	54%	45%	44%	71%	75%	59%	129%	170%
Stabilized average rent per suite	$887	$880	$865	$855	$851	$847	$824	$819
Stabilized NOI %	59.0%	61.9%	60.1%	53.5%	55.9%	58.6%	55.5%	47.0%
Debt to GBV	46.8%	47.8%	51.0%	50.3%	48.5%	57.4%	58.5%	58.1%

- Operating revenue for the quarter increased by 2.1% over Q3 2013 and 28.3% over Q4 2011. Operating revenue for the year increased by $9.1 million, or 23.5%, over 2011.
- Average monthly rent per suite increased to $888 (December 2012) from $843 (December 2011), an increase of 5.3%.
- Economic vacancy decreased to 2.2% in December 2012 from 3.4% in December 2011.
- Net Operating Income (NOI) increased by $2.1 million, or 38.2%, for the quarter compared to Q4 2011. NOI for the quarter was $7.5 million, or 58.8% of operating revenues. NOI increased by $7.4 million, or 36.3%, for the year compared to 2011. NOI for the year was $27.9 million, or 58.8% of operating revenues.

- Stabilized NOI increased by 10.5% to $5.5 million for the quarter, or 59.0% of operating revenues, compared to $5.0 million, or 55.9%, for Q4 2011. For the year, Stabilized NOI increased by 14.0% to $21.5 million or 58.9% of operating revenues, compared to $18.8 million, or 54.5%, for 2011.

- Funds From Operations (FFO) for the quarter increased by $2.5 million, or 190%, to $3.8 million (or $0.09 per unit) compared to $1.3 million (or $0.04 per unit) for Q4 2011. For the year, FFO increased by $9.2 million, or 214%, to $13.5 million (or $0.31 per unit) compared to $4.3 million (or $0.13 per unit) for 2011.

- Adjusted Funds From Operations (AFFO) for the quarter increased by $1.9 million, or 142%, to $3.3 million (or $0.07 per unit) compared to $1.4 million (or $0.04 per unit) for Q4 2011. For the year, AFFO increased by $7.4 million, or 171%, to $11.7 million (or $0.27 per unit) compared to $4.3 million (or $0.13 per unit) for 2011.

- Distributable Income (DI) for the quarter increased by $2.5 million, or 443%, to $3.1 million (or $0.07 per unit) compared to $0.6 million (or $0.02 per unit) for Q4 2011. For the year, DI increased by $7.7 million, or 185%, to $11.9 million (or $0.27 per unit) compared to $4.2 million (or $0.13 per unit) for 2011.

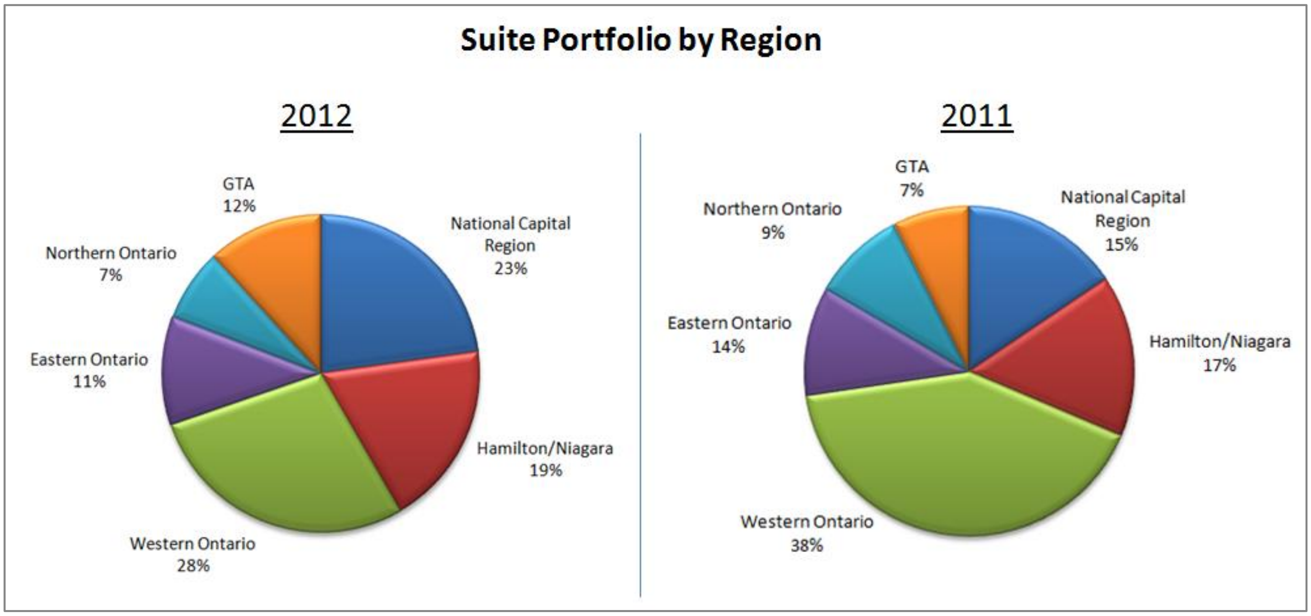
- The Trust completed the following investment property transactions during the year:

Transaction Date		Suite Count	Region	Transaction Price	Price per Suite
January 5, 2012	acquisition	490	National Capital	$ 28,775,000	$ 58,724
March 7, 2012	acquisition	230	Hamilton/Niagara	19,910,000	86,565
June 11, 2012	acquisition	184	GTA	23,900,000	129,891
August 8, 2012	acquisition	96	GTA	9,300,000	96,875

Transaction Date		Suite Count	Region	Transaction Price	Price per Suite
March 8, 2012	disposition	36	Western Ontario	$ 2,435,000	$ 67,639
March 8, 2012	disposition	16	Western Ontario	982,500	61,406
May 28, 2012	disposition	24	Eastern Ontario	1,375,000	57,292
July 18, 2012	disposition	63	Western Ontario	2,160,000	34,286

PORTFOLIO SUMMARY

The Trust started the year with 3,820 suites. During the year the Trust purchased four properties totalling 1,000 suites, added 14 suites to existing properties and sold four properties totalling 139 suites. At December 31, 2012, the Trust had 4,695 suites. Management continuously reviews the markets the REIT is in to determine if the portfolio mix remains suitable. Management believes that although the bulk of the repositioning and dispositions are complete, there remains opportunities within the portfolio to reduce the operating costs further and streamline operations while growing the REIT in a fiscally prudent manner. Management has identified several cities within its geographical clusters for growth, and has been successful in adding 1,000 suites within these clusters during the year. We continue to actively seek 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 2012.



Region	Number of Suites	Average Rent
Eastern Ontario	517	$837
GTA	555	$1,091
Hamilton/Niagara	884	$949
Northern Ontario	347	$765
National Capital Region - Ottawa	581	$997
National Capital Region - Gatineau	490	$728
Western Ontario	1,321	$826
Total	4,695	$888

ANALYSIS OF OPERATING RESULTS

The current and prior period consolidated income statement, and analysis of operating results, does not separately disclose the results from assets held for sale as discontinued operations. Management's position is that the disposal of a property or the classification of a property as held for sale does not constitute a discontinued operation.

In $ OOO's	3 Months Ended December 31, 2012		3 Months Ended December 31, 2011		12 Months Ended December 31, 2012		12 Months Ended December 31, 2011	
Gross rental revenue	**$12,469**		$9,948		**$47,039**		$39,018	
Less: vacancy & rebates	**(338)**		(456)		**(1,655)**		(2,136)	
Other revenue	**577**		410		**2,146**		1,589	
Operating revenues	**$12,708**		$9,902		**$47,530**		$38,471	
Expenses								
Property operating costs	**2,114**	**16.6%**	1,852	18.7%	**7,923**	**16.7%**	7,166	18.6%
Property taxes	**1,643**	**12.9%**	1,357	13.7%	**6,315**	**13.3%**	5,638	14.7%
Utilities	**1,477**	**11.6%**	1,283	13.0%	**5,346**	**11.2%**	5,161	13.4%
Operating expenses	**$5,234**	**41.2%**	$4,492	45.4%	**$19,584**	**41.2%**	$17,965	46.7%
Net operating income	**$7,474**		$5,410		**$27,946**		$20,506	
Net operating margin	**58.8%**		54.6%		**58.8%**		53.3%	

REVENUE

Gross rental revenue for the year ended December 31, 2012 increased 20.6% to $47.0 million compared to $39.0 million for the year ended December 31, 2011. Operating revenue for the year was up $9.1 million to $47.5 million, or 23.5% compared to the prior year. The Trust had 4,695 suites at the end of 2012 as compared to 3,820 at the end of 2011 (on a weighted average basis, the Trust had 540 more suites in 2012 compared to 2011). The average monthly rent for December 2012 increased to $888 per suite from $843 (December 2011), an increase of 5.3%.

For the stabilized portfolio, the increase in the average monthly rents from September 2012 to December 2012 is as a result of moving rents to market on turnover, guideline increases and AGIs. On a stabilized basis, average rents per suite are up $36 per suite (or 4.2%) over December 2011. The increase on a portfolio basis reflects the aforementioned as well as the changes that have occurred in the property mix. The average rents for the overall portfolio for December 2012 increased by $45 (or 5.3%) over December 2011. Management expects to continue to grow rent organically through moving to market rent on suite turnovers, continued roll-out of guideline increases and AGIs as well as continuing to drive other ancillary revenue streams such as parking, laundry, locker rentals and cable and telecom.

The AGIs rolled out to date were expected to result in approximately $0.6 million in annualized gross rent once the process was complete. As of the end of Q4 2012, we have seen the process result in a lift in annualized rent of approximately $0.2 million with approximately $0.1 million remaining to be rolled out over the next year. The remaining $0.3 million expected increase has turned into an annualized increase of over $0.7 million as a result of tenant move-outs and therefore being able to go to market rent on the turnover.

InterRent REIT has been successful in maintaining rent levels while at the same time passing on hydro sub-metering charges to new tenants. The program has been in place since the summer of 2011 for select locations and the program is now being extended to most of the remaining portfolio. This program affects those properties that are bulk metered by hydro.

	December 2012	September 2012	June 2012	March 2012	December 2011
Average monthly rents all properties	$888	$880	$850	$832	$843
Average monthly rents stabilized properties	$887	$880	$865	$855	$851

Portfolio Occupancy

Overall economic vacancy was 2.2% for December 2012 compared to 3.4% over the same period last year. The increased rents and reduction in vacancies that InterRent REIT is now achieving supports and strengthens management's philosophy that the right tenant profile and capital investment leads to a stronger and more sustainable portfolio of properties. The objectives are being achieved as a direct result of:

1. marketing geared to the right tenant profile;

2. ensuring that properties are well maintained, landscaped and decorated so as to be visually appealing ("curb appeal");

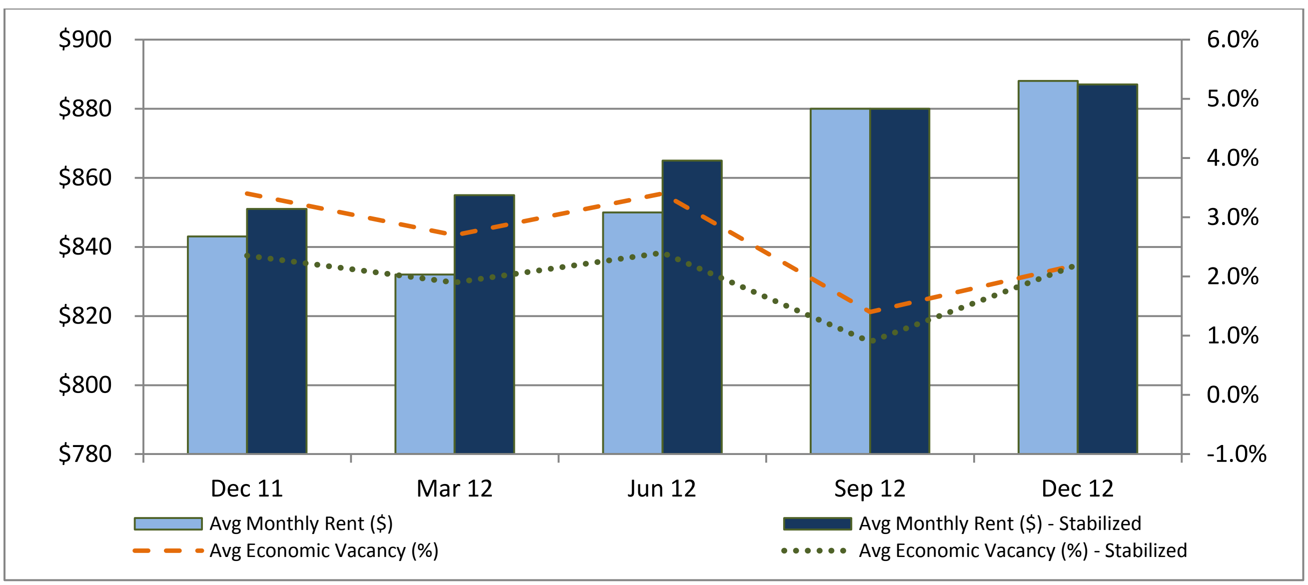
3. ensuring suites are properly repaired and maintained before being rented to new tenants;

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

5. ensuring that operations are running as efficiently and cost effectively as possible to ensure the well being and enjoyment of the tenants.

This is part of the Trust's repositioning strategy to maximize rental revenues, lower operating costs and create value for Unitholders. Management intends to continue to pursue this strategy and focus both within the existing portfolio and as it looks to add new properties within targeted regions.

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



The overall economic vacancy for December 2012 across the entire portfolio was 2.2%, compared to 3.4% for December 2011. On a per region basis, the economic vacancy breaks down as follows: Eastern Ontario – 4.5%; GTA – 1.2%; Hamilton/Niagara – 2.6%; Northern Ontario – 0.8%; National Capital Region – 1.8%; and, Western Ontario – 2.1%.

As part of the ongoing effort to drive rents throughout the portfolio, the vacancy rate on an annual basis is expected to be in the range of 3% to 4%. Going forward, management believes that minor variations in economic vacancy will continue to occur from one quarter to another given the seasonal nature of rental activity.

Other Revenue

Other rental revenue for the twelve months ended December 31, 2012 increased 35.1% to $2.1 million compared to $1.6 million for the twelve months ended December 31, 2011. The increased revenues from ancillary sources such as parking, laundry, locker rentals and cable and telecom continues to be a focus as it provides organic revenue growth.

PROPERTY OPERATING COSTS

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

Property operating costs for the year ended December 31, 2012 amounted to $7.9 million or 16.7% of revenue compared to $7.2 million or 18.6% of revenue for the year ended December 31, 2011. Despite the net addition of 875 suites throughout the year, the REIT managed to increase operating costs by only $0.7 million and reduce the cost as a percentage of revenue by 1.9% of revenue as compared to 2011. On a stabilized property basis, property operating costs were down 2.3%, or $0.1 million.

Management believes that the current staffing levels are able to meet not only the current requirements, but most regions are able to integrate new properties into the portfolio with minimal extra cost.

PROPERTY TAXES

Property taxes for the year ended December 31, 2012 amounted to $6.3 million or 13.3% of revenue compared to $5.6 million or 14.7% of revenue for the year ended December 31, 2011. The $0.7 million increase is mainly attributable to the net addition of 875 suites throughout the year. Property Taxes as a percentage of revenues and on a per suite basis have reduced from 2011 to 2012. On a stabilized property basis, property taxes were up 0.9%, or $0.1 million.

The Trust is constantly reviewing property tax assessments for its properties and this active approach shall continue to help drive down costs. Where appropriate, the Trust will appeal individual property assessments.

UTILITY COSTS

Utility costs for the year ended December 31, 2012 amounted to $5.3 million or 11.2% of revenue compared to $5.2 million or 13.4% of revenue for the year ended December 31, 2012. On a stabilized property basis, utility costs were down 13.0%, or $0.6 million, of which 4.1% was attributable to the hydro sub meter program. The net increase of 875 suites throughout the year resulted in an increase of $0.7 million.

Approximately 30% of our gas consumption was under contract at rates ranging from $0.2960 to $0.3445 per cubic metre. All contracts expired by the end of 2012.

NET OPERATING INCOME (NOI)

NOI for the twelve months ended December 31, 2012 amounted to $27.9 million or 58.8% of operating revenue compared to $20.5 million or 53.3% of operating revenue for the twelve months ended December 31, 2012. The $7.4 million increase in the year is as a result of growing the portfolio and increasing net revenue while decreasing property operating costs, taxes and utilities as a percentage of revenue. On a weighted average per suite basis, NOI increased 20.0% from $5,155 per suite in 2011 to $6,185 per suite in 2012. NOI from stabilized properties was $21.4 million, or 58.9% of revenue, and NOI from non-stabilized properties was $6.5 million, or 58.6% of revenue. Management continues to focus on top line revenue growth through acquisitions, suite additions and ancillary revenue as well as operating cost reductions (efficiencies of scale, investment in energy saving initiatives, investments to reduce ongoing operating costs, etc.).

STABILIZED PORTFOLIO PERFORMANCE

Stabilized properties for the three and twelve months ended December 31, 2012 are defined as all properties owned by the Trust continuously for 24 months, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during the period from January 1, 2011 to December 31, 2012. As at December 31, 2012, the Trust has 3,453 stabilized suites, which represents 73.5% of the overall portfolio.

In $ OOO's	**3 Months Ended December 31, 2012**		**3 Months Ended December 31, 2011**		**12 Months Ended December 31, 2012**		**12 Months Ended December 31, 2011**	
Gross rental revenue	**$9,165**		$8,773		**$35,924**		$34,432	
Less: vacancy & rebates	**(259)**		(255)		**(1,090)**		(1,369)	
Other revenue	**413**		377		**1,633**		1,469	
Operating revenues	**$9,318**		$8,895		**$36,467**		$34,532	
Expenses								
Property operating costs	**1,525**	**16.4%**	1,550	17.4%	**5,998**	**16.4%**	6,140	17.8%
Property taxes	**1,257**	**13.5%**	1,231	13.8%	**4,982**	**13.7%**	4,936	14.3%
Utilities	**1,038**	**11.1%**	1,137	12.8%	**4,024**	**11.0%**	4,625	13.4%
Operating expenses	**$3,820**	**41.0%**	$3,919	44.1%	**$15,004**	**41.1%**	$15,701	45.5%
Net operating income	**$5,498**		$4,977		**$21,463**		$18,831	
Net operating margin	**59.0%**		55.9%		**58.9%**		54.5%	

For the three months ended December 31, 2012, operating revenues for stabilized properties increased by 4.8% and operating expenses decreased by 2.5% as compared to the same period last year. As a result, stabilized NOI has increased by 10.5% to 59.0% as compared to the same period last year.

For the twelve months ended December 31, 2012, operating revenues from stabilized properties increased by 5.6% and operating expenses decreased by 4.4% as compared to the same period last year. As a result, stabilized NOI has increased by 14.0% to 58.9% as compared to last year.

The average monthly rent for December 2012 for stabilized properties increased to $887 per suite from $851 (December 2011), an increase of 4.2%. Economic vacancy for December 2012 for stabilized properties was 2.2%, compared to 2.4% for December 2011.

	December 2012	**September 2012**	**June 2012**	**March 2012**	**December 2011**
Average monthly rents stabilized properties	$887	$880	$865	$855	$851

FINANCING AND ADMINISTRATIVE COSTS

In $ OOO's	3 Months Ended December 31, 2012	3 Months Ended December 31, 2011	12 Months Ended December 31, 2012	12 Months Ended December 31, 2011
Net operating income	**$7,474**	$5,410	**$27,946**	$20,506
Expenses				
Financing costs	**2,600**	3,265	**10,669**	12,649
Administrative costs	**991**	801	**3,651**	3,485
Income before other income and expenses	**$3,883**	$1,344	**$13,626**	$4,372

FINANCING COSTS

Financing costs amounted to $2.6 million or 20.5% of revenue for the three months ended December 31, 2012 compared to $3.3 million or 33.0% of revenue for the three months ended December 31, 2011.

	3 Months Ended December 31, 2012		3 Months Ended December 31, 2011	
In $000's	Amount	% of Revenue	Amount	% of Revenue
Cash based:				
Mortgage interest	$2,370	18.7%	$1,877	19.0%
Debenture interest	-	0%	441	4.4%
Credit facilities	105	0.8%	101	1.0%
Interest income	(39)	(0.3%)	(29)	(0.3%)
Non Cash based:				
Accretion of discount and amortization of deferred finance cost on convertible debt	-	0%	474	4.8%
Amortization of deferred finance cost and premiums on assumed debt	164	1.3%	401	4.1%
Total	$2,600	20.5%	$3,265	33.0%

Financing costs amounted to $10.7 million or 22.4% of revenue for the twelve months ended December 31, 2012 compared to $12.6 million or 32.9% of revenue for the twelve months ended December 31, 2011.

	12 Months Ended December 31, 2012		12 Months Ended December 31, 2011	
In $ OOO's	**Amount**	**% of Revenue**	**Amount**	**% of Revenue**
Cash based:				
Mortgage interest	$8,895	18.7%	$7,849	20.4%
Debenture interest	149	0.3%	1,750	4.5%
Credit facilities	540	1.1%	271	0.7%
Interest income	(131)	(0.3%)	(57)	(0.1%)
Non Cash based:				
Accretion of discount and amortization of deferred finance cost on convertible debt	343	0.7%	1,814	4.7%
Amortization of deferred finance cost and premiums on assumed debt	873	1.8%	1,022	2.7%
Total	$10,669	22.4%	$12,649	32.9%

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. Although mortgage debt has increased on an overall basis, mainly attributable to property acquisitions and up-financing, mortgage interest on a per suite basis has decreased from $1,978 in 2011 to $1,949 in 2012 due to an overall decrease in the weighted average rate of mortgage debt (from 4.28% at December 31, 2011 to 3.60% at December 31, 2012).

Subordinated Convertible Debenture

As at December 31, 2012, InterRent REIT had no convertible subordinated debenture outstanding. The Trust redeemed the $25 million 7% subordinated convertible debenture, originally due on January 31, 2013, on February 1, 2012 at par. As at December 31, 2011, InterRent REIT had one convertible subordinated debenture issue outstanding. The Trust issued a $25 million subordinated convertible debenture on January 15, 2008 which bore interest at 7% and was due on January 31, 2013. The debenture was convertible into Trust units at $4.60 per Trust unit at the option of the holder prior to maturity. On December 23, 2011, the Trust elected to redeem the debenture at par on February 1, 2012. As a result, the carrying amount of the convertible debenture at December 31, 2011 was revised to the estimated future cash flows and an adjustment of $1,982 was recorded as an expense.

ADMINISTRATIVE COSTS

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

Administrative costs for the twelve months ended December 31, 2012 amounted to $3.7 million or 7.7% of revenue compared to $3.5 million or 9.1% of revenue for the twelve months ended December 31, 2011.

SALE OF ASSETS, FAIR VALUE ADJUSTMENTS ON INVESTMENT PROPERTIES, ADJUSTMENT TO CARRYING VALUE AND GAIN/(LOSS) ON FINANCIAL LIABILITIES

In $ OOO's	3 Months Ended December 31, 2012	3 Months Ended December 31, 2011	12 Months Ended December 31, 2012	12 Months Ended December 31, 2011
Income before other income and expenses	**$3,883**	$1,344	**$13,626**	$4,372
Loss on sale of assets	**(39)**	(344)	**(110)**	(453)
Fair value adjustments of investment	**11,258**	25,623	**72,041**	37,002
Adjustment to carrying value of convertible debt	**-**	(1,982)	**-**	(1,982)
Unrealized gain/(loss) on financial liabilities	**314**	2,786	**(2,860)**	409
Distributions expense on units classified as financial liabilities	**(51)**	(26)	**(162)**	(78)
Net income	**$15,365**	$27,401	**$82,535**	$39,270

SALE OF ASSETS

In the twelve month period ended December 31, 2012, the Trust had a $0.1 million loss from the sale of investment properties and mortgages receivable. The Trust sold four investment properties for a total selling price of $6.9 million compared to a carrying value of $6.3 million. The properties were sold for $0.6 million above their carrying value (which is the fair market value) however selling costs of $0.4 million were incurred as part of the transactions, resulting in a gain on disposition of $0.2 million. The Trust also sold five mortgage receivables for a total selling price of $3.0 million compared to a carrying value of $3.3 million resulting in a loss on disposition of $0.3 million.

In the twelve month period ended December 31, 2011, the Trust sold nineteen investment properties for a total selling price of $29.1 million which incurred a loss on disposition of $0.5 million.

FAIR VALUE ADJUSTMENTS OF INVESTMENT PROPERTIES

The fair value of the portfolio at December 31, 2012 and 2011 was determined internally by the Trust. In order to substantiate management's valuation, approximately 60% of the portfolio was appraised by external valuation professionals throughout 2012 (approximately 29% in 2011). For the twelve month period ended December 31, 2012, a fair value gain of $72.0 million was recorded on the financial statements as a result of changes in the fair value of investment properties. The increase in the fair value of the properties over last year has been driven by actual improvements in operating results as a result of the repositioning of the properties and the capital invested over the last two and a half years as well as a decrease in the capitalization rate. The weighted average capitalization rate used across the portfolio at the end of Q4 2012 was 5.55% as compared to 5.93% for Q4 2011.

UNREALIZED FAIR VALUE GAIN/(LOSS) ON FINANCIAL LIABILITIES

The Trust used a closing price of $5.23 based on the closing price of the TSX listed InterRent REIT Trust Units to determine the fair value of the deferred unit compensation liability. The total fair value of the deferred units recorded on the consolidated balance sheet at December 31, 2012 was $4.3 million and a corresponding fair value loss of $1.6 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2012.

The Trust determined the fair value of the option plan (unit-based compensation liability) at December 31, 2012 at $1.6 million and a corresponding fair value loss of $0.9 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2012. The intrinsic value of the vested options is $1.9 million.

As at December 31, 2012, the Trust had no convertible subordinated debenture outstanding and therefore no value for the conversion feature. The Trust determined the fair value of the conversion feature of the convertible debenture at December 31, 2011 at nil and a corresponding fair value gain of $1.7 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2011. The intrinsic value of the conversion feature of the convertible debenture was nil.

The Trust used a closing price of $5.23 based on the closing price of the TSX listed InterRent REIT Trust Units to determine the fair value of the LP Class B unit liability. The total fair value of these Units recorded on the consolidated balance sheet at December 31, 2012 was $1.0 million and a corresponding fair value loss of $0.4 million was recorded on the consolidated statement of income for the twelve months ended December 31, 2012.

In $ OOO's	**3 Months Ended December 31, 2012**	**3 Months Ended December 31, 2011**	**12 Months Ended December 31, 2012**	**12 Months Ended December 31, 2011**
Fair value gain(loss) on financial liabilities:				
Deferred unit compensation plan	**$112**	$(254)	**$(1,567)**	$(773)
Option plan	**154**	(214)	**(911)**	(338)
Conversion feature of convertible debenture	**-**	3,480	**-**	1,746
LP Class B unit liability	**48**	(226)	**(382)**	(226)
Fair value gain (loss) on financial liabilities	**$314**	$2,786	**$(2,860)**	$409

DISTRIBUTION EXPENSE

The distribution expense is comprised of distributions to holders of the LP Class B units and distributions earned on the deferred unit plan, as both are classified as a liability.

PERFORMANCE MEASURES

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

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

FFO Reconciliation In $000's, except per Unit amounts and Units outstanding	**3 Months Ended December 31, 2012**	**3 Months Ended December 31, 2011**	**12 Months Ended December 31, 2012**	**12 Months Ended December 31, 2011**
Net income	**$15,365**	$27,401	**$82,535**	$39,270
Add (deduct):				
Fair value adjustments on investment property	**(11,258)**	(25,623)	**(72,041)**	(37,002)
(Gain) loss on sale of assets	**39**	344	**110**	453
Unrealized (gain) loss on financial instruments	**(314)**	(2,786)	**2,860**	(409)
Adjustment to carrying value of convertible debt	**-**	1,982	**-**	1,982
Interest expense on puttable units classified as liabilities	**7**	6	**25**	-
Funds from operations (FFO)	**$3,839**	$1,324	**$13,489**	$4,300
FFO per unit - basic	**$0.09**	$0.04	**$0.31**	$0.13
FFO per unit - diluted	**$0.09**	$0.04	**$0.30**	$0.13

AFFO Reconciliation In $000's, except per Unit amounts and Units outstanding	**3 Months Ended December 31, 2012**	**3 Months Ended December 31, 2011**	**12 Months Ended December 31, 2012**	**12 Months Ended December 31, 2011**
Funds from operations	**$3,839**	$1,324	**$13,489**	$4,300
Add (deduct):				
Maintenance capital investment	**(528)**	(430)	**(2,084)**	(1,771)
Accretion of discount and amortization of deferred finance cost on convertible debt	**-**	474	**343**	1,814
Adjusted Funds from operations (AFFO)	**$3,311**	$1,368	**$11,748**	$4,343
AFFO per unit - basic	**$0.07**	$0.04	**$0.27**	$0.13
AFFO per unit - diluted	**$0.07**	$0.04	**$0.26**	$0.13

DI Reconciliation In $000's, except per Unit amounts and Units outstanding	**3 Months Ended December 31, 2012**	**3 Months Ended December 31, 2011**	**12 Months Ended December 31, 2012**	**12 Months Ended December 31, 2011**
Net income	**$15,365**	$27,401	**$82,535**	$39,270
Add (deduct) items not affecting cash:				
Interest expense on redeemable units classified as liabilities	**7**	6	**25**	6
Amortization of furniture and fixtures	**5**	5	**19**	19
Accretion of discount and amortization of deferred finance cost on convertible debt	**-**	474	**343**	1,814
Amortization of deferred finance costs and premiums on assumed debt	**164**	400	**873**	1,022
Unit based compensation	**258**	152	**1,239**	1,203
Loss on sale of assets	**39**	344	**110**	453
Unrealized loss (gain) on financial instruments	**(314)**	(2,786)	**2,860**	(409)
Adjustment to carrying value of convertible debt	**-**	1,982	**-**	1,982
Less:				
Amortization of deferred finance charges post December 6, 2006	**214**	245	**724**	740
Maintenance capital expenditures	**945**	1,538	**3,381**	3,454
Fair value gain on investment properties	**11,258**	25,688	**72,041**	37,002
Distributable income	**$3,107**	$572	**$11,858**	$4,165
Distributable income per unit - basic	**$0.07**	$0.02	**$0.27**	$0.13
Distributable income per unit - diluted	**$0.07**	$0.02	**$0.27**	$0.13

WEIGHTED AVERAGE NUMBER OF UNITS

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

	3 Months Ended December 31, 2012	**3 Months Ended December 31, 2011**	**12 Months Ended December 31, 2012**	**12 Months Ended December 31, 2011**
Trust units	**44,146,805**	33,814,621	**43,897,348**	32,642,617
LP Class B units	**186,250**	186,250	**186,250**	186,250
Weighted average units outstanding - Basic	**44,333,055**	34,000,871	**44,083,598**	32,828,867
Unexercised dilutive options (1)	**366,992**	219,576	**366,992**	219,576
Weighted average units outstanding - Diluted	**44,700,047**	34,220,447	**44,450,590**	33,048,443

(1) Calculated using the treasury method

INVESTMENT PROPERTIES

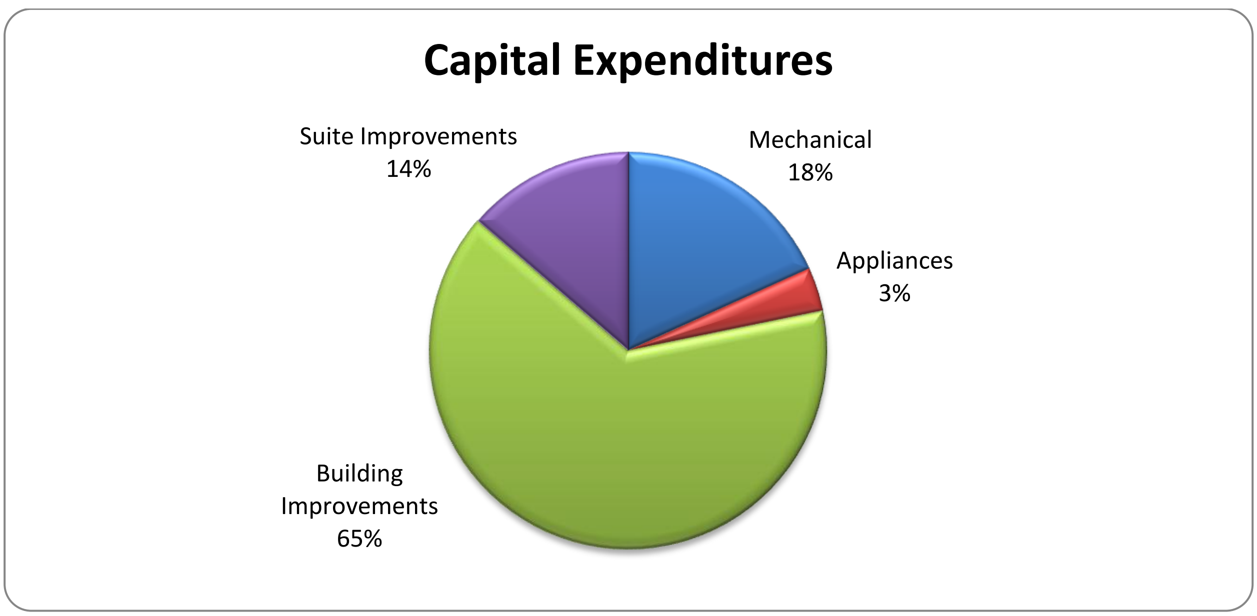
The following chart shows the changes in investment properties from December 31, 2011 to December 31, 2012.

In $ OOO's	December 31, 2012
Balance, December 31, 2011	$373,245
Acquisitions	85,967
Property capital investments	26,470
Settlement from derecognition of liability	(365)
Fair value gains	72,041
Dispositions	(6,337)
Total Investment properties	$551,021

The Trust acquired four properties (1,000 suites) for $85.9 million during the twelve month period ended December 31, 2012 and sold four properties (139 suites) with a carrying value of $6.3 million.

The fair value of the portfolio at December 31, 2012 was determined internally by the Trust. In order to substantiate management's valuation, approximately 60% of the portfolio was appraised by external valuation professionals throughout 2012. For the twelve month period ended December 31, 2012, a fair value gain of $72.1 million was recorded on the financial statements as a result of changes in the fair value of investment properties.

For the twelve month period ended December 31, 2012, the Trust invested $26.5 million (2011 – $15.9 million) in its investment properties, including $12.8 million spent on non-stabilized properties acquired in the past 24 months. The breakdown of expenditures for the year are itemized in the following graph.



UNITHOLDERS' EQUITY

The following chart shows the changes in reported Unitholders' equity from December 31, 2011 to December 31, 2012.

Summary of Unitholders' Capital Contributions	Trust Units	Amount (in $'000)
December 31, 2011	43,464,465	$79,459
Units issued under long-term incentive plan	400,000	1,743
Units issued from options exercised	38,350	172
Units issued under distribution reinvestment plan	301,205	1,279
December 31, 2012	44,204,020	$82,653

As at December 31, 2012 there were 44,204,020 Trust Units issued and outstanding.

DISTRIBUTIONS

The Trust increased its monthly distributions 33% from $0.01 to $0.0133 per Unit effective for the August 2012 distribution that was paid September 2012. The Trust is currently making monthly distributions of $0.0133 per Unit. For the year ended December 31, 2012, the Trust's Distributable Income was $0.27 per unit, compared to $0.13 for the year ended December 31, 2011, while the distributions were $0.1366 for 2012 and $0.12 for 2011.

LIQUIDITY AND CAPITAL RESOURCES

InterRent REIT's overall debt level was at 46.8% of Gross Book Value ("GBV") at December 31, 2012. GBV is a non-GAAP term that is defined in the DOT and includes all operations. The following chart sets out the Trust's computed debt to GBV:

In $ OOO's	December 31, 2012	December 31, 2011
Total assets per Balance Sheet	$559,206	$406,349
Mortgages payable and vendor take-back loans	$256,820	$172,241
Debenture	-	25,000
Lines of credit	5,110	-
Total debt	$261,930	$197,241
Debt to GBV	46.8%	48.5%

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 investments in new assets. The Trust is conscious of the current credit environment and how this affects the ability of the Trust to grow. Management believes that although the bulk of the repositioning and dispositions are complete, there remains opportunities within the portfolio to reduce the operating costs further and streamline operations while growing the REIT in a fiscally prudent manner.

As at December 31, 2012, the Trust had the following credit facilities:

- A $0.5 million demand operating loan with a Canadian chartered bank bearing interest at prime plus 1.0%, secured by a general security agreement and a second collateral mortgage on one of the Trust's properties. As at December 31, 2012, the Trust had not utilized this facility.
- A $10 million demand credit facility with a financial institution bearing interest at prime plus 1.0%, secured by a general security agreement and second collateral mortgages on nine of the Trust's properties. As at December 31, 2012, the Trust had not utilized this facility.
- A $10 million term credit facility, maturing in 2014, with a Canadian chartered bank bearing interest at prime plus 0.75%, secured by a general security agreement and second collateral mortgages on nine of the Trust's properties. As at December 31, 2012, the Trust had utilized $5.1 million of this facility.

- A $12.5 million term credit facility, maturing in 2015, with a Canadian chartered bank bearing interest at prime plus 0.75%, secured by a general security agreement and second collateral mortgages on ten of the Trust's properties. As at December 31, 2012, the Trust had not utilized this facility.

MORTGAGE AND DEBT SCHEDULE

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

Year Maturing	Mortgage Balances At December 31, 2012 (in $ 000's)	Weighted Average by Maturity	Weighted Average Interest Rate
2013	$95,569	36.7%	3.52%
2014	$22,045	8.5%	3.81%
2015	$8,845	3.4%	3.25%
2016	$16,820	6.5%	4.33%
2017	$42,913	16.5%	4.48%
Thereafter	$74,142	28.5%	3.04%
Total	$260,334	100%	3.60%

At December 31, 2012, the average term to maturity of the mortgage debt was approximately 4.7 years and the weighted average cost of mortgage debt was 3.60%. At December 31, 2012, approximately 61% of InterRent REIT's mortgage debt was backed by CMHC insurance.

ACCOUNTING

FUTURE ACCOUNTING CHANGES

IFRS 9 *Financial Instruments*

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Trust's consolidated financial statements.

IFRS 13 *Fair Value Measurement*

On May 12, 2011, the IASB has issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. Management has not yet determined the potential impact that the adoption of IFRS 13 will have on the Trust's consolidated financial statements.

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 and 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.

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.

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 where the Trust operates, which may have an adverse impact on the Trust's operations.

Certain provinces of Canada have enacted residential tenancy legislation which imposes, among other things, rent control guidelines that limit the Trust's ability to raise rental rates at its properties. Limits on the Trust's ability to raise rental rates at its properties may adversely affect the Trust's ability to increase income from its properties. In addition to limiting the Trust's ability to raise rental rates, residential tenancy legislation in such provinces provide certain rights to tenants, while imposing obligations upon the landlord. Residential tenancy legislation in the Provinces of Ontario and Québec prescribe certain procedures which must be followed by a landlord in order to terminate a residential tenancy. As certain proceedings may need to be brought before the respective administrative body governing residential tenancies as appointed under a province's residential tenancy legislation, it may take several months to terminate a residential lease, even where the tenant's rent is in arrears.

Further, residential tenancy legislation in certain provinces provide the tenant with the right to bring certain claims to the respective administrative body seeking an order to, among other things, compel the landlord to comply with health, safety, housing and maintenance standards. As a result, the Trust may, in the future, incur capital expenditures which may not be fully recoverable from tenants. The inability to fully recover substantial capital expenditures from tenants may have an adverse impact on the Trust's financial conditions and results of operations and decrease the amount of cash available for distributions.

Residential tenancy 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 the historical level of earnings of 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 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 distributing 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 listed 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 Mutual Fund Plans (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 Canadian Revenue Agency (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 Trust or Unitholders.

Investment Eligibility

The Trust will endeavour to ensure that the Units, continue to be qualified investments for Plans, as defined in the Annual Information Form (AIF). 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).

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.

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 2013 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 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.

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 the Trust's indebtedness could have significant consequences to holders of Units, including the ability of the Trust to obtain additional financing for working capital, capital expenditures or future acquisitions may be limited; and that a significant portion of the Trust'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 The Trust'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 the Trust will generate sufficient cash flow from operations to meet required interest and principal payments. The Trust 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. 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

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 planned growth will require increasingly sophisticated financial and operational controls to be implemented. In the event that financial and operational controls do not keep pace with the Trust's 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, the Trust 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.

On September 8, 2009, NorthWest Value Partners Inc. ("NWVP") issued a Notice of Application in the Superior Court of Justice of Ontario against the former trustees of the Trust and others (but not against the Trust itself) seeking a declaration, among other things, that the trustees of the Trust did not have authority to complete the private placement that closed on September 3, 2009. On September 28, 2009, the Superior Court of Justice of Ontario directed a trial on certain matters but denied most of the requests by NWVP. Specifically, the Court denied the NWVP request for a declaration that the trustees of the Trust did not have the authority to close the private placement. Further, the court denied the NWVP request that the investors in the private placement not be permitted to vote at the annual and special meeting of unitholders of the Trust held on September 30, 2009. The Superior Court of Justice of Ontario awarded the Trust costs in excess of $100,000. NWVP has paid to the Trust 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 the Trust. NWVP has paid to the Trust the awarded costs.

Future legal costs may 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 the Trust 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. In such event, it is expected that the former trustees of the Trust would seek indemnity from the Trust to the extent that any such damages are not fully covered by policies of insurance held by the Trust for the benefit of the former trustees. The foregoing litigation costs, if incurred without successfully recovering the costs, and an award of damages against the former trustees that is not fully covered by policies of insurance held by the Trust for the benefit of the former trustees could to the extent of the Trust's indemnification obligations, if any, have an adverse impact on the financial condition of the Trust.

Financial Risk Management and Financial Instruments

a) Overview

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

b) Credit Risk

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

The amounts disclosed as 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, 2012, the Trust had past due rents and other receivables of $1.0 million net of an allowance for doubtful accounts of $0.5 million which adequately reflects the Trust's credit risk.

The Trust believes that the concentration of credit risk of accounts receivable is limited due to its broad tenant base, dispersed across varying geographic locations.

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 22 in the December 31, 2012 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, 2012, the Trust had the following credit facilities:

- A $0.5 million demand operating loan with a Canadian chartered bank bearing interest at prime plus 1.0%, secured by a general security agreement and a second collateral mortgage on one of the Trust’s properties. As at December 31, 2012, the Trust had not utilized this facility.
- A $10 million demand credit facility with a financial institution bearing interest at prime plus 1.0%, secured by a general security agreement and second collateral mortgages on nine of the Trust’s properties. As at December 31, 2012, the Trust had not utilized this facility.
- A $10 million term credit facility, maturing in 2014, with a Canadian chartered bank bearing interest at prime plus 0.75%, secured by a general security agreement and second collateral mortgages on nine of the Trust’s properties. As at December 31, 2012, the Trust had utilized $5.1 million of this facility.
- A $12.5 million term credit facility, maturing in 2015, with a Canadian chartered bank bearing interest at prime plus 0.75%, secured by a general security agreement and second collateral mortgages on nine of the Trust’s properties. As at December 31, 2012, the Trust had had not utilized this facility.

Notes 8 and 9 in the December 31, 2012 consolidated financial statements reflect the contractual maturities for mortgage and loans payable of the Trust at December 31, 2012, 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 loans payable has been determined by discounting the cash flows using current market rates of similar instruments. These estimates are subjective in nature and therefore cannot be determined with precision. The fair value of mortgages and loans payable, credit facilities and subordinated convertible debenture is approximately $267 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.

e) Market Risk

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

At December 31, 2012, approximately 14% of the Trust's mortgage debt is at variable interest rates and the Trust's credit facilities bear interest at variable rates. If there was a 100 basis point change in the interest rate, cash flows would have changed by approximately $0.3 million for the year ended December 31, 2012.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2012 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
As at December 31, 2012, $0.5 million (December 31, 2011 - $0.4 million) was included in accounts payable and accrued liabilities which are due to companies controlled by an officer of the Trust. The amounts were non-interest bearing and due on demand.

(ii) Services
During the year ended December 31, 2012 the Trust incurred $5.4 million (December 31, 2011 - $3.7 million) in services from companies controlled by an officer of the Trust. Of the services received approximately $2.7 million (December 31, 2011 - $1.1 million) has been capitalized to the investment 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 material information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. The preparation of this information is supported by a set of disclosure controls and procedures implemented by management.

The Trust’s Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Trust’s disclosure controls and procedures as of December 31, 2012 and concluded that such controls and procedures are adequate and effective to ensure that the information required to be disclosed by the Trust in its annual filings, interim filings or other reports that it files or submits pursuant to Canadian securities laws is (a) recorded, processed, summarized and reported within the time periods specified by applicable Canadian securities laws; and (b) accumulated and communicated to the management of the Trust, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure as specified in Canadian securities laws. 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.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. The Trust’s Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Trust’s internal controls over financial reporting as of December 31, 2012, and concluded that such controls are adequate and effective.

There were no changes in the internal controls over financial reporting during the financial year-end December 31, 2012, which have materially affected, or are reasonably likely to materially affect, the Trust’s internal controls over financial reporting.

SUBSEQUENT EVENT

The Trust purchased a property (174 suites) that closed on January 28, 2013.

OUTSTANDING SECURITIES DATA

As of February 19, 2013, the Trust had issued and outstanding: (i) 44,264,078 units; (ii) LP Class B Units that are exchangeable for 186,250 units of the Trust; (iii) options exercisable to acquire 757,500 units of the Trust; and (iv) deferred units that are redeemable for 1,161,273 units of the Trust.

ADDITIONAL INFORMATION

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