

**INTERRENT**  
— REIT —

# **INTERRENT REAL ESTATE INVESTMENT TRUST**

## **ANNUAL INFORMATION FORM**

For the financial year ended December 31, 2011

March 30, 2012

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## NOTES TO THE ANNUAL INFORMATION FORM

### *Forward-Looking Statements*

This annual information form (“AIF”) contains “forward-looking statements” within the meaning of applicable securities legislation under the headings “Description of the Business”, “Future Trends”, “Risk Factors” and elsewhere in this AIF. Forward-looking statements include, but are not limited to, statements with respect to current expectations of management of InterRent REIT respecting financial performance, cash flow, proposed acquisitions and expansion, equity and debt offerings, markets for growth, financial position, comparable real estate investment trusts, demand for rental units, capitalization rates, opportunities for rent increases, effect of capital expenditures, the real estate industry and real estate market conditions, interest, inflation and unemployment rates, the labour market, immigration rates, and the economy generally. 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 state 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 the Trust to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: the risks related to the public financial market for the Trust’s securities; the general risks associated with real property ownership; lease maturities risk management; liquidity; debt financing; credit risk; competition; general uninsured losses; interest rate fluctuations, including fluctuations in mortgage rates on currently existing mortgages and mortgages to be assumed in relation to future acquisitions; environmental matters; restrictions on redemptions of outstanding securities of the Trust; lack of availability of growth and acquisition opportunities; diversification; potential Unitholder (as defined herein) liability; potential conflicts of interest; the availability of sufficient cash flow; fluctuations in cash distributions; the market price of the Units (as defined herein); the failure to obtain additional financing; dilution; reliance on key personnel; changes in legislation; failure to maintain mutual fund trust status; and delays in obtaining regulatory approvals as well as those additional factors discussed herein. 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 including employment rates; inflationary and deflationary factors; interest rates; availability of financing and housing starts. Although the Trust has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, 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. The Trust does not undertake to update any forward-looking statements, except in accordance with applicable securities laws.

### *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. 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, an IFRS 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 IFRS. The Trust presents FFO in accordance with the Real Property Association of Canada (REALpac) White Paper on Funds from Operations.

Adjusted Funds from Operations (“AFFO”) begins with FFO and removes the effect of certain non-cash income and expense items and adds a provision for maintenance capital expenditures of \$450 per suite. 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 IFRS 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-IFRS measures, as presented, should only be used in conjunction with the consolidated financial statements of the Trust.

Under IFRS, the Trust’s units are not considered an equity instrument and therefore no denominator exists to calculate per unit calculations. Management feels that certain per unit calculations are an important method of measuring results from period to period and as such has determined a weighted average number of units (WAU) to be used based on a method consistent with past period calculation. WAU is not a measure defined by IFRS. WAU 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. See “*Risk Factors*”.

## GLOSSARY

The following terms used in this AIF have the meanings set forth below:

“**2007 Circular**” means the management information circular of the Trust dated May 29, 2007 in connection with the annual and special meeting of Unitholders held on June 29, 2007;

“**2009 Circular**” means the management information circular of the Trust dated September 3, 2009 in connection with the annual and special meeting of Unitholders held on September 30, 2009;

“**2010 Circular**” means the management information circular of the Trust dated May 11, 2010 in connection with the annual and special meeting of Unitholders held on June 28, 2010;

“**2008 Debenture Indenture**” means the indenture dated January 15, 2008 between InterRent REIT and Equity Transfer & Trust Company, as Trustee, governing the 2008 Debentures;

“**2008 Debentures**” means the 7.0% Series A convertible redeemable unsecured subordinated debentures of InterRent REIT due January 31, 2013;

“**2009 Private Placement**” means the non-brokered private placement of 9,333,333 Units at \$1.50 per Unit for gross proceeds of approximately \$14,000,000 that closed on September 3, 2009;

“**Adjusted Unitholders’ Equity**” means, at any time, the aggregate of: (i) the amount of Unitholders’ equity; and (ii) the amount of accumulated depreciation recorded on the books and records of each of the Trust and its subsidiaries in respect of its Properties, in each case calculated in accordance with GAAP;

“**Affiliate**” of a person means any person or company that would be deemed to be an affiliated entity of such person with the meaning of Ontario Securities Commission Rule 45-501 – *Ontario Prospectus and Registration Exemptions*.

“**AIF**” means this annual information form, together with the appendices attached hereto which are incorporated herein by reference;

“**Amalco**” means InterRent International Properties Inc., the corporation continuing from the amalgamation of IIP and IP pursuant to the Arrangement;

“**Amended and Restated Declaration of Trust**” means the amended and restated declaration of trust of the Trust dated as of December 29, 2010;

“**Arrangement**” means the arrangement completed on December 7, 2006 under section 182 of the OBCA involving, among other things, the transfer by Shareholders of all of the issued and outstanding Shares to the Trust in exchange for Units based upon the Exchange Ratio, all as more particularly set forth in the Arrangement Agreement;

“**Arrangement Agreement**” means the agreement made effective October 16, 2006 between IIP, IA, IP, IR, the Trust, InterRent Trust, the Holdings Partnership, InterRent LP No. 1, InterRent LP No. 2, InterRent LP No. 3, InterRent LP No. 4, Newman Family Trust, 2115511 Ontario Inc., PurchaseCo, Park Place GP, Park Place LP, Silvercreek Parkway Inc., J.P. McClintock Investments Limited, Silvercreek Parkway GP, Silvercreek Parkway No. 2 GP, J.W. McClintock Management Inc., S.N.B. Properties Inc., MPM Canada Residential Property Management Inc., Park Place 2000, Silvercreek Parkway LP, Silvercreek Parkway LP No. 2, Jilani Group Inc., Adelaide Development Corp., Paul Roberts and the

shareholders of MPM Canada Residential Property Management Inc. pursuant to which the parties agreed to implement the Plan of Arrangement, which is attached to the Arrangement Circular as Appendix H;

“**Arrangement Circular**” means the information circular of IIP dated October 17, 2006 in connection with the special meeting of Shareholders held on November 24, 2006;

“**Board**” or “**Board of Trustees**” means the board of Trustees of the Trust;

“**Closing**” means the closing of the Arrangement;

“**CLV**” means CLV Group Inc.;

“**CMHC**” means the Canada Mortgage and Housing Corporation;

“**Contributed Assets**” means all of the assets of IIP and Silverstone including, without limitation, the revenue producing Properties of IIP and the applicable Silverstone entities, the beneficial interests in various trusts, the beneficial interests in various real Properties (including those held by Affiliates) listed under the heading “The Trust – The Properties” in the Arrangement Circular and including the shares of Affiliates of IIP and the securities of the applicable Silverstone entities that hold the revenue producing Properties to be transferred, assigned, conveyed and set over, directly or indirectly, to the Trust pursuant to the Arrangement Agreement;

“**Control Person**” when used in respect of an issuer, has the meaning ascribed thereto in the *Securities Act* (Ontario);

“**CRA**” means the Canada Revenue Agency;

“**Declaration of Trust**” means the declaration of trust of the Trust dated as of October 10, 2006 (subsequently amended as of June 29, 2007, September 30, 2009 and December 29, 2010) pursuant to which the Trust was formed under the laws of the Province of Ontario, which is attached to the Arrangement Circular as Appendix I;

“**Distributable Income**” means, for any period, the net income of the Trust and its applicable consolidated subsidiaries for such period set out in its consolidated financial statements as determined in accordance with GAAP, subject to certain adjustments, including: (a) adding or adding back the following items, as the case may be: unrealized losses, depreciation, amortization (except for amortization of deferred financing costs incurred after December 7, 2006), deferred income tax expense, losses on dispositions of assets and amortization of any net discount on long-term debt assumed from vendors of Properties at rates of interest less than fair value incurred after December 7, 2006; (b) deducting the following items: unrealized gains, deferred income tax credits, maintenance capital expenditures, interest on convertible debentures to the extent not already deducted in computing net income, gains on dispositions of assets and amortization of any net premium on long-term debt assumed from vendors of Properties at rates of interest greater than fair value incurred after December 7, 2006; and (c) any other adjustments as determined by the Trustees in their discretion, all as more particularly defined in Section 5.1 of the Amended and Restated Declaration of Trust;

“**Distribution Date**” means, in respect of a Distribution Period, the 15<sup>th</sup> day of the month immediately following the month in which a distribution is declared, or such other date as the Trustees may determine from time to time;

“**Distribution Period**” means each month, or such other period determined by the Trustees;

**“Exchange Agreement”** means the agreement between the Trust, New InterRent and the Holdings Partnership whereby the Holdings Partnership Class B LP Units, InterRent Warrants, Options granted under the Stock Option Plan and Debentures are exchangeable for Units rather than Shares;

**“Exchange Ratio”** means the ratio of one Unit for every ten Shares held;

**“Funds from Operations”** means net income (compiled in accordance with GAAP) excluding gains (or losses) from sales of depreciable real estate and extraordinary items plus certain depreciation and amortization;

**“GAAP”** means Canadian generally accepted accounting principles, which for InterRent REIT, means International Financial Reporting Standards (“IFRS”), being the generally accepted accounting principles adopted by InterRent REIT on January 1, 2011; see “Adoption of IFRS” in the December 31, 2011 MD&A for more details;

**“GP No. 1”** means InterRent GP No. 1 Limited, the general partner of InterRent LP No. 1 and a corporation created under the laws of the Province of Ontario;

**“GP No. 2”** means InterRent GP No. 2 Limited, the general partner of InterRent LP No. 2 and a corporation created under the laws of the Province of Ontario;

**“GP No. 3”** means InterRent GP No. 3 Limited, the general partner of InterRent LP No. 3 and a corporation created under the laws of the Province of Ontario;

**“GP No. 4”** means InterRent GP No. 4 Limited, the general partner of InterRent LP No. 4 and a corporation created under the laws of the Province of Ontario;

**“GP No. 5”** means InterRent GP No. 5 Limited, the general partner of InterRent LP No. 5 and a corporation created under the laws of the Province of Ontario;

**“Gross Book Value”** means, at any time, the book value of the assets of the Trust and its consolidated Subsidiaries, as shown on its then most recent consolidated balance sheet, plus the amount of accumulated depreciation and amortization on buildings shown thereon or in the notes thereto plus the amount of future income tax liability arising out of indirect acquisitions and excluding the amount of any receivable reflecting interest rate subsidies on any debt assumed by the Trust shown thereon or in the notes thereto, or if approved by a majority of the Trustees at any time, the appraised value of the assets of the Trust and its consolidated Subsidiaries may be used instead of book value;

**“GTA”** means the Greater Toronto Area;

**“Holdings Partnership”** means the InterRent Holdings Limited Partnership, a limited partnership created under the laws of the Province of Ontario;

**“Holdings Partnership Class B LP Units”** means the Class B limited partnership units of the Holdings Partnership;

**“Holdings Partnership General Partner”** means InterRent Holdings General Partner Limited, the general partner of the Holdings Partnership and a corporation created under the laws of the Province of Ontario;



“**Holdings Partnership Limited Partnership Agreement**” means the limited partnership agreement of the Holdings Partnership entered into between the Holdings Partnership Limited General Partner, as general partner, and InterRent Trust, as the initial limited partner, as may be amended and/or restated from time to time;

“**IFRS**” means International Financial Reporting Standards, issued by the International Accounting Standards Committee, as adopted by the Canadian Institute of Chartered Accountants, as amended from time to time.

“**Independent Trustee**” means a Trustee who, in relation to the Trust or any of its related parties, is “independent” within the meaning of National Instrument 52-110 – *Audit Committees*;

“**Insider**” if used in relation to an issuer, has the meaning ascribed thereto in the *Securities Act* (Ontario);

“**IIP**” means InterRent International Properties Inc., a corporation formed under the laws of the Province of Ontario and one of the predecessor entities to the Trust prior to the Arrangement;

“**InterRent LP No. 1**” means InterRent No. 1 Limited Partnership, a limited partnership formed under the laws of Ontario;

“**InterRent LP No. 1 Agreement**” means the limited partnership agreement of InterRent LP No. 1 between the GP No. 1, as general partner, and the Holdings Partnership, as limited partner;

“**InterRent LP No. 2**” means InterRent No. 2 Limited Partnership, a limited partnership formed under the laws of Ontario;

“**InterRent LP No. 2 Agreement**” means the limited partnership agreement of InterRent LP No. 2 between the GP No. 2, as general partner, and the Holdings Partnership, as limited partner;

“**InterRent LP No. 3**” means InterRent No. 3 Limited Partnership, a limited partnership formed under the laws of Ontario;

“**InterRent LP No. 3 Agreement**” means the limited partnership agreement of InterRent LP No. 3 between the GP No. 3, as general partner, and the Holdings Partnership, as limited partner;

“**InterRent LP No. 4**” means InterRent No. 4 Limited Partnership, a limited partnership formed under the laws of Ontario;

“**InterRent LP No. 4 Agreement**” means the limited partnership agreement of InterRent LP No. 4 between the GP No. 4, as general partner, and the Holdings Partnership, as limited partner;

“**InterRent LP No. 5**” means InterRent No. 5 Limited Partnership, a limited partnership formed under the laws of Ontario;

“**InterRent LP No. 5 Agreement**” means the limited partnership agreement of InterRent LP No. 5 between the GP No. 5, as general partner, and the Holdings Partnership, as limited partner;

“**InterRent REIT**” or the “**Trust**” means InterRent Real Estate Investment Trust, a trust formed under the laws of the Province of Ontario pursuant to the Declaration of Trust;

“**InterRent REIT’s Board of Trustees**” or “**Board of Trustees**” means the board of Trustees of the Trust;

“**InterRent Trust**” means InterRent Trust, a limited purpose, open-ended trust formed pursuant to the laws of Ontario pursuant to the InterRent Trust Declaration of Trust.

“**InterRent Trust Declaration of Trust**” means the declaration of trust of InterRent Trust, dated as of October 10, 2006 pursuant to which InterRent Trust was formed under the laws of the Province of Ontario;

“**IP**” means InterRent Properties Inc., a corporation incorporated under the laws of the Province of Ontario;

“**Material Agreements**” means collectively the Amended and Restated Declaration of Trust, the Declaration of Trust, the InterRent Trust Declaration of Trust, the Holdings Partnership Limited Partnership Agreement, the Exchange Agreement, the InterRent LP No. 1 Agreement, the InterRent LP No. 2 Agreement, the InterRent LP No. 3 Agreement, the InterRent LP No. 4 Agreement, the InterRent LP No. 5 Agreement, the Arrangement Agreement and the Note Indenture; the 2008 Debenture Indenture; and the Property Management Agreement.

“**Net Operating Income**” means all rental revenues generated at the property level, less related direct costs such as utilities, realty taxes, insurance and onsite maintenance wages and salaries;

“**New InterRent**” means InterRent International Properties Inc., the corporation continuing from the amalgamation of PurchaseCo and Amalco pursuant to the Arrangement;

“**Non-Resident**” means a person who is a “non-resident” within the meaning of the Tax Act and a partnership other than a Canadian partnership for the purposes of the Tax Act;

“**Note Indenture**” means the note indenture between InterRent Trust and the Note Trustee providing for the issuance of the Notes;

“**Note Trustee**” means the Trustee in connection with the issuance of Notes and its permitted successors and assigns;

“**Notes**” means collectively, the Series 1 Notes, the Series 2 Notes and the Series 3 Notes;

“**OBCA**” means the *Business Corporations Act* (Ontario);

“**Other Issuable Securities**” has the meaning ascribed thereto in “*Declaration of Trust and Description of Units – Issuance of Units*”;

“**Park Place 2000**” means Park Place Equities 2000 Inc., a corporation formed under the laws of the Province of Ontario;

“**Park Place GP**” means Park Place Equities 2005 Inc., a corporation formed under the laws of the Province of Ontario;

“**Park Place LP**” means Park Place Equities 2000 Limited Partnership, a limited partnership formed under the laws of Ontario;

“**Person**” means an individual, partnership, limited partnership, corporation, unlimited liability company, trust, unincorporated organization, association, government or any department or agency thereof and the

successors and assigns thereof or the heirs, executors, administrators or other legal representatives of an individual thereof, or any other entity recognized by law;

“**Plan of Arrangement**” means the Plan of Arrangement attached as Exhibit 1 to the Arrangement Agreement;

“**Plans**” means, collectively, trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans, registered disability savings plans, tax-free savings accounts and deferred profit sharing plans, each as defined in the Tax Act, and “**Plan**” means any of them;

“**Properties**” means the properties owned directly or indirectly by the Trust from time to time;

“**Property Management Agreement**” means the property management agreement dated September 30, 2009 between, among others, InterRent REIT and CLV;

“**PurchaseCo**” means 2115503 Ontario Inc., a corporation formed under the laws of the Province of Ontario;

“**Redemption Date**” has the meaning ascribed thereto in “*Description of the Business – Declaration of Trust and Description of Units*”;

“**Redemption Price**” has the meaning ascribed thereto in “*Description of the Business – Declaration of Trust and Description of Units*”;

“**Related Party**” means, with respect to any person, a person who is a “related party” as that term is defined in Multilateral Instrument 61-101, as amended from time to time (including any successor rule or policy thereto);

“**Secondary Markets**” means in connection with targeted real estate markets of the Trust, secondary population centres in Ontario;

“**Series 1 Notes**” means the Series 1 Notes of InterRent Trust;

“**Series 2 Notes**” means the Series 2 Notes of InterRent Trust;

“**Series 3 Notes**” means the Series 3 Notes of InterRent Trust;

“**Shareholders**” mean the holders of Shares;

“**Shares**” means the common shares of IIP;

“**Silvercreek Parkway GP**” means Silvercreek Parkway GP Limited, a corporation formed under the laws of the Province of Ontario;

“**Silvercreek Parkway Inc.**” means 90-102 Silvercreek Parkway Inc., a corporation formed under the laws of the Province of Ontario;

“**Silvercreek Parkway LP**” means Silvercreek Parkway Guelph Limited Partnership, a limited partnership formed under the laws of Ontario;

“**Silvercreek Parkway LP No. 2**” means Silvercreek Parkway Guelph Limited Partnership No. 2, a limited partnership formed under the laws of Ontario;

“**Silvercreek Parkway No. 2 GP**” means Silvercreek Parkway No. 2 Limited, a corporation formed under the laws of Ontario;

“**Silverstone**” or the “**Silverstone Group**” means collectively, Silverstone Equities, Park Place 2000, Park Place GP, Park Place LP, Silvercreek Parkway GP, Silvercreek Parkway LP, Silvercreek Parkway No. 2 GP, Silvercreek Parkway LP No. 2, Silvercreek Parkway Inc. and J.P. McClintock Investments Limited;

“**Silverstone Equities**” means Silverstone Equities Inc., a corporation formed under the laws of Ontario;

“**Special Voting Unit(s)**” means non-participating voting unit(s) of the Trust and, for greater certainty, does not mean Unit(s);

“**Subsidiary**” or “**subsidiary**” includes, with respect to any person, company, partnership, limited partnership, trust or other entity, any company, partnership, limited partnership, trust or other entity controlled, directly or indirectly, by such person, company, partnership, limited partnership, trust or other entity;

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder, as amended;

“**Taxation Year**” means the taxation year of the Trust for the purposes of the Tax Act;

“**Trustee**” means a Trustee of the Trust and “**Trustees**” means all of the Trustees of the Trust;

“**Trust Units**” mean units of InterRent Trust;

“**TSX**” means the Toronto Stock Exchange;

“**TSXV**” means the TSX Venture Exchange;

“**Unit(s)**” means unit(s) of the Trust;

“**Unitholder(s)**” means the holder(s) of Units of the Trust;

“**Unit Option Plan**” means the unit option plan of the Trust dated as at November 24, 2006 and amended on May 24, 2007, September 30, 2009 and June 28, 2010;

“**Voting Unitholders**” means the holders of Units and Special Voting Units; and

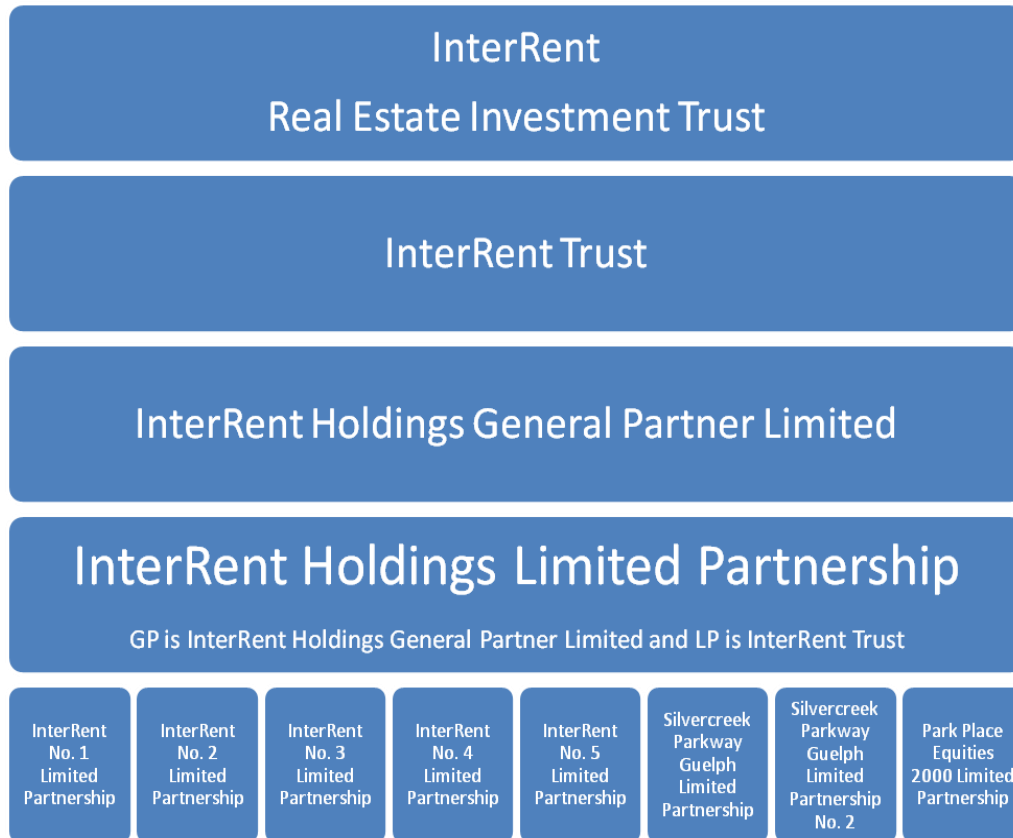
“**Voting Units**” means the Units and Special Voting Units.

## STRUCTURE OF THE TRUST

InterRent Real Estate Investment Trust (“**InterRent REIT**” or the “**Trust**”) is an unincorporated open-ended real estate investment trust formed on October 10, 2006 under the laws of the Province of Ontario pursuant to the Declaration of Trust. (See “Description of the Business – Declaration of Trust and Description of Units”) The registered and head office of the Trust is located at 485 Bank Street, Suite 207, Ottawa, Ontario, K2P 1Z2.

The Units are listed and posted for trading on the TSX under the symbol IIP.UN. The 2008 Debentures were listed and posted for trading on the TSX under the symbol IIP.DB. Subsequent to the end of the fiscal year, the 2008 Debentures were redeemed at par on February 1, 2012.

The chart below describes the inter-corporate relationship of the Trust and its subsidiaries as at December 31, 2011. Unless otherwise noted, all entities are wholly-owned and are organized or incorporated pursuant to the laws of Ontario.



Note: all of the Limited Partnerships under InterRent Holdings Limited Partnership have a general partner with a similar name (i.e. InterRent GP No. 1 Limited). Each General Partner (“GP”) is owned by InterRent Holdings Limited Partnership. InterRent Holdings Limited Partnership is also the Limited Partner (“LP”) for each of the Limited Partnerships under InterRent Holdings Limited Partnership.

## GENERAL DEVELOPMENT OF THE BUSINESS

### History

On December 7, 2006, the Trust became a successor issuer to, *inter alia*, InterRent International Properties Inc. (“**IIP**”), which converted to a real estate investment trust concurrent with the completion of the acquisition of the Silverstone Group by way of a plan of arrangement under the *Business Corporations Act* (Ontario) (the “**Arrangement**”). The Arrangement resulted in the Trust having an indirect interest at the time in an aggregate of over 1,700 suites.

In 2007, InterRent REIT raised over \$53 million, net of issue costs, and used the proceeds to acquire 40 Properties adding a total of over 2,000 suites to its portfolio at an aggregate purchase price of \$159 million. In April 2007 the Trust moved from the TSXV to the TSX and began trading under the symbol IIP.UN. At that time, the Trust owned 2,662 suites.

In 2008, InterRent REIT raised just over \$3 million, net of issue costs, through a private placement and issued \$25 million of convertible unsecured subordinated debentures. During this time, InterRent REIT acquired six Properties (four in Ottawa, one in the GTA and one in Kingston), adding 264 suites to its portfolio to end the year with just over 4,000 suites owned.

In July 2009, the Trust received a proposal by CLV, which included a non-brokered private placement of 9,333,333 Units at \$1.50 per Unit for gross proceeds of approximately \$14,000,000 (the “**2009 Private Placement**”), the entry into the Property Management Agreement with CLV and certain new nominees for election to the Board of Trustees of the Trust. The Trust’s Special Committee which, with the assistance of its financial advisor, had been struck to evaluate strategic transaction alternatives available to the Trust including certain proposed transactions by NorthWest Value Partners Inc. (“**NWVP**”), recommended the 2009 Private Placement to the Board. The Board approved the 2009 Private Placement which closed on September 3, 2009. See “*Description of the Business – Legal Proceedings*” for more information.

On September 30, 2009, following approval of Unitholders at the annual and special meeting of Unitholders of InterRent REIT, InterRent REIT entered into the Property Management Agreement with CLV pursuant to which CLV manages substantially all of InterRent REIT’s Properties. As a result, the property management of substantially all of the Trust’s Properties was externalized. Prior to September 30, 2009, CLV managed all of the Trust’s 14 Properties in the Ottawa region (representing 17.5% of the Trust’s 81 Properties at the time) and had been a property manager for the Trust or its predecessors for over seven years.

InterRent underwent significant changes through 2010 as a result of the outsourcing of property management late in 2009 and the implementation of the repositioning strategy that management and the Board had adopted. Most of the operational staff were changed throughout the year as was all of the head office staff. The Trust focused on spending a significant amount of time and capital on repositioning the Properties. This included investment in the buildings (general structure and suites), on-boarding and training of new staff, and focusing on attracting a more desirable tenant base. The Trust successfully raised \$5.4 million through a private placement and \$22.3 million through mortgage financing in order to settle the \$5,517,000 debenture that matured in September 2010 and to fund the required capital investment in the portfolio. As part of the repositioning strategy, the Trust sold 4 Properties (35 suites) that were not core to the portfolio and were not in-line with the growth strategy that the Trust was putting in place.

In 2011 Mr. David Nicholds resigned as a member of the Board of Trustees, and the Board appointed Mr. Ronald Leslie as a Trustee on May 9, 2011. On June 22, 2011 the Unitholders elected Mike McGahan, Paul Amirault, Paul Bouzanis, Jacie Levinson, Ronald Leslie and Victor Stone as Trustees of InterRent REIT.

Through 2011, the Trust maintained focus on the repositioning strategy that it started in 2010 by continuing to focus on staff development, property improvements and core property alignment. In total, \$15.9 million was spent on capital improvements during the year, 19 Properties (totalling 431 suites) were disposed of and 3 Properties were acquired (totalling 242 suites). As part of the repositioning efforts and the capital expenditures, the Trust was able to submit Above Guideline Increase applications to the Ontario Landlord and Tenant Board for approximately 65% of the portfolio. The Trust also began putting in place the necessary pieces in order to roll-out an electricity sub-metering program that will result in tenants paying for their own usage. With the repositioning strategy well underway and a strong operational team in place, the Trust was able to turn more of its attention to building an acquisition pipeline for targeted markets.

The Trust successfully raised \$32 million through a bought deal and \$43 million through mortgage financing during 2011 in order to finance existing Properties, fund capital investments, redeem the 2008 Debentures and acquire new properties.

InterRent will continue to focus on operations, as it is a primary driver of the REIT's success in this business, as well as organic growth (through increased rents and ancillary revenues), reducing costs, and growing our acquisition pipeline in targeted markets. The targeted acquisition strategy successfully identified the three (3) properties that were acquired in 2011 as well as two (2) additional properties (totalling 720 suites) that were added to the Trust's portfolio in 2012 (as of the date hereof).

## Property Dispositions

During the period from January 1, 2011 to December 31, 2011, the Trust disposed of the following Properties:

<b>Property</b>	<b>Number of Suites</b>	<b>Date Sold</b>
166 Queens St, Toronto	11	January 12, 2011
129-131 Dixon Rd, Trenton	14	February 4, 2011
39 Seaforth Ave, Toronto	4	February 7, 2011
1214 Riverside Dr, Timmins	49	March 7, 2011
85 King St, Toronto	6	March 15, 2011
1384 King St, Toronto	18	April 29, 2011
1499 King St, Toronto	7	May 5, 2011
1501 King St, Toronto	7	May 5, 2011
554 Lansdowne Ave, Toronto	9	August 8, 2011
357 Thompson Rd & 352 Westlake Dr, London	44	August 15, 2011
101 Veronica Ave, London	38	September 26, 2011
1434 King St, Toronto	9	November 2, 2011
143 Churchill Rd, Prescott	48	November 4, 2011
100 Veronica Ave, London	12	November 9, 2011
44-64 Genevive Cr, London	60	December 21, 2011
91 High St, London	23	December 21, 2011
64 Grand Ave, London	28	December 21, 2011
1290 Huron St, London	21	December 23, 2011
1302 Huron St, London	23	December 23, 2011

## Property Acquisitions

During the period from January 1, 2011 to December 31, 2011, the Trust acquired the following Properties:

<b>Property</b>	<b>Number of Suites</b>	<b>Date Sold</b>
225-233 Capel St, Sarnia	70	March 24, 2011
2525-2531 Hamilton Rd, Trenton	120	August 4, 2011
14 Reid Dr, Mississauga	52	October 25, 2011



## DESCRIPTION OF THE BUSINESS

### Overview

The Trust is a growth-oriented real estate investment trust engaged in increasing Unitholder value through the acquisition, ownership, management and repositioning of strategically located, income producing, multi-residential properties located primarily in Secondary Markets.

The Trust's primary objectives are: (i) to provide Unitholders with stable and growing cash distributions, payable monthly and, to the maximum extent practicable, income tax deferred, from investments in a diversified portfolio of multi-residential properties; (ii) to enhance the value of the Trust's assets and maximize long-term Unit value through the active management of such assets; and (iii) to expand the Trust's asset base and increase its Distributable Income through accretive acquisitions.

As at December 31, 2011, the Trust's portfolio was comprised of 64 Properties with approximately 3,820 suites. Approximately 2,966 suites (78% of the suites in the portfolio) are located in mid-sized population markets, with the remainder in the GTA and Ottawa. The portfolio is split into six regions with the following holdings: the GTA with 275 suites in 5 Properties; Hamilton/Niagara with 649 suites in 10 Properties; Western Ontario with 1,435 suites in 14 Properties, Eastern Ontario with 541 suites in 12 Properties; Northern Ontario with 341 suites in 9 Properties and Ottawa with 579 suites in 14 Properties. As at December 31, 2011, the Trust's suites were approximately 97.4% occupied.

The Trust reviews its portfolio on a regular basis in order to maximize value to Unitholders. As part of this review, the Trust intends to offer for sale non-strategic Properties located within various regions. As at December 31, 2011, the Trust had 5 Properties, totalling 196 suites, listed for sale.

The Trust has assembled an experienced management team drawing from the existing management, CLV and other real estate industry professionals. During the past year the management of the Trust has achieved a number of milestones including: i) investing heavily within the existing assets to create a strong and reputable portfolio of assets; ii) assembling a Board of Trustees with broad business depth and experience in the banking, legal, accounting and multi-family residential sectors; iii) building a management team with the capacity and experience to manage a larger portfolio platform and to execute quickly on opportunities; and iv) raising capital sufficient to execute its strategic business plan.

### Strategy of the Trust

The Trust's strategy is to expand its portfolio primarily within Secondary Markets that have exhibited stable market vacancies, enough suites available to achieve a critical mass sufficient to implement an efficient portfolio management structure, and offer opportunities for accretive acquisitions.

#### *Acquisition Criteria — Secondary Market Focus*

The Trust has a formal set of criteria, including an extensive due diligence procedure for selecting potential acquisitions that are undertaken by an experienced management team. The Trust seeks properties with sound structural and mechanical attributes, but that have, in the past, often demonstrated poor performance due to lack of management expertise or owner neglect. The Trust will pursue these properties where management believes that its professional management style, experience and expertise can improve the financial performance of the properties and enhance cash flow and future valuation.

The Trust's management uses a geographically opportunistic growth strategy, allowing the Trust to participate in Secondary Markets where they believe opportunities exist to acquire properties that conform to the investment criteria of the Trust. The management of the Trust believes that its focus on Secondary Markets provides the Trust with a competitive advantage, as these markets are fragmented in terms of ownership and are generally not the primary focus of larger real estate investment trusts, pension funds or institutional investors. In addition, it is the Trust's experience that Secondary Markets generally carry higher capitalization rates, lower stabilized vacancies and greater opportunities for rent increases. See also "Risk Factors". The Trust may, in the future, also acquire additional buildings within the GTA or properties that are outside of Ontario, that satisfy its acquisition criteria.

The Trust intends to take advantage of the economies afforded by the "clustering", or close grouping of its Properties, by targeting acquisition opportunities within close proximity to its existing assets. The Trust also seeks buildings that have a sufficient number of apartment suites in communities new to the Trust, in order to ensure that it maintains economic viability through economies of scale. The Trust's focus is to make opportunistic portfolio purchases, but it will also selectively acquire individual properties that meet the Trust's acquisition criteria.

Management has developed a network of real estate contacts across Ontario, allowing them to source properties directly from vendors and to move quickly to acquire accretive properties. This network has allowed the Trust to purchase the majority of its properties directly from vendors as opposed to via fully marketed auctions.

As at December 31, 2011, the Trust's property portfolio was located solely in the Ontario multi-residential market, representing approximately 0.61% of the total multi-residential suites available (based on CMHC's Fall 2011 Rental Market Statistics for Privately Initiated Rental Apartment Structures of Three Units and Over). Excluding the GTA, the Trust's market penetration is approximately 1.11%. The following chart shows the Trust's approximate regional market penetration as at December 31, 2011:

#### **InterRent REIT's Market Penetration**

	<b>Total Suites</b>	<b>Trust Suites</b>	<b>Penetration</b>
Eastern Ontario	47,832	541	1.13%
GTA	307,171	275	0.09%
Hamilton / Niagara	57,980	649	1.12%
Northern Ontario	28,138	341	1.21%
Ottawa	60,413	579	0.96%
Western Ontario	117,825	1,435	1.22%
Other	7,652	-	-
<b>Total</b>	<b>627,011</b>	<b>3,820</b>	<b>0.61%</b>

The management of the Trust believes that Ontario multi-residential real estate is a favourable asset class to operate within because it offers stability of cash flow and an opportunity for expansion. Management's experience is that the multi-residential asset class has historically been able to withstand downturns in overall real estate markets when higher interest rates increase the cost of home ownership and reduce vacancies as quality shelter remains of high importance for most tenants.

The management of the Trust also believes that the fragmented nature of multi-residential property ownership in Ontario presents an opportunity, as the Trust's experience suggests that the majority of these owners own less than five properties in total, typically many of those having been held for long periods of time. In addition, the management of the Trust believes that many current owners are reaching retirement age, a possible exit point for them and an opportunity for the Trust.

### **Competitive Environment**

The Trust faces competition for the acquisition of properties from various sources, some larger and better financed than InterRent REIT. These include other real estate investment trusts, institutional and private investors, both foreign and domestic. Multi-residential real estate is an asset much in demand because of the belief held by many that it is a relatively stable long-term investment. Management of the Trust believes that due to the niche (small to medium sized buildings in small to medium sized communities) within which it operates, it has an advantage over many of its larger competitors who have historically concentrated much of their acquisition efforts on larger assets in more populous urban centres.

### **Capital Improvements**

Multi-residential properties require significant capital improvements over their lifetime. During the Trust's due diligence process for potential acquisitions, management evaluates capital expenditure requirements. Although the Trust prioritizes properties that do not require capital improvements in the short-term, the useful life of a number of building components will ultimately come to an end and require replacement or significant repair at some point in the future. The most common of these are:

- Roofs
- Balconies
- Parking structures
- Elevators
- Heating, ventilation and air conditioning
- Appliances
- Kitchens and bathrooms

The Trust has spent significant cash over the past year on expenditures of a capital nature. In addition the Trust has a maintenance capital budget of approximately \$450 per suite, per year to be spent on "in-suite" repairs and improvements. Management is of the opinion that both capital and maintenance capital budgets are adequate to maintain the quality and functionality of its portfolio. Management's decision to reposition certain of its' Properties will mean that capital will be deployed to such areas as energy efficiency projects and the upgrade of common areas.

## **Operating Facilities**

As at December 31, 2011, the Trust had a \$9,617,000 operating facility with a financial institution bearing interest at 2.0% above the prime bank lending rate. This line of credit is secured by collateral mortgages on ten of the Trust's Properties. As at December 31, 2011, the Trust was not utilizing this facility.

In addition, the Trust had a \$1,175,000 demand operating facility with a Canadian chartered bank bearing interest at 1% above the prime lending rate. This line of credit is secured by collateral mortgages on thirteen of the Trust's Properties. As at December 31, 2011, the Trust was not utilizing this facility.

## **Employees**

As at December 31, 2011, the Trust had 87 employees, including management, administrative, and site specific maintenance, cleaning and superintendent staff. Employees are generally compensated either on an annual salary or hourly basis, with health and dental benefits on a shared basis.

## **Future Trends**

Management of the Trust, subject to the availability of financing on commercially attractive terms, expects to continue to expand the Trust's portfolio through accretive acquisitions. If interest rates increase: (i) management of the Trust expects that vacancies will decline as fewer people would be able to afford the purchase of a new home; and (ii) the Trust's cost of debt will also rise on future purchases, which the management of the Trust believes would be largely offset by higher occupancies and rent increases.

At December 31, 2011, the Trust's entire portfolio was located within the borders of Ontario, Canada's most populous province. Market conditions in Ontario's multi-residential market have continued to move in a positive direction, due to a number of factors. CMHC highlighted the following conditions in its Fall 2011 Rental Market Report for Ontario:

- Ontario vacancy rates reached 2.2% in 2011, down from 2.9% in 2010.
- Notable factors exerting downward pressure on vacancy rates include: US economic conditions and European debt crisis encouraged risk adverse behavior which led to households postponing decisions to purchase homes, sharp increases in home prices discouraged shift from renting to buying in the 25 to 44 age group and the movement of a growing pool of young adults (the children of the baby boomers born in the 1960s) entering the job market and moving away from home.
- Notable factors exerting upward pressure on vacancy rates include: Net migration into Ontario slowed in 2011 as a result of lower levels of immigration into the province and more migration to the western Canada.

There are several major challenges to growth and profitability in the industry, including:

- Continuing capitalization rate compression due to the increased demand from pension funds as well as private and public investors, both foreign and domestic for quality multi-residential buildings;
- Competition from the condominium market, mainly within the GTA; and
- Increasing utility costs and taxes.

Due to the restructuring that occurred in 2010, the Trust has been able to reduce general and administrative costs. Management expects that as the Trust's property portfolio grows, general and administrative expenses, as a percentage of revenues, will decrease further. Portfolio growth should also result in economies of scale and reduced expenses as a percentage of revenue.

### **Property Portfolio**

The following table provides a summary of the Properties that comprise the Trust's portfolio as at December 31, 2011 grouped by geographic region:

<b>Region</b>	<b>Suites</b>	<b>31-Dec-11 Average Monthly Rent</b>	<b>31-Dec-10 Average Monthly Rent</b>
Eastern Ontario	541	\$ 800	\$ 763
GTA	275	\$ 1,005	\$ 958
Hamilton / Niagara	649	\$ 878	\$ 850
Northern Ontario	341	\$ 728	\$ 704
Ottawa	579	\$ 970	\$ 949
Western Ontario	1435	\$ 789	\$ 743
<b>Total</b>	<b>3,820</b>	<b>\$ 843</b>	<b>\$ 805</b>

### **Seasonality**

The Trust's operating and utility expenses tend to be higher in the first and fourth quarters of its fiscal year, which are associated with colder weather (increased heating costs) and snowfall (increased maintenance expenses, which includes snow removal). The peak rental season through the summer months results in higher leasing costs as more units turn over during this period than at any other time in the year. Other than these cyclical expenses, operating and other expenses are usually spread evenly throughout the year.

### **Management of the Trust**

The governance, investment guidelines and operating policies of the Trust are overseen by the Board of Trustees, a majority of whom must be resident Canadians and a majority of whom must be Independent Trustees. The role of the Trustees is similar to the role of directors of a corporation.

### ***Governance and Board of Trustees***

#### ***General***

The Amended and Restated Declaration of Trust provides that the investment policies and operations of the Trust are the responsibility of the Board. The Amended and Restated Declaration of Trust provides for a Board of between one and twelve Trustees. There are currently six Trustees, five of whom are considered to be Independent Trustees. The number of Trustees may be changed by the Unitholders or by the Trustees, provided that the Trustees may not, between meetings of Unitholders, appoint an additional Trustee if, after such appointment, the total number of Trustees would be greater than one and one-third times the number of Trustees in office immediately following the last annual meeting of Unitholders. Subject to certain conditions, a vacancy occurring among the Trustees may be filled by resolution of the remaining Trustees so long as they constitute a quorum or by Unitholders at a meeting of the Unitholders.

The standard of care and duties of the Trustees provided in the Amended and Restated Declaration of Trust are similar to those imposed on directors of a corporation governed by the OBCA. Accordingly, each Trustee is required to exercise the powers and discharge the duties of his office honestly, in good faith and in the best interests of the Trust and the Unitholders and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### ***Conflict of Interest Restrictions and Provisions***

The Amended and Restated Declaration of Trust contains “conflict of interest” provisions to protect Unitholders without creating undue limitations on the Trust. As the Trustees are engaged in other real estate-related activities, the Amended and Restated Declaration of Trust contains provisions, similar to those contained in the OBCA, that require each Trustee to disclose to the Trust any interest in a material contract or transaction or proposed material contract or transaction with the Trust or its subsidiaries (including a contract or transaction involving the making or disposition of any investment in real property or a joint venture agreement) or the fact that such person is a director or officer of or otherwise has a material interest in any person who is a party to a material contract or transaction or proposed material contract or transaction with the Trust or its subsidiaries. Such disclosure is required to be made at the first meeting at which a proposed contract or transaction is considered. If a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by the Trustees, a Trustee is required to disclose in writing to the Trust, or request to have entered into the minutes of meetings of Trustees, the nature and extent of his interest forthwith after the Trustee becomes aware of the contract or transaction or proposed contract or transaction. In any case, a Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating to his remuneration or for indemnity under the provisions of the Amended and Restated Declaration of Trust or liability insurance.

### ***Independent Trustee Matters***

The following matters require the approval of a majority of the Independent Trustees to become effective:

- an acquisition or disposition of a property or an investment in a property, whether by co-investment or otherwise, in which any Related Parties has any direct or indirect interest;
- the entering into, waiver of, exercise or enforcement of any rights or remedies under any agreement entered into by the Trust, or the making, directly or indirectly, of any co-investment, with any Related Party or in which any Related Party has a material interest;
- the refinancing or renewal of any indebtedness owing by or to any Related Party or in which any Related Party has a material interest;
- the grant of options or issuing of Units under any option or purchase plan;
- any change in the number of Trustees of the Trust and the appointment of Trustees to fill any vacancies created by any increase in the number of Trustees;
- decisions relating to compensation of Trustees or of any employee who is also an employee of a Related Party; and
- decisions relating to any claim by or against any vendor of Properties to the Trust or any of the parties to the Material Agreements.

## ***Mandate of the Board of Trustees***

The role of the Trust's Board of Trustees is one of stewardship and oversight of the Trust and its business. The Board of Trustees is responsible for overseeing management and approving major decisions. In fulfilling its mandate, the Board of Trustees is responsible, among other things, for: (i) participating in the development of and approving a strategic plan for the Trust; (ii) identifying and managing risk exposure; (iii) ensuring the integrity and adequacy of the Trust's internal controls and management information systems; (iv) defining the roles and responsibilities of management; (v) reviewing and approving the business and investment objectives to be met by management of the Trust; (vi) assessing the performance of management; (vii) reviewing the Trust's debt management strategy; (viii) succession planning; (ix) ensuring effective and adequate communication with the Unitholders and other stakeholders as well as the public at large; and (x) establishing committees of the Board of Trustees, where required or prudent, and defining their mandate.

The following table sets forth the name, municipality of residence and positions held with the Trust, the principal occupation of each of the Trustees and executive officers of the Trust and the number and percentage of voting securities each of the Trustees and executive officers own, directly or indirectly, or exercise control over as at the date hereof. Such information has been furnished by each Trustee or executive officer, respectively, to InterRent REIT. Each Trustee holds office until the close of the next annual meeting of Unitholders following his or her election or until a successor is duly appointed.

<b><u>Name and Municipality of Residence</u></b>	<b><u>Position with the REIT</u></b>	<b><u>Principal Occupation</u></b>	<b><u>Trustee Since</u></b>
Paul Amirault <sup>(1)(2)</sup> Ottawa, Ontario	Trustee	Partner at Norton Rose OR LLP	May 2010
Paul Bouzanis <sup>(2)(3)(4)</sup> Ottawa, Ontario	Trustee	President of PBC Development and Construction Management Group Inc.	September 2009
Ronald Leslie <sup>(1)</sup> Ottawa, Ontario	Trustee	Partner at Phomin Leslie Chartered Accountants	May 2011
Jacie Levinson <sup>(1)(3)(4)(6)</sup> Ottawa, Ontario	Trustee	Retired	September 2009
Mike McGahan <sup>(4)</sup> Ottawa, Ontario	Trustee, Chief Executive Officer	Chief Executive Officer of the Trust	September 2009
Victor Stone <sup>(2)(3)(5)</sup> Toronto, Ontario	Trustee	Senior Manager and Team Leader, Real Estate Lending at a Canadian chartered bank	December 2006
Curt Millar Ottawa, Ontario	Chief Financial Officer	Chief Financial Officer	N/A

(1) Member of the Audit Committee

(2) Member of the Governance Committee

(3) Member of the Human Resources Committee

(4) Member of the Capital Resources Committee

(5) Formerly a director of InterRent International Properties Inc.

(6) Chairman of the Board

Additional biographical information regarding the Trustees and executive officers of the REIT:

**Paul Amirault** is a partner of Norton Rose OR LLP. Paul practices corporate and securities law, with an emphasis on equity financings and mergers and acquisitions. He represents start-ups and established businesses, as well as underwriters and investors. Paul works with venture capital and private equity funds. In addition to experience in prospectus offerings, private placements and friendly takeovers, he has been involved in hostile bids, proxy battles and contested shareholder meetings. Paul advises clients on a broad range of corporate and securities matters, including corporate governance, regulatory compliance and stock exchange rules.

**Paul Bouzanis** is the President of PBC Development and Construction Management Group Inc. (“**PBC**”). Established in 1956, PBC is a family owned business and Mr. Bouzanis became President in 1985. PBC provides development and construction management services to public, private and institutional clients as the prime consultant, managing major new developments and redevelopments. Mr. Bouzanis also currently serves on the Board of Directors of the General Partner of the Valleyview Lands Limited Partnership. Mr. Bouzanis is an Associate Member of the Project Management Institute and Associate Member of the Ontario Association of Certified Engineering Technicians and Technologists.

**Jacie Levinson** has been involved with real estate sales, construction and renovations of multi-residential properties since 1960. From 1969 to retirement, Mr. Levinson grew his own firm to manage in excess of 5,000 residential units in addition to developing two downtown suite hotels, three malls and industrial condominiums. Mr. Levinson has extensive background in the real estate industry in various capacities including sales as a senior broker, construction, appraisal, insurance and property management. Mr. Levinson was a director on the board of the Commercial Services Division of the Ottawa Real Estate Board and the Bank Street BIA in the City of Ottawa. He is also the Past President of the Ottawa Jewish Community Foundation.

**Mike McGahan** is the Chief Executive Officer and a Trustee of the Trust. In addition, Mr. McGahan is President and Chief Executive Officer of CLV Group Inc. (“**CLV**”), the property manager for the Trust. CLV is a company that focuses on providing “Complete Real Estate Solutions”, including Property Management, Real Estate Brokerage, Mortgage Brokerage, Residential Rentals, Commercial Leasing and Construction. Mr. McGahan has over 24 years experience in the real estate business focusing on the multi-residential apartment and commercial properties sectors and has successfully bought, sold, financed and managed over 150 properties valued in excess of \$600 million. Mr. McGahan, through CLV, has developed a reputation as one of the top property managers having managed a portfolio of over 5,500 residential units and 500,000 sq. ft. of commercial properties for institutions like Toronto Dominion Bank, Bank of Hong Kong, Bank of Nova Scotia, Canada Mortgage and Housing Corporation and Canada Lands as well as private investors. Mr. McGahan has a wealth of experience in finding properties that have untapped potential and creating value through repositioning, renovations and improved efficiencies using pro-active management. Mr. McGahan has been a licensed real estate agent and mortgage broker for over 20 years and is a graduate of the University of Ottawa.

**Ronald Leslie** is a Chartered Accountant and is the Office Managing Partner at Phomin Leslie Chartered Accountants. Mr. Leslie has over 20 years of experience as a public accountant and currently sits on the board of C-COM Satellite Systems Inc. (which is listed on the TSX Venture Exchange). Mr. Leslie is a graduate of Carleton University and holds a Bachelor of Commerce degree.



**Victor Stone** is Senior Manager and Team Leader, Real Estate Lending at a Canadian chartered bank. Prior to joining the bank, Mr. Stone was Assistant Vice-President Commercial Lending of DUCA Financial Services. From 1980 to 2002, he was involved in multi-residential and commercial real estate financing across Canada with a number of major financial institutions, including ING Investment Management, GE Capital Real Estate, Montreal Trust and Morguard Investments Limited and was a director of InterRent International Properties Inc. Mr. Stone is a graduate of the University of Western Ontario.

**Curt Millar, CA**, is the Chief Financial Officer of the Trust. Prior to assuming his position as the Trust's Chief Financial Officer, Mr. Millar was CEO (2009-10) and CFO (2004-09) of Zip.ca, the leading provider of by mail DVD video rental/subscription in Canada. A Chartered Accountant (CA) and Magna Cum Laude graduate of the Bachelor of Commerce (Honors in Accounting) program of the University of Ottawa. Mr. Millar has held positions of increasing responsibility in accounting, financial management and operations with a number of businesses over his 20 year career.

As at the date hereof, the Trustees and senior officers of the Trust, as a group, beneficially own, directly or indirectly, or exercise control or direction over approximately 3,001,800 Units representing approximately 6.8% of the Units outstanding.

#### ***Corporate Cease Trade Orders***

None of the Trustees or executive officers of InterRent REIT is, or has been within the 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that (i) while such person was acting in or an order that capacity was the subject of a cease trade or similar order that denied the company access to any statutory exemptions under Canadian securities legislation, in each case for a period of more than 30 consecutive days (each, an "Order") or (ii) was subject to an Order that was issued after such person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while such person was acting in the capacity as director, chief executive officer or chief financial officer.

#### ***Bankruptcies***

Except as disclosed below, none of the Trustees or executive officers of InterRent REIT or any unitholder holding a sufficient number of securities of the Trust to affect materially the control of the Trust, is or has been within the 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that while such person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Paul Amirault, in his role as legal counsel, became the director of an inactive and insolvent private company in 2010 as a nominee of a major shareholder for the purposes of making a supervising a proposal to creditors in connection with the corporate reorganization of such private company.

#### ***Personal Bankruptcies***

None of the Trustees or executive officers of InterRent REIT or any unitholder holding a sufficient number of securities of the Trust to affect materially the control of the Trust, has within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such person.

### ***Penalties and Sanctions***

None of the Trustees or executive officers of InterRent REIT or any unitholder holding a sufficient number of securities of the Trust to affect materially the control of the Trust, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Committees of the Board of Trustees**

#### ***Audit Committee***

The audit committee's responsibilities include: (i) reviewing the Trust's procedures for internal control with the Trust's auditors and Chief Financial Officer; (ii) reviewing and approving the engagement of the auditors; (iii) reviewing annual and quarterly financial statements as well as all other material continuous disclosure documents, such as the Trust's annual information form and management's discussion and analysis; (iv) assessing the Trust's financial and accounting personnel; (v) assessing the Trust's accounting policies; (vi) reviewing the Trust's risk management procedures; and (vii) reviewing any significant transactions outside the Trust's ordinary course of business and any pending litigation involving the Trust.

National Instrument 52-110 - *Audit Committees* ("NI 52-110") requires that certain information regarding the Audit Committee of an issuer be included in the annual information form.

#### ***Audit Committee Charter***

The full text of the charter of the Trust's Audit Committee is attached hereto as Appendix "A".

#### ***Composition of the Audit Committee***

The Trust is required to have an audit committee comprised of not less than three Trustees each of whom is financially literate, a majority of whom are not officers, control persons or employees of the Trust or an Affiliate of the Trust. The Trust's current audit committee consists of Ronald Leslie (Chair), Paul Amirault and Jacie Levinson. All three members of the Audit Committee of the Trust are independent, as that term is defined in NI 52-110.

#### ***Relevant Education and Experience***

Ronald Leslie is a Chartered Accountant and is the Office Managing Partner at Phomin Leslie Chartered Accountants. Mr. Leslie has over 20 years of experience as a public accountant and currently sits on the board of C-COM Satellite Systems Inc. (which is listed on the TSX Venture Exchange). Paul Amirault is a lawyer that practices corporate and securities law, with an emphasis on equity financings and mergers and acquisitions for public and private companies. Mr. Amirault has been involved in corporate finance and M&A transactions in the last 13 years whose aggregate value exceeds \$3 billion. This involvement has included considerable experience in reviewing, drafting and providing advice in connection with financial disclosure for public companies pursuant to continuous and timely reporting obligations, and under proxy circular and prospectus requirements.

Jacie Levinson has been involved with real estate sales, construction and renovations of multi-residential properties since 1960. From 1969 to retirement, Mr. Levinson grew his own firm to manage in excess of 5,000 residential units in addition to developing two downtown suite hotels, three malls and industrial condominiums. Mr. Levinson has extensive background in the real estate industry in various capacities including sales as a senior broker, construction, appraisal, insurance and property management. Mr. Levinson is a director on the board of the Commercial Services Division of the Ottawa Real Estate Board and the Bank Street BIA in the City of Ottawa.

Each of the members of the Audit Committee is financially literate within the meaning of NI 52-110 as each has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Trust's financial statements. In this regard, the Board has determined that each member of the Audit Committee meets these criteria as each of Messrs. Leslie, Amirault and Levinson is familiar with accounting principles, financial statements and financial reporting requirements.

### ***Audit Fees***

The following table provides detail in respect of audit, audit related, tax and other fees incurred by the Trust to the external auditors for professional services:

	<b>Audit Fees</b>	<b>Audit-Related Fees</b>	<b>Tax Fees</b>	<b>All Other Fees</b>
January 1, 2011 – December 31, 2011	\$141,153	\$59,812	\$69,470	\$2,050
January 1, 2010 – December 31, 2010	\$131,086	\$19,158	\$95,821	\$5,438

**Audit Fees** – Audit fees were incurred for professional services rendered by the auditors for the audit of the Trust's annual financial statements as well as services provided in connection with statutory and regulatory filings.

**Audit-Related Fees** – Audit-related fees were incurred for professional services rendered by the auditors and were comprised primarily of the review of quarterly financial statements and related documents as well as the distribution of Units by way of a short form prospectus on a bought deal basis.

**Tax Fees** – Tax fees were incurred for tax compliance, tax advice and tax planning professional services. These services included reviewing tax returns and assisting in responses to government tax authorities.

**All Other Fees** – For 2010 and 2011, the other fees incurred by the Trust to the external auditors for professional services related to the conversion to IFRS.

### ***Governance Committee***

The governance committee is charged with reviewing, overseeing and evaluating the governance and policies of the Trust. In addition, the governance committee is responsible for: (i) assessing the effectiveness of the Board of Trustees, each of its committees and individual Trustees; (ii) overseeing the recruitment and selection of candidates as Trustees of the Trust; (iii) making recommendations to the Board with respect to management succession, in particular, succession for the CEO position; (iv) organizing an orientation and education program for new Trustees; (v) considering and approving proposals by the Trustees of the Trust to engage outside advisers on behalf of the Board of Trustees as a whole or on behalf of the Independent Trustees of the Trust; and (vi) reviewing and making recommendations to the Board of Trustees concerning any change in the number of Trustees of the Trust. The governance committee is comprised of Paul Amirault (Chair), Paul Bouzanis and Victor Stone.

### ***Human Resources Committee***

The Human Resources Committee is responsible for reviewing, overseeing and evaluating the compensation policies of the Trust. In addition, this committee is responsible for: (i) reviewing and approving the compensation paid by the Trust, if any, to any officers, advisers and any consultants of the Trust; (ii) administering any Unit option or purchase plan of the Trust, and any other compensation incentive programs; (iii) assessing the performance of management of the Trust; and (iv) reviewing and making any recommendations to the Board of Trustees concerning the level and nature of the compensation payable to Trustees and officers of the Trust. The Human Resources Committee is comprised of three Trustees: Vic Stone (Chair), Jacie Levinson and Paul Bouzanis.

### ***Capital Resources Committee***

The Capital Resources Committee is responsible for; (i) approval of any material investment proposal by management of the Trust; and (ii) reviewing and analyzing the due diligence and overview of the proposed acquisition against the Trust's strategic objectives. The Capital Resources Committee is comprised of three Trustees: Paul Bouzanis (Chair), Jacie Levinson and Mike McGahan.

### **Remuneration of Trustees**

The Trustees of the Board, that so elect, will receive between 60% and 100% of their Board retainers in the form of Deferred Units, subject to the terms of the Trust's Deferred Unit Plan, as amended. Effective, September 30, 2009, the Trustees elected to receive 100% of their retainers and meeting fees in the form of Deferred Units.

Each of the Trustees who are not members of management will receive from the Trust an annual retainer of \$18,000 per year, plus a fee of \$1,000 per board meeting and \$600 per committee meeting.

In addition, the Chairmen receive the following respective amounts for chairing the Board and its various committees: the Board \$25,000, Audit Committee \$10,000, Governance Committee \$5,000, Human Resources Committee \$5,000 and Capital Resources Committee \$20,000. The number of Units that each Trustee is entitled to receive on redemption of the Deferred Units shall be based on the 10-day weighted average trading price prior to the issuance of the Deferred Units. Trustees will also be reimbursed for reasonable travel and other expenses properly incurred by them in attending meetings of the Trustees or any committee meeting. Trustees are also eligible to participate in the Unit Option Plan and the Long Term Incentive Plan.

Trustees are required to accumulate \$150,000 in trust units by the third anniversary of their election as a Board member.

### ***Trustees' and Officers' Liability Insurance***

The Trust carries Trustees' and officers' liability insurance. Under this insurance coverage, the Trust will be reimbursed for payments made under indemnity provisions on behalf of its Trustees and officers contained in the Amended and Restated Declaration of Trust, subject to a deductible for each loss. Individual Trustees and officers will also be reimbursed for losses arising during the performance of their duties for which they are not indemnified by the Trust, subject to a deductible, which will be paid by the Trust. Excluded from insurance coverage are illegal acts, acts which result in personal profit and certain other acts. The Amended and Restated Declaration of Trust provides for the indemnification in certain circumstances of Trustees and officers from and against liability and costs in respect of any action or suit against them in respect of the execution of their duties of office.

### ***Trustees' and Officers' Indemnities***

InterRent REIT enters into indemnity agreements with each of its Trustees which indemnifies them, among other things, against all costs, charges, expenses and liabilities in connection with a claim related to the fact that the indemnitee acted for the Trust provided that, among other things, such indemnitee (i) acted honestly and in good faith with a view to the best interests of the Trust or, as the case may be, to the best interests of the other entity for which the indemnitee acted at the Trust's request; and (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the indemnitee had reasonable grounds for believing that the indemnitee's conduct was lawful.

## **Declaration of Trust and Description of Units**

### ***General***

The Trust is an unincorporated open-ended trust created pursuant to the Declaration of Trust under, and governed by, the laws of the Province of Ontario. Under the Amended and Restated Declaration of Trust, the Trust is restricted to investing in only the securities of InterRent Trust, the Holdings Partnership, the Holdings Partnership General Partner and their respective associates. Although the Trust qualifies as a "mutual fund trust" as defined in the Tax Act, the Trust will not be a "mutual fund" as defined by applicable securities 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. The Trust has been established for an indeterminate term.

### ***Units***

The Amended and Restated Declaration of Trust provides for the issuance of an unlimited number of Units. Each Unit will represent a Unitholder's proportionate undivided ownership interest in the Trust. No Unitholder has or is deemed to have any right of ownership in any of the assets of the Trust. Each whole Unit confers the right to one vote at any meeting of Unitholders and to participate *pro rata* in any distributions to Unitholders by the Trust, whether of net income, net realized capital gains or other amounts and, in the event of termination of the Trust, in any distribution to Unitholders out of the net assets of the Trust remaining after satisfaction of all liabilities. Units will be fully paid and non-assessable when issued (unless issued on an instalment receipt basis) and are transferable. Except as set out below under "*Redemption Right*", the Units have no conversion, retraction, redemption or pre-emptive rights, issued and outstanding Units may be subdivided or consolidated.

Units are not shares in the Trust. Holders of Units do not have statutory rights similar to those of a shareholder in an OBCA corporation, which are normally associated with the ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions. The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of such Act or any other legislation.

### ***Special Voting Units***

The Amended and Restated Declaration of Trust also provides for the issuance of an unlimited number of Special Voting Units that shall carry voting rights relating to the Trust for persons holding Holdings Partnership Class B LP Units or other shares, units or other securities that are directly or indirectly exchangeable for Units. Each Special Voting Unit will entitle the holder thereof to a number of votes at any meeting of Unitholders equal to the number of Units which may be obtained upon the exchange of the exchangeable shares, units or other securities, including the Holdings Partnership Class B LP Units, to which the Special Voting Unit relates.

The Special Voting Units will be subject to such other rights and limitations as may be determined by the Trustees at the time of issuance of any such Special Voting Units. The Special Voting Units are not transferable separately from the Holdings Partnership Class B LP Units, or other securities to which they relate, and will be automatically transferred upon the transfer of such securities. Upon the exchange or surrender of Holdings Partnership Class B LP Units for Units, the corresponding Special Voting Units will automatically be cancelled by the Trust.

### ***Meetings of Voting Unitholders***

The Amended and Restated Declaration of Trust provides that meetings of Voting Unitholders will be required to be called and held annually, for the purpose of (a) electing Trustees; (b) appointing auditors of the Trust for the ensuing years; (c) directing the election of nominees of the Trust to serve as Trustee(s) and director(s) of certain subsidiaries; (d) generally, any other matter which requires a resolution of Voting Unitholders; and (e) transacting such other business as the Trustees may determine or as may be properly brought before the meeting. All meetings of Voting Unitholders shall be held in Canada.

A meeting of Voting Unitholders may be convened at any time and for any purpose by the Trustees and must be convened, except in certain circumstances, if requisitioned in writing by the Voting Unitholders representing not less than 10% of the votes attached to all outstanding Voting Units. A requisition must state in reasonable detail the business proposed to be transacted at the meeting. Voting Unitholders have the right to obtain a list of Voting Unitholders to the same extent and upon the same conditions as those which apply to shareholders of a corporation governed by the OBCA.

Voting Unitholders may attend and vote at all meetings of the Voting Unitholders either in person or by proxy and a proxy holder need not be a Voting Unitholder. Two or more individuals, present in person either holding personally or representing proxies, not less, in the aggregate, than 10% of the aggregate number of votes attached to all outstanding Voting Units shall constitute a quorum for the transaction of business at all such meetings. At any meeting at which a quorum is not present within one-half hour after the time fixed for the holding of such meeting, the meeting, if convened upon the request of the Voting Unitholders, shall be dissolved, but in any other case, the meeting will stand adjourned to a day not less than seven days later and to a place and time as chosen by the chair of the meeting, and if at such adjourned meeting a quorum is not present, the Voting Unitholders present either in person or by proxy shall be deemed to constitute a quorum.

The Amended and Restated Declaration of Trust provides that without the authorization of at least 66 $\frac{2}{3}$ % of the votes cast at a meeting of Voting Unitholders called for such purpose, the Trustees shall not, among other things: (i) authorize any combination, transaction, amalgamation or arrangement of the Trust, (ii) dispose of all or substantially all of the assets of the Trust, or (iii) liquidate or dissolve the Trust, InterRent Trust or the Holdings Partnership, except in conjunction with an internal reorganization. Certain amendments to the Amended and Restated Declaration of Trust require the approval of two-thirds of the votes cast by Unitholders. See “*Amendments to Declaration of Trust*”.

### ***Purchases of Units***

The Trust may from time to time purchase Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchase will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof. As of the date hereof, the Trust does not have a TSX-approved normal course issuer bid in effect for any of its securities.

### ***Redemption Right***

Subject to certain conditions, Units are redeemable at any time on demand by the holders thereof upon delivery to the Trust of a duly completed and properly executed notice requesting redemption in a form reasonably acceptable to the Trustees, together with written instructions as to the number of Units to be redeemed. A Unitholder not otherwise holding a fully registered Unit certificate who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder’s investment dealer who will be required to deliver the completed redemption notice form to the Trust and the Transfer Agent. Upon receipt of the redemption notice by the Trust, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (“**Redemption Price**”) equal to the lesser of: (i) 90% of the “market price” of the Units on the principal market on which the Units are quoted for trading during the 10-trading day period ending immediately prior to the date on which the Units were surrendered for redemption (the “**Redemption Date**”); and (ii) 100% of the “closing market price” on the principal market on which the Units are listed for trading on the Redemption Date.

For the purposes of this calculation, “market price” will be the amount equal to the weighted average of the trading prices of the Units on the applicable market or exchange for each of the trading days on which there was a trade during the specified trading day period, and provided that if there was trading on the applicable exchange or market for fewer than five of the trading days during the specified trading day period, the “market price” will be the average of the following prices established for each of the trading days during the specified trading period: the average of the last bid and last asking prices of the Units for each day on which there was no trading and the weighted average trading prices of the Units for each day that there was trading. The “closing market price” will be an amount equal to the closing price of the Units on the applicable market or exchange if there was a trade on the specified date and the applicable exchange or market provides a closing price; an amount equal to the average of the highest and lowest prices of the Units on the applicable market or exchange if there was trading on the specified date and the exchange or other market provides only the highest and lowest prices of Units traded on a particular day; or the average of the last bid and last asking prices of the Units if there was no trading on the specified date.

If Units are not listed or quoted for trading in a public market, the Redemption Price will be the fair market value of the Units, which shall be determined by the Trustees in their sole discretion.

The aggregate Redemption Price payable by the Trust in respect of any Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption, provided that the entitlement of Unitholders 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 the TSX or traded or quoted on any other stock exchange or market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Redemption Date or for more than five trading days during the 10-day trading period commencing immediately after the Redemption Date.

Cash payable on redemptions will be paid *pro rata* to all Unitholders tendering Units for redemption in any month. To the extent a Unitholder is not entitled to receive cash upon the redemption of Units as a result of any of the foregoing limitations, then the balance of the Redemption Price for such Units shall, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution *in specie* of assets held by the Trust. In such circumstances, Series 1 Notes and Trust Units of a value equal to the balance of the Redemption Price will be redeemed by InterRent Trust in consideration of the issuance by InterRent Trust to the Trust of Series 2 Notes and Series 3 Notes, respectively, with an aggregate principal amount equal to the balance of the Redemption Price. The Series 2 Notes and Series 3 Notes will then be distributed in satisfaction of the balance of the Redemption Price. No Series 2 Notes or Series 3 Notes in integral multiples of less than \$100 will be distributed and, where notes to be received by a Unitholder includes a multiple less than \$100, that number shall be rounded to the next lowest integral multiple of \$100 and the excess will be paid in cash. The Trust shall be entitled to all interest paid on the Notes, if any, and distributions paid on the Trust Units on or before the date of the distribution *in specie*. Where the Trust makes a distribution *in specie* on the redemption of Units of a Unitholder, the Trust currently intends to allocate to that Unitholder any capital gain or income realized by the Trust on or in connection with such distribution.

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Units. Series 2 Notes and Series 3 Notes that may be distributed to Unitholders in connection with a redemption will not be listed on any exchange, no market is expected to develop in securities of InterRent Trust and such securities may be subject to resale restrictions under applicable securities laws. Series 2 Notes and Series 3 Notes so distributed may not be qualified investments for Plans under the Tax Act.

### ***Take-Over Bids***

The Amended and Restated Declaration of Trust contains provisions to the effect that if a take-over bid or issuer bid is made for all of the issued and outstanding Units (including securities then currently convertible, exchangeable or exercisable for Units) within the meaning of the *Securities Act* (Ontario) and not less than 90% of all the issued and outstanding Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or Affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the offer, on the same terms that the offeror acquired Units from the offeror who accepted the take-over bid.



### ***Issuance of Units***

The Trust may issue new Units and other securities of the Trust including securities convertible or exchangeable for Units or other securities of the Trust (the “**Other Issuable Securities**”) from time to time, in such manner, for such consideration and to such person, persons or class of persons as the Trustees shall determine and Unitholders do not have any pre-emptive rights whereby additional Units or Other Issuable Securities proposed to be issued are first offered to existing Unitholders. If the Trustees determine that the Trust does not have cash in an amount sufficient to make payment of the full amount of any distribution, the payment may include the issuance of additional Units having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Trustees to be available for the payment of such distribution. In addition, Units may be issued pursuant to any option plan or long-term incentive plan established by the Trust from time to time. New Units may also be issued for cash through public offerings, through rights offerings to existing Unitholders, through private placements or as a result of conversion rights exercised under convertible securities, including warrants and subscription receipts. The Trust may also issue new Units as consideration for the acquisition of new properties or assets by it. The price or the value of the consideration for which Units may be issued will be determined by the Trustees, and, where the Trustees so determine, generally in consultation with investment dealers or brokers who may act as underwriters in connection with offerings of Units and subject to applicable regulatory approvals.

The Amended and Restated Declaration of Trust also provides that immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated so that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Notwithstanding the foregoing, where tax is required to be withheld from a Unitholder’s share of the distribution, the consolidation will result in such Unitholder holding that number of Units equal to (i) the number of Units held by such Unitholder prior to the distribution plus the number of Units received by such Unitholder in connection with the distribution (net of the number of whole and part Units withheld on account of withholding taxes) multiplied by (ii) the fraction obtained by dividing the aggregate number of Units outstanding prior to the distribution by the aggregate number of Units that would be outstanding following the distribution and before the consolidation if no withholding were required in respect of any part of the distribution payable to any Unitholder.

### ***Limitation on Ownership***

In order for the Trust to maintain its status as a “mutual fund trust” under the Tax Act, the Trust must not be established or maintained primarily for the benefit of Non-Residents. Pursuant to certain proposed amendments to the Tax Act, not more than 50% of the aggregate fair market value of Units may be held by Non-Residents. Accordingly, at no time may Non-Residents be the beneficial owners of more than 49% of the Units and the Trustees have informed the transfer agent and registrar of this restriction. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the Trustees become aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 49% of the Units then outstanding are, or may be, Non-Residents or that such a situation is imminent, the Trustees may make a public announcement thereof and shall not accept a subscription for Units from or issue Units to a person unless the person provides a declaration that the person is not a Non-Resident. If, notwithstanding the foregoing, the Trustees determine that more than 49% of the Units are held by Non-Residents, the Trustees may send a notice to Non-Resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof

within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or have not provided the Trustees with satisfactory evidence that they are not Non-Residents within such period, the Trustees may, on behalf of such Unitholders sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units, if any. Upon such sale the affected holders shall cease to be holders of Units and their rights shall be limited to receiving the net proceeds of sale. The Trustees shall have no liability for the amount received provided that they act in good faith.

### ***Information and Reports***

The Trust will furnish to Unitholders such financial statements (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation. Prior to each annual and special meeting of Unitholders, the Trustees will provide the Unitholders (along with notice of such meeting) information similar to that required to be provided to shareholders of a public corporation governed by the OBCA.

### ***Amendments to Declaration of Trust***

The Amended and Restated Declaration of Trust may be amended or altered from time to time. Certain amendments require approval by at least two-thirds of the votes cast in respect of the amendment at a meeting of the Unitholders called for such purpose. Other amendments to the Amended and Restated Declaration of Trust require approval by a majority of the votes cast in respect of the amendment at a meeting of the Unitholders called for such purpose.

The following amendments, among others, require the approval by at least two-thirds of the votes cast by Unitholders in respect of the amendment at a meeting:

- (a) the termination of the Trust;
- (b) any combination, merger, amalgamation or arrangement of the Trust, InterRent Trust or the Holdings Partnership, as the case may be, any sale of all or substantially all of the assets of the Trust, InterRent Trust or Holdings Partnership, as the case may be, or the liquidation or dissolution of the Trust, InterRent Trust or Holdings Partnership, as the case may be, (other than as part of an internal reorganization of the assets of the Trust, InterRent Trust or Holdings Partnership, as the case may be, as approved by the Trustees);
- (c) an amendment to the Investment Guidelines of the Trust;
- (d) the provisions of the InterRent Trust Declaration concerning the computation of net income;
- (e) an exchange, reclassification or cancellation of all or part of the Units;
- (f) the addition, change or removal of the rights, privileges, restrictions or conditions attached to the Units;
- (g) the creation of new rights or privileges attaching to Units; or,
- (h) the constraint on the issue, transfer or ownership of Units or the change or removal of such constraint.

The Operating Policies of the Trust may be amended with the approval by a majority of the of votes cast by Unitholders in respect of the amendment at a meeting.

The Trustees may, without the approval of the Unitholders, make certain amendments to the Amended and Restated Declaration of Trust, including amendments:

- (a) ensuring continuing compliance with applicable laws (including the Tax Act and maintaining the Trust's status as a "mutual fund trust" under the Tax Act), regulations, requirements or policies of any governmental or other authority having jurisdiction over the Trustees, the Trust, or over the distribution of Units;
- (b) providing additional protection for the Unitholders;
- (c) removing any conflicts or inconsistencies in the Amended and Restated Declaration of Trust, or making minor corrections which are, in the opinion of Trustees, necessary or desirable and not prejudicial to the Unitholders;
- (d) which, in the opinion of the Trustees, are necessary or desirable to remove conflicts or inconsistencies between the publicly filed disclosure documents of the Trust and the Amended and Restated Declaration of Trust;
- (e) which, in the opinion of the Trustees, are necessary or desirable as a result of changes in generally accepted accounting principles (including accounting guidelines) or taxation or other laws;
- (f) enabling the Trust to issue Units for which the purchase price is payable in instalments;
- (g) creating one or more additional classes of units solely to provide voting rights to holders of shares, units or other securities that are exchangeable for Units entitling the holder thereof to a number of votes not exceeding the number of Units into which the exchangeable shares, units or other securities are exchangeable or convertible but that do not otherwise entitle the holder thereof to any rights with respect to the Trust's property or income other than a return of capital;
- (h) for any purpose (except one in respect of which a vote is specifically otherwise required) which, in the opinion of the Trustees, is not prejudicial to Unitholders and is necessary or desirable; or
- (i) making those changes to the Amended and Restated Declaration of Trust which, in the opinion of the Trustees, are necessary or desirable in order to ensure continuing compliance with IFRS, to ensure the Units qualify as equity for the purposes of IFRS, to address any changes to the interpretation of the terms of the Amended and Restated Declaration of Trust that may arise due to the adoption of IFRS or any subsequent changes to IFRS, or to avoid any other unintended consequences from the adoption of IFRS.

However, no amendment, other than an amendment made pursuant to paragraph (ix), above, shall: (a) modify the right to vote attached to any Unit or the entitlement to distributions from the Trust without Unitholder consent; (b) reduce the percentage of votes required to be cast by Unitholder to amend the Amended and Restated Declaration of Trust without the consent of all Unitholders; or (c) cause the Trust to fail or cease to qualify as a "mutual fund trust" under the Tax Act.

Effective June 29, 2007, the Declaration of Trust was amended and restated as follows:

***Consolidation/Deconsolidation***

As more particularly described in the 2007 Circular, to address the costs associated with maintaining numerous Unitholders holding less than 100 Units, the Trust sought, and received, Unitholder approval to amend the Declaration of Trust in order to effect a consolidation of the Units on 1 for 100 basis, whereby those Unitholders holding less than 100 Units would receive payment upon surrender of certain documents, for the fractional Units held by them. This consolidation was followed by an immediate reconsolidation or split of Units on a 100 for 1 basis. See Article 3.19 of the Amended and Restated Declaration of Trust respecting the added subsection giving effect to the foregoing.

***Amendment to Operating Policy***

As more particularly set out in the 2007 Circular, the Trust sought, and received, Unitholder approval to amend Article 4.2 of the Declaration of Trust, which stipulated that the Trust could not incur or renew any indebtedness with respect to any individual property, unless at the date of proposal incurring of such indebtedness, the aggregate of (i) the amount of all indebtedness secured by such real property, and (ii) the amount of additional indebtedness proposed to be incurred, did not exceed 75% of the market value of such property, with certain exclusions (the "**75% Threshold**").

The Declaration of Trust was amended to require the Trust to satisfy the 75% Threshold on or before the date which is 12 months from the date of acquisition of any relevant property. See Article 4.2 of the Amended and Restated Declaration of Trust respecting the amended subsection giving effect to the foregoing.

Effective September 30, 2009, the June 29, 2007 Declaration of Trust was amended and restated as follows:

***Amendment to Operating Policy***

As more particularly set out in the 2009 Circular, the Trust sought, and received, Unitholder approval to amend paragraph (c) of Article 4.2 of the Declaration of Trust which stipulated that the Trust could not incur or assume indebtedness if, after giving effect to the incurring or assumption thereof of the indebtedness, the total indebtedness as a percentage of gross book value would be more than 70%. Paragraph (c) of Article 4.2 of the Declaration of Trust was amended to permit the Trust to increase that percentage to 75% with the prior approval of Independent Trustees.

Effective December 29, 2010, the September 30, 2009 Declaration of Trust was amended and restated as follows:

***Amendments due to the adoption of IFRS***

As more particularly set out in the 2010 Circular, the Trust sought, and received, Unitholder approval to amend the September 30, 2009 Declaration of Trust to provide the Trustees in limited circumstances with the power to amend the Declaration of Trust where such amendment is required for compliance with IFRS, or to ensure the Units are regarded as "equity" and not as a "liability" for purposes of financial reporting under IFRS. The Declaration of Trust was amended to add a definition for IFRS and to amend the Amendment provisions to allow the Trustees to make changes to the Declaration of Trust which in their opinion are necessary or desirable to (i) ensure continuing compliance with IFRS, (ii) ensure the Units qualify as equity for purposes of IFRS, (iii) address any changes to the interpretation of the terms of

the Declaration of Trust that may arise due to the adoption of IFRS or any subsequent changes to IFRS, or (iv) avoid any other unintended consequences due to the adoption of IFRS. (See “Declaration of Trust and Description of Units – Amendments to Declaration of Trust”) In addition, Article 5 “Distributions” was amended to ensure the Units are regarded as “equity” and not as a “liability” for purposes of financial reporting under IFRS.

### ***Market Price and Trading Volume Data***

The outstanding Units are listed for trading on the TSX under the symbol “IIP.UN” and began trading on the TSX on April 25, 2007.

The following table sets forth the high and low and closing trading prices of the Units on the TSX, together with the volume, for the 12 months in 2011:

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Volume</u>
January	\$ 1.56	\$ 1.45	\$ 1.48	185,435
February	\$ 1.58	\$ 1.45	\$ 1.50	204,752
March	\$ 1.90	\$ 1.46	\$ 1.72	447,124
April	\$ 1.90	\$ 1.71	\$ 1.78	186,673
May	\$ 1.85	\$ 1.72	\$ 1.80	392,415
June	\$ 2.21	\$ 1.80	\$ 2.06	331,428
July	\$ 2.21	\$ 2.00	\$ 2.20	858,515
August	\$ 2.56	\$ 1.90	\$ 2.41	987,921
September	\$ 2.99	\$ 2.38	\$ 2.66	398,624
October	\$ 2.63	\$ 2.20	\$ 2.53	434,765
November	\$ 3.25	\$ 2.40	\$ 3.10	1,151,077
December	\$ 3.49	\$ 3.07	\$ 3.18	1,860,252

### **Other Securities**

#### ***Debentures***

On September 22, 2005, IIP completed a private placement of \$5,517,000 aggregate principal amount of 7.25% subordinated convertible debentures. The debentures were convertible, at any time, into Units at \$5.50 per Unit. The Trust and Computershare Trust Company of Canada, as trustee, entered into an amended and restated indenture to implement the amendments to the terms of the debentures as a result of the Arrangement. The debentures were settled with cash on their maturity date of September 22, 2010.

On January 15, 2008, InterRent REIT entered into an agreement to sell to a syndicate of underwriters on a bought-deal basis, \$25,000,000 principal amount of convertible unsecured subordinated debentures (the “**2008 Debentures**”), with a coupon rate of 7.0% per annum. The 2008 Debentures were convertible at the holder’s option into units of InterRent REIT prior to maturity at a conversion price of \$4.60 per Unit. The Debentures were scheduled to mature on January 31, 2013. The Trust redeemed the 2008 Debentures at par on February 1, 2012.

### ***Market Price and Trading Volume Data – Debentures***

The 2008 Debentures were listed and posted for trading on the TSX under the symbol “IIP.DB”. The following table sets forth the high and low and closing trading prices of the 2008 Debentures on the TSX, together with the volume, for the 12 months in 2011:

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Volume</u>
January	\$ 99.95	\$ 94.50	\$ 97.50	23,770
February	\$ 100.00	\$ 98.01	\$ 99.50	8,570
March	\$ 100.01	\$ 99.00	\$ 100.00	1,810
April	\$ 101.60	\$ 100.00	\$ 101.00	1,470
May	\$ 101.25	\$ 100.40	\$ 100.50	780
June	\$ 101.25	\$ 100.00	\$ 100.25	14,180
July	\$ 101.00	\$ 100.25	\$ 100.25	1,970
August	\$ 101.00	\$ 98.00	\$ 100.00	2,880
September	\$ 100.01	\$ 99.51	\$ 99.60	9,480
October	\$ 100.98	\$ 99.60	\$ 99.60	11,820
November	\$ 100.95	\$ 99.00	\$ 100.00	1,400
December	\$ 100.95	\$ 100.01	\$ 100.95	6,330

### **Incentive Plans**

The Trust’s incentive plans (Options, Deferred Unit Plan and Long Term Incentive Plan) were approved by the Shareholders of the Trust at its annual and special meeting of unitholders held on June 29, 2007 and were subsequently amended on September 30, 2009 and June 22, 2011.

#### ***Options***

The aggregate maximum number of Units that can be issued upon the exercise of Unit options granted under the Unit Option Plan is 1,000,000 Units. Unit options may be granted to any Trustee, employee or certain other third parties. The exercise price per Unit option cannot be less than the volume weighted average trading price of the Units on the TSX, or any other exchange where the majority of the trading volume and value of the Units occurs, for the five trading days immediately preceding the day the Unit options are granted. The exercise period for each Unit option is not to be more than 10 years. The maximum number of Units issuable to Insiders of the Trust, within any one-year period, pursuant to the Unit Option Plan and any other security based compensation arrangements of the Trust, is 10% of the total number of Units then outstanding. The Unit Option Plan is administrated by the Board in consultation with the Human Resources Committee. Unit options are not assignable, except in accordance with the provisions of the Unit Option Plan and upon notice to the Trust.

#### ***Deferred Unit Plan***

The Trust has a deferred unit plan (the “**Deferred Unit Plan**”) which is available to certain eligible Trustees, officers and employees of the Trust who elect to participate (“**DUP Participants**”). The purpose of the Deferred Unit Plan is to promote a greater alignment of interests between the DUP Participants and Unitholders.

Each DUP Participant that elects to participate shall:

- in respect of a Trustee, be paid between 60% and 100% of the annual cash retainer paid by the Trust to that Trustee in a calendar year for service on the Board, together with committee fees, attendance fees, additional fees and retainers to committee chairs; or
- in respect of an officer or employee, up to 100% of the annual cash bonus paid by the Trust to that officer or employee in a calendar year,

(the “**Elected Amount**”) in the form of deferred Units (“**Deferred Units**”) in lieu of cash, provided that the Trust shall match the Elected Amount for each DUP Participant such that the number of Deferred Units issued to each Participant shall be equal in value to two (2) times the Elected Amount.

In addition, each eligible DUP Participant (officers and other senior employees) that elects to participate shall be paid 100% of their retention bonus (the “**Retention Bonus**”, otherwise known as the “**Match**”) and/or long term incentive bonus (the “**Long Term Incentive Bonus**”) in the form of Deferred Units.

In order to qualify for a Retention Bonus, the following conditions must be satisfied:

- (a) the Trust must meet certain performance criteria set by the Trustees or Human Resources Committee on an annual basis; and
- (b) the DUP Participant must be employed by the Trust at a “**Retention Bonus Payment Time**” (the date upon which such bonus is paid to the Participant).

In order to qualify for a Long Term Incentive Bonus, the Trust and the officer or senior employee in question must meet certain performance criteria set by the Trustees or the Human Resources Committee on an annual basis. The Deferred Units vest 50% on the third anniversary and 25% on each of the fourth and fifth anniversaries, subject to provisions for earlier vesting in certain events.

The number of Deferred Units (including fractional Deferred Units) granted at any particular time pursuant to the Deferred Unit Plan will be calculated by dividing: (i) (A) two (2) times the dollar amount of the Elected Amount or (B) the dollar amount of the Retention or Long Term Incentive Bonus, as the case may be, allocated to the DUP Participant by (ii) the Market Value (as defined below) of a Unit on the award date. “Market Value” at any date in respect to the Units means the volume weighted average price of all Units traded on the TSX for the ten (10) trading days immediately preceding such date (or, if such Units are not listed and posted for trading on the TSX, on such stock exchange on which such Units are listed and posted for trading as may be selected for such purpose by the Board). In the event that such Units are not listed and posted for trading on any stock exchange, the Market Value shall be the fair market value of such Units as determined by the Board in its sole discretion.

The aggregate number of Units authorized for issuance upon the redemption of all Deferred Units granted under the Deferred Unit Plan shall generally not exceed 7.5% of the outstanding Units and Special Voting Units of the Trust, or such greater number of Units as may be determined by the Board and approved by the Unitholders and, if required, by any relevant stock exchange or other regulatory authority; provided, however, that: (i) at no time shall the number of Units reserved for issuance to Insiders of the Trust pursuant to outstanding Deferred Units, together with the number of Units reserved for issuance to such persons pursuant to any other compensation arrangements, exceed 10% of the then outstanding Units, as calculated immediately prior to the issuance in question; and (ii) the number of Units issued to Insiders of the Trust pursuant to outstanding Deferred Units, together with the number of Units issued to such

persons pursuant to any other compensation arrangements, within any one year period, shall not exceed 10% of the then outstanding Units.

The Deferred Unit Plan is administered by the Human Resources Committee, reporting to the Board. The Board has the power to amend, modify, suspend or terminate the Deferred Unit Plan, subject to regulatory approval or Unitholder approval as necessary.

### ***Long Term Incentive Plan***

The Trust has a long term incentive plan (the “**Long Term Incentive Plan**”) which is available to certain Trustees, officers and employees of the Trust (“**LTIP Participants**”). The objective of the Long Term Incentive Plan is to encourage increased long term equity participation in the Trust by LTIP Participants. The Long Term Incentive Plan is intended to facilitate long term ownership of Units by LTIP Participants and to provide LTIP Participants with additional incentives by increasing their interest, as owners, in the Trust. As well, it is believed by the management of the Trust that the Long Term Incentive Plan will encourage LTIP Participants to remain with the Trust, and will also attract new employees to the Trust.

Under the Long Term Incentive Plan, LTIP Participants may subscribe for treasury Units (“**Plan Units**”) for a purchase price equal to the “Market Price” for Units, which purchase price will be payable in cash instalments. The first instalment will be an amount equal to not less than 5% of the Market Price for the Units on the date of issue and will be payable by LTIP Participants on the date such Plan Units are issued. The “Market Price” for Units will be equal to the volume weighted average trading price of Units on the TSX for the five (5) trading days immediately preceding their issue. The Long Term Incentive Plan prohibits any reduction or other change in the price paid for Plan Units, except to reflect a consolidation or split of the Units or similar capital reorganization.

Prior to payment in full of all instalments (together with interest thereon, as described below) relating to Plan Units, beneficial ownership of the Plan Units will be represented by instalment receipts issued by the Trust (the “**Instalment Receipts**”) to LTIP Participants. LTIP Participants will be required to pay interest to the Trust on the outstanding balance of the remaining instalments at a 10-year fixed annual rate not less than a prescribed rate under the Tax Act applicable at the time the Plan Units are issued. Pursuant to an instalment receipt agreement to be entered into between the Trust and LTIP Participants (the “**Instalment Receipt Agreement**”), LTIP Participants will be required to apply all distributions paid on the Plan Units to pay such interest and to pay the remaining instalments, such that, following all such payments, the LTIP Participants will have paid the full market price for the Plan Units. All interest accruing in respect of a calendar year must be paid within 30 days following the end of the year.

Under the Instalment Receipt Agreement, legal title to the Units will be registered in the name of a custodian (the “**Custodian**”) and held as security for the payment obligations of the LTIP Participants until all instalments and interest have been fully paid. The Trust’s recourse will be limited to the Plan Units pledged to the Trust as security for the payment of instalments and interest. If payment of any instalments or interest from an LTIP Participant is not received by the Custodian when due, any Plan Units then remaining held as security may, at the option of the Trust and subject to applicable law, (i) be acquired by the Trust for cancellation or (ii) be sold by the Custodian in the market and that portion of the proceeds equal to the remaining instalments and interest owing delivered to the Trust, in each case in full satisfaction of the obligations of the holder of the Instalment Receipts secured by such Plan Units.

The Long Term Incentive Plan is administered by the Board (or the Human Resources Committee) which will have the power to amend, modify, suspend or terminate the Long Term Incentive Plan, subject to regulatory or Unitholder approval as required therein and in circumstances described in section 3.7 of the Long Term Incentive Plan, to Unitholder approval.



The maximum number of Units issuable under the Long Term Incentive Plan is 650,000 Units.

### ***Exchange Agreement***

The Trust, New InterRent and the Holdings Partnership entered into the Exchange Agreement whereby the Holdings Partnership Class B LP Units, Warrants, Options granted under the Stock Option Plan and Debentures are exchangeable for Units rather than Shares.

### ***Distribution Reinvestment Plan***

The Trust has a distribution reinvestment plan, which allows Unitholders to elect to reinvest their monthly cash distributions into Units except as disclosed therein.

### **Legal Proceedings**

There are no legal proceedings material to InterRent REIT to which InterRent REIT is a party or of which any of its property is the subject matter, except as disclosed herein.

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 NWVP requests for: (i) a declaration that the Trustees of the Trust did not have the authority to close the private placement; and, (ii) 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.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

Management’s discussion and analysis of results of operations and financial position of the Trust for the financial period ended December 31, 2011 is incorporated by reference herein.

## INVESTMENT GUIDELINES AND OPERATING AND DISTRIBUTION POLICES

### Investment Guidelines

Pursuant to the Amended and Restated Declaration of Trust, the assets of the Trust may be invested only and the Trust shall not permit the assets of any subsidiary to be invested otherwise than in accordance with the following investment guidelines:

- (a) the Trust will focus its activities primarily on the acquisition, holding, maintaining, improving, leasing or managing of multi-unit residential revenue producing properties, and ancillary real estate ventures (“**focus activities**”);
- (b) notwithstanding anything contained in the Amended and Restated Declaration of Trust to the contrary, no investment will be made that would result in the Trust ceasing to qualify as a “mutual fund trust” for purposes of the Tax Act;
- (c) no single asset (other than Trust Units, Notes and units of the Holdings Partnership) shall be acquired if the cost of such acquisition (net of the amount of debt secured by such asset) will exceed 15% of Gross Book Value (as such term is defined in the Amended and Restated Declaration of Trust), provided that where such asset is the securities of or an interest in an entity, the foregoing tests shall be applied individually to each asset of such entity;
- (d) investments may be made in a joint venture arrangement only if:
  - (i) the arrangement is in connection with a focus activity;
  - (ii) the arrangement is with others (“**joint venturers**”) either directly or through the ownership of securities of or an interest in an entity (“**joint venture entity**”);
  - (iii) the interest in the joint venture entity is an interest of not less than 25% and is not subject to any restriction on transfer other than a right of first refusal or right of first offer, if any, in favour of the joint venturers;
  - (iv) the Trust or an entity controlled by it has a right of first offer or a right of first refusal to buy the interests of the joint venturers in the joint venture entity;
  - (v) the Trust or an entity controlled by it has the ability to provide input in the management decisions of the joint venture entity;
  - (vi) the joint venture entity provides an appropriate buy-sell mechanism; and
  - (vii) without limitation, any joint venture arrangement with a Related Party for the purposes of the related party provisions of the Amended and Restated Declaration of Trust has been entered into in accordance with such provisions

provided that, notwithstanding the foregoing, the interest of another Person in any existing joint venture arrangement which does not comply with any of subparagraphs (ii), (iii), (iv) or (v) above may be acquired if the Trustees determine that the investment is desirable and is otherwise in compliance with the Amended and Restated Declaration of Trust and the operating policies established in accordance with the Amended and Restated Declaration of Trust and in effect at such time;

- (e) unless otherwise permitted in the provisions of the Amended and Restated Declaration of Trust and except for temporary investments held in cash, deposits with a Canadian or U.S. chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities, some or all of the receivables under instalment receipt agreements or money market instruments of, or guaranteed by, a Schedule I Canadian chartered bank maturing prior to one year from the date of issue, the Trust, directly or indirectly, may not hold securities other than: (i) currency or interest rate futures contracts for hedging purposes to the extent that such hedging activity complies with the Canadian Securities Administrator's National Instrument 81-102 or any successor instrument or rule; (ii) securities of a joint venture entity, or any entity formed and operated solely for the purpose of carrying on ancillary activities to any real estate owned, directly or indirectly, by the Trust, or an entity wholly-owned, directly or indirectly, by the Trust formed and operated solely for the purpose of holding a particular real property or real properties; and (iii) securities of another issuer provided either (A) such securities derive their value, directly or indirectly, principally from real property, or (B) the principal business of the issuer of the securities is the ownership or operation, directly or indirectly, of real property, and provided in either case the entity whose securities are being acquired are primarily engaged in a focus activity;
- (f) no investment will be made in a real property located in the United States unless the Trust has obtained an opinion from legal counsel to the effect that the making of the investment should not result in interest paid by any U.S. entity in which the Trust, directly or indirectly, owns an interest to any affiliate of the Trust ceasing to be deductible for U.S. federal income tax purposes or becoming subject to U.S. withholding tax;
- (g) no investment will be made, directly or indirectly, in operating businesses unless such investment is incidental to a transaction:
  - (i) where revenue will be derived, directly or indirectly, principally from a focus activity; or
  - (ii) which principally involves the ownership, maintenance, improvement, leasing or management, directly or indirectly, of real property;
- (h) notwithstanding any other provisions of the Amended and Restated Declaration of Trust (other than subsection (b), above), the securities of a reporting issuer in Canada may be acquired provided that:
  - (i) the activities of the issuer are focused on activities; and
  - (ii) in the case of any proposed investment or acquisition which would result in the beneficial ownership of more than 10% of the outstanding units of the securities issuer (the "**acquired issuer**"), the investment is made for the purpose of subsequently effecting the merger or combination of the business and assets of the Trust and the acquired issuer or for otherwise ensuring that the Trust will control the business and operations of the acquired issuer;
- (i) no investments will be made in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;
- (j) no investments will be made in a mortgage, mortgage bonds, notes (other than Notes) or debentures ("**Debt Instruments**") (including participating or convertible) unless:

- (i) the real property, which is security therefor is real property which otherwise meets the provisions of the Amended and Restated Declaration of Trust;
- (ii) the security therefor includes a mortgage registered on title to the real property which is security therefor;
- (iii) the amount of the investment (not including mortgage insurance fees) does not exceed 75% of the appraised value of the real property which is the security therefor; and
- (iv) the aggregate value of the investments of the Trust in Debt Instruments, after giving effect to the proposed investment, will not exceed 15% of the Gross Book Value,

provided that, notwithstanding the foregoing, an investment may be made in a Debt Instrument if the sole intention is to use such investment as a method of acquiring control of a revenue producing real property which would otherwise be a permitted investment pursuant to the Declaration of Trust and provided that the aggregate value of the investments in such Debt Instruments will not exceed 15% of Adjusted Unitholders' Equity;

- (k) notwithstanding paragraph (j) above, the Trust may also invest in mortgages where:
  - (i) the mortgage is a "vendor take-back" mortgage granted to the Trust in connection with the sale by it of existing real property and as a means of financing the purchaser's acquisition of such property from the Trust;
  - (ii) the mortgage is interest bearing;
  - (iii) the mortgage is registered on title to the real property which is security therefor;
  - (iv) the mortgage has a maturity not exceeding five years;
  - (v) the amount of the mortgage loan is not in excess of 85% of the selling price of the property securing the mortgage; and
  - (vi) the aggregate value of these mortgages (including mortgages and mortgage bonds in which the Trust is permitted to invest by virtue of paragraph (j) above, after giving effect to the proposed investment, will not exceed 15% of Gross Book Value calculated at the time of such investment;
- (l) no investment shall be made in raw land (except for the acquisition of properties adjacent to existing properties of the Trust for the purpose of renovation or expansion of existing facilities where the total cost of all such investments does not exceed 5% of Gross Book Value); and
- (m) notwithstanding any other provisions of the Amended and Restated Declaration of Trust, investments may be made which do not comply with the investment policy provisions of the Amended and Restated Declaration of Trust provided (i) the aggregate cost thereof (which, in the case of an amount invested to acquire real property, is the purchase price less the amount of any indebtedness assumed or incurred in connection with the acquisition and secured by a mortgage on such property) does not exceed 15% of the Adjusted Unitholders' Equity and (ii) the making of such investment would not contravene paragraph (b) above.

Pursuant to the Amended and Restated Declaration of Trust, the investment guidelines set forth above may only be amended with the approval of at least 66⅔% of the votes cast at a meeting of Voting Unitholders called for that purpose.

### **Operating Policies**

Pursuant to the Amended and Restated Declaration of Trust, the operations and affairs of the Trust will be conducted in accordance with the following policies and that the Trust will not permit any subsidiary to conduct its operations and affairs other than in accordance with the following policies:

- (a) the construction or development of real property may be engaged in order to maintain its real Properties in good repair or to enhance the revenue-producing potential of real Properties in which it has an interest;
- (b) title to each real property shall be held by and registered in the name of the Holdings Partnership, the Holdings Partnership General Partner or a corporation or other entity wholly-owned directly or indirectly by the Trust or jointly owned directly or indirectly by the Trust with joint venturers; provided, that where land tenure will not provide fee simple title, the Holdings Partnership, the Holdings Partnership General Partner or a corporation or other entity wholly-owned, directly or indirectly by the Holdings Partnership or jointly owned, directly or indirectly, by the Trust with joint venturers shall hold a land lease as appropriate under the land tenure system in the relevant jurisdiction;
- (c) no indebtedness shall be incurred or assumed if, after giving effect to the incurring or assumption thereof of the indebtedness, the total indebtedness as a percentage of Gross Book Value would be more than 75%, with the prior approval of the Independent Trustees, for indebtedness, including amounts drawn under any acquisition facility;
- (d) except for any indebtedness existing upon the closing of the Arrangement, no new indebtedness (otherwise than by the assumption of existing indebtedness) will be incurred or renewed or refinanced or secured by a mortgage on any of the real property of the Trust unless, at the date of the proposed incurring of the indebtedness, the aggregate of (i) the amount of all indebtedness secured by such real property, and (ii) the amount of additional indebtedness proposed to be incurred, does not exceed 75% of the market value of such real property on or after that date which is 12 months from the acquisition date thereof, in either case not including mortgage insurance fees incurred in connection with the incurrence or assumption of such indebtedness, which amount shall be added to the amount of the permitted indebtedness;
- (e) except for guarantees existing on the date of the Declaration of Trust, the Trust shall not, directly or indirectly, guarantee any indebtedness or liabilities of any kind of a third party, except indebtedness, liabilities or other obligations of (i) any subsidiary of the Trust or other entity wholly-owned by the Trust, or (ii) other entity jointly owned by the Trust with joint venturers and operated solely for the purpose of holding a particular property or properties where such indebtedness, liabilities or other obligation, if granted, incurred or assumed by the Trust directly, would not cause the Trust to otherwise contravene the restrictions set out in the Investment Guidelines provisions of the Amended and Restated Declaration of Trust and, where such indebtedness, liabilities or other obligation is granted, incurred or assumed by a joint venture entity, subject to a joint venturer being required to give up its interest in a property owned by the joint venture entity as a result of another joint venturer's failure to honour its proportionate share of the obligations relating to such property, and, except with

- the prior approval of the Trustees and subject always to (b) under the Investment Guidelines above, the liability of the Trust is limited strictly to the proportion of the indebtedness, liabilities or other obligation equal to the Trust's proportionate ownership interest in the joint venture entity, or (iii) with the prior approval of the Trustees and subject always to (b) under the "Investment Guidelines" above, the indebtedness, liabilities or other obligations of joint venturers in circumstances where any such guarantee may also be given in respect of the associated joint venture entity. In addition, the Trust will not directly or indirectly guarantee any indebtedness, liabilities or other obligations of any Person if doing so would contravene paragraph (b) under "Investment Guidelines", above;
- (f) except for the Contributed Assets acquired pursuant to the Arrangement Agreement, an engineering survey or physical review by an experienced third party consultant will be obtained for each real property intended to be acquired with respect to the physical condition thereof;
  - (g) at all times insurance coverage will be obtained and maintained in respect of potential liabilities of the Trust and the accidental loss of value of the assets of the Trust from risks, in amounts and with such insurers, in each case as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties;
  - (h) except for the Contributed Assets acquired pursuant to the Arrangement Agreement, a Phase I environmental audit shall be conducted for each real property to be acquired and, if the Phase I environmental audit report recommends that further environmental audits be conducted, such further environmental audits shall be conducted, in each case by an independent and experienced environmental consultant; and
  - (i) at least 8.5% of gross consolidated annual rental revenues generated from Properties where the associated mortgage financing is insured by CMHC ("**insured Properties**") as determined pursuant to GAAP shall be expended annually on sustaining capital expenditures, repairs and maintenance, all determined on a portfolio basis for all insured Properties. For this purpose, capital expenditures and repairs and maintenance include all onsite labour costs and other expenses and items associated with such capital expenditures, repairs and maintenance.

Pursuant to the Amended and Restated Declaration of Trust, the operating policies set forth above may only be amended with the approval of a majority of the votes cast at a meeting of Unitholders called for that purpose.

### **Distribution Policy**

The Trust may distribute to Unitholders on or about each Distribution Date such percentage of the Distributable Income of the Trust for any Distribution Period or other period as the Trustees in their discretion may determine and declare. The Trust, at the Trustees' absolute discretion, currently intends to distribute in each year, subject to appropriate reserves as determined by the Trustees, in the range of 90% of the Distributable Income of the Trust for such year provided that the Trust receives amounts equal to such distributions from its investments. Unitholders at the close of business on each Distribution Record Date shall be entitled to receive and to enforce payment of any distribution of Distributable Income declared by the Trustees for such Distribution Period. The distribution for any Distribution Period will be paid on the Distribution Date for such Distribution Period. In addition to the distributions which are made payable to Unitholders, the Trustees may designate and make payable any income or capital gains realized by the Trust (including any income or capital gains realized by the Trust on the redemption of

Trust Units *in specie*) to redeeming Unitholders. The Trustees, if they so determine when income has been accrued but not collected may, on a temporary basis, transfer sufficient monies from the capital to the income account of the Trust to permit distributions of income which are payable to be effected.

The computation of Distributable Income as well as other related matters in regards to distributions are available in the most recent Amended and Restated Declaration of Trust which can be found on [www.sedar.com](http://www.sedar.com).

### **Actual Cash Distributions**

The Trust's current monthly distribution is \$0.01 per unit which has not changed since January 2009.

## **RISK FACTORS**

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. This section should be read in conjunction with the Trust's management's discussion and analysis for the year ended December 31, 2011.

### **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 Act* (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. The Tax Act imposes penalties for the acquisition or holding by Plans of non-qualified investments. Any Notes distributed to, and received by, a Unitholder on an in specie redemption of Units will not be a qualified investment for Plans.

The Units will continue to be qualified investments for Plans, provided that the Trust qualifies as a “mutual fund trust” under the Tax Act or the Units are listed on a designated stock exchange (which includes the TSX). The 2008 Debentures were qualified investments for Plans (other than a Plan that is a trust governed by a deferred profit sharing plan to which the Trust has made a contribution), as the Trust qualified as a “mutual fund trust” under the Tax Act due to, among other things, its Units being listed on a designated stock exchange, or, in the case of the 2008 Debentures, the 2008 Debentures themselves were listed on a designated stock exchange. The 2008 Debentures were redeemed, at par, on February 1, 2012.

## **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 2012 and therefore the SIFT Rules will have no implication. In the unlikely event that the Trust does not qualify for the REIT Exception, the only impact would be on distributions of income as distributions of capital are not taxed and instead reduce the adjusted cost base of the Unitholder’s Units. Since the Trust’s formation, approximately 100% of the Trust’s distributions have been characterized as returns of capital. If the Trust does not meet the conditions necessary to

benefit from the REIT Exception, the application of the SIFT Rules would be expected to result in adverse tax consequences to the Trust and certain of its Unitholders.

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

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

### **Other Canadian Tax Matters**

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

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

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

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

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

## **Unitholders Limited Liability**

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

## **Structural Subordination of Debt**

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

## **Statutory Remedies**

The Trust is not a legally recognized entity within the relevant definitions of the *Bankruptcy and Insolvency Act*, the *Companies’ Creditors Arrangement Act* 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 downturn, 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 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.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Mr. Mike McGahan, Chief Executive Officer and a Trustee of the Trust is the President, Chief Executive Officer and principal of CLV. At the annual and special meeting of Unitholders of the Trust held on September 30, 2009, Unitholders, excluding the votes attaching to Units held by Mr. McGahan, approved entering into the Property Management Agreement with CLV and the Trust entered into the agreement on the same date. Mr. McGahan was elected a Trustee at the meeting and was appointed Chief Executive Officer of the Trust on September 30, 2009. As a result, Mr. McGahan has an interest in the Property Management Agreement and may be subject to certain potential conflicts of interest with respect to his roles with the Trust and CLV. To mitigate the potential for conflicts of interest, the provisions of the Property Management Agreement require that only "Independent Trustees" are entitled to vote on any amendments, which would exclude the vote of Mr. McGahan. See "*Management Contracts*" for a description, among other things, of the services provided by, and fees payable to CLV, under the Property Management Agreement.

## MANAGEMENT CONTRACTS

There are no management functions of InterRent REIT that are to any substantial degree performed by a person other than the Trustees or officers of InterRent REIT, other than through the Property Management Agreement with CLV. The Trust entered into the Property Management Agreement with CLV on September 30, 2009. The following is a summary of the principal terms of the Property Management Agreement with CLV.

### *Term*

In the absence of termination of the Property Management Agreement by either party at least 90 days before the expiry of the current term, the term shall be automatically renewed for additional two year periods. The Trustees have approved the renewal term of the Property Management Agreement to September 30, 2014.

### *Services and Duties*

CLV will be InterRent REIT's sole and exclusive representative and shall manage all of InterRent REIT's Properties (the "**Buildings**"), other than those Properties located in Sault Ste. Marie, Ontario, on behalf of InterRent. In particular, the duties of CLV shall be: (a) to arrange for performance of all covenants, duties and obligations of the tenants of the Buildings pursuant to the *Residential Tenancies Act* (Ontario), as amended, and pursuant to any leases and tenant's agreements which are in effect during the currency of the agreement; (b) to collect all rents and other charges payable by the tenants and any other monies to which InterRent REIT may be entitled (all of which are referred to as the "**Rent**") in connection with its operations; to maintain a careful vigilance over the collection of all Rent, and to arrange that all such Rent is paid when due; (c) to hire, supervise and dismiss such persons as may be necessary from time to time for the proper operation and maintenance of the Buildings; (d) to fix the rents, and to determine all other terms and conditions respecting rental of the Buildings including the appropriate forms of the lease or tenant's agreements to be used; unless otherwise advised by InterRent REIT. All rents are to be in

compliance with any applicable legislation; (e) to advertise and arrange for the rental of the Buildings and to arrange for the signing of leases and clean-up and repair of each unit prior to rental and re-rental from time to time as may be required; (f) to pay on behalf of InterRent REIT, all debts and obligations incurred in connection with the ownership and operation of the Buildings, including any taxes, wages, benefits, insurance, mortgage payments, utility payments, sanitation charges, maintenance costs and repair costs; and (g) generally do and perform all acts necessary for the proper and efficient management of the Buildings and perform every other act whatsoever in or about the Buildings to carry out the intent of the Property Management Agreement provided however that, CLV shall not authorize any work, repairs, alterations or redecoration estimated to cost in excess of \$25,000.00 for any one item without the prior authorization of InterRent REIT, unless any such work is urgently required to be done and failure to do such work could, in the opinion of CLV, result in a hazardous situation which could cause personal injury or damage to the Buildings or its equipment or contents or which could cause a loss of income or impair the value of InterRent REIT's investment.

With respect to InterRent REIT's Properties in Sault Ste. Marie, Ontario, CLV shall provide back office services for such buildings until the current property management agreement regarding such buildings is terminated or expires and shall receive a fee of 2.5% of gross income generated from such buildings (plus applicable taxes). Upon termination or expiration of the existing property management agreement for such buildings, CLV will provide the standard property management services and will receive the standard fees as contemplated in the Property Management Agreement for such buildings.

### ***Fees and Expenses***

As compensation for the duties provided pursuant to the Property Management Agreement, CLV shall be entitled to: (a) a fee equal to 5% of the monthly gross revenue (plus all applicable taxes) from the Building in question including, rents, parking revenue and revenue from laundry and other facilities; (b) fees as agreed in writing for certain special services including, accounting services, brokerage, shared legal services, supervision of remodelling of the building, project management and property consulting services or other services outside CLV's normal duties; and (c) a fee for the co-ordination/supervision of the modernization, rehabilitation or other major construction in the Building(s) as follows: (i) 7.5% of total costs for capital projects under \$150,000, and (ii) 5% of total costs for capital projects over \$150,000.

CLV is entitled to pay or reimburse itself for all reasonable expenses and costs of operating the Buildings and for all other sums due to CLV under the Property Management Agreement, including CLV's compensation. In the event expenses relating to the Buildings exceed revenue, the parties agree that any Rent and other income received by CLV from the Buildings shall be applied in the following order: (a) any compensation or other amounts properly owing to CLV under the Property Management Agreement or otherwise; (b) any costs or expenses incurred by CLV on InterRent REIT's behalf; (c) wages of operating and maintenance staff; (d) accounts for maintenance and repairs; (e) utilities accounts; (f) mortgage payments; (g) property taxes and local improvement rates; and (h) any other expenses relating to the Buildings.

### ***Sale of Property***

In the case of a sale of any of the Buildings, the property will be listed with CLV Realty Corporation (a company related to CLV), provided that the terms of such listing are commercially competitive with other local realtors.

### ***Liability of CLV***

CLV will not be liable to InterRent REIT for any failure to collect rents or other payments due from tenants or others with respect to the operation of the Buildings or as a result of any damage to the Buildings, or for any other damage, loss, injury, or liability affecting the Buildings or the operation of its equipment whether caused by or arising out of anything which it may do or refrain from doing unless the resulting damages, loss, injury or liability has been caused by the gross negligence or willful misconduct of CLV, or any of its employees. In addition, CLV will not be liable to InterRent REIT for failure to perform any of the obligations set out in the Property Management Agreement if such failure is occasioned by or results from destruction or damage to the Buildings by fire, strike, lock-out, civil commotion or disturbance, act of God, supervening illegality or any other act or cause which is beyond the reasonable control of CLV.

Subject to the limitation on liability set out above, InterRent REIT will, during and after the termination of the Property Management Agreement, indemnify and save harmless CLV, and its directors, officers and employees completely free and harmless from any and all damages or injuries to persons or property or claims, actions, obligations, liabilities, costs, expenses and fees arising from any cause whatsoever except the gross negligence of CLV and provided CLV is carrying out the provisions of the Property Management Agreement and/or is acting upon the directions of InterRent.

### ***Termination***

The Property Management Agreement may be terminated: (a) by delivery by either party of written notice of termination at least 90 days prior to the expiry date of the then current two year renewal term in question; or (b) upon the occurrence of any of the following events: (i) by the non-breaching party, upon 30 days written notice to the breaching party of a material breach of the agreement, which breach has not been or cannot be cured within said 30-day period, (ii) by CLV, upon written notice, in the event that any insurance required is not maintained or the Building(s) fails to comply with any law regulation or public order and CLV considers such action may result in damage or liability to CLV, (iii) by CLV, if CLV deems that the liability insurance obtained is not reasonably satisfactory to protect its interest under the agreement and CLV and InterRent REIT cannot agree as to adequate insurance, and (iv) immediately in the event of the bankruptcy or insolvency of either party to the Property Management Agreement.

In the event of termination for cause by CLV due to default or neglect of InterRent REIT, InterRent REIT shall pay to CLV as liquidated damages, an amount equal to compensation paid to CLV for the six months prior to the termination date, plus all applicable taxes and any and all other losses and damages incurred by CLV as a result of such termination.

### ***Amendment***

The Property Management Agreement shall not be modified or amended except in writing. Only "Independent Trustees" of InterRent REIT (which, for the purposes of the Property Management Agreement shall mean independent within the meaning ascribed to that term in Section 1.4 of National Instrument 52-110 - *Audit Committees*) shall be entitled to vote on any resolutions pertaining, directly or indirectly, to the Property Management Agreement or authorizing any action thereunder on behalf of InterRent, including, without limitation, any amendments to or termination of the Property Management Agreement.

## **AUDITOR, TRANSFER AGENT AND REGISTRAR**

### **Auditor**

The auditors of InterRent REIT are Collins Barrow Toronto LLP, 11 King Street West, Suite 700, Toronto, Ontario, M5H 4C7. Collins Barrow Toronto LLP are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

### **Transfer Agent**

The transfer agent and registrar for the Units is Equity Financial Trust Company, 200 University Avenue, Suite 400, Toronto, Ontario, M5H 4H1.

## **MATERIAL CONTRACTS**

The following are the material contracts relating to the Trust and its Subsidiaries:

1. the Amended and Restated Declaration of Trust;
2. the Declaration of Trust;
3. the InterRent Trust Declaration of Trust;
4. the Holdings Partnership Limited Partnership Agreement;
5. the Exchange Agreement;
6. the InterRent LP No. 1 Agreement;
7. the InterRent LP No. 2 Agreement;
8. the InterRent LP No. 3 Agreement;
9. the InterRent LP No. 4 Agreement;
10. the InterRent LP No. 5 Agreement;
11. the Arrangement Agreement;
12. the Note Indenture;
13. the 2008 Debenture Indenture; and
14. the Property Management Agreement.

See information in this annual information form and the information circular dated October 17, 2006 of IIP for particulars of such contracts. Copies of these agreements are available for review at [www.sedar.com](http://www.sedar.com) but may be inspected, without charge, at the registered office of InterRent REIT located at 485 Bank Street, Suite 207, Ottawa, Ontario, K2P 1Z2 Attention: Chief Executive Officer during ordinary business hours.

## **ADDITIONAL INFORMATION**

Additional information relating to InterRent REIT, including the documents listed above and incorporated by reference in this AIF can be found on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com). Additional financial information respecting the InterRent REIT is provided in the audited financial statements and management's discussion and analysis for the period ended December 31, 2011. Additional information of InterRent REIT, including InterRent REIT's Trustees and officers remuneration and indebtedness, principal holders of InterRent REIT's UNITS and securities authorized for issuance under equity compensation plans is provided in InterRent REIT's management information circular dated May 9, 2011. All of the foregoing documents have been filed on SEDAR. Copies of those documents, as well as additional copies of this AIF, are available upon written request without charge from the Chief Executive Officer of InterRent REIT at 485 Bank Street, Suite 207, Ottawa, Ontario, K2P 1Z2.

## **APPENDIX A**

### **INTERRENT REAL ESTATE INVESTMENT TRUST (the “Trust”)**

#### **CHARTER OF THE AUDIT COMMITTEE**

##### **I. PURPOSE**

The Audit Committee is a committee of the Board of Trustees. The primary function of the Audit Committee is to assist the Board of Trustees in fulfilling its oversight responsibilities by:

- reviewing the financial reports and other financial information provided by the Trust to any governmental body or the public and other relevant documents;
- recommending the appointment and reviewing and appraising the audit efforts of the Trust’s independent auditor and providing an open avenue of communication among the independent auditor, financial and senior management and the Board of Trustees;
- serving as an independent and objective party to monitor the Trust’s financial reporting processes including internal controls thereon;
- encouraging continuous improvement of, and fostering adherence to, the Trust’s policies, procedures and practices over financial reporting processes.

The Audit Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section III of this Charter. The Audit Committee’s primary function is to assist the Board of Trustees in fulfilling its responsibilities and it recognizes that the Trust’s management is responsible for preparing the Trust’s financial statements and that the Trust’s independent auditors are responsible for auditing those financial statements.

##### **II. COMPOSITION AND MEETINGS**

The Audit Committee be comprised of a minimum of three Trustees as determined by the Trustees, all of whom shall be “independent” Trustees as such term is defined in Schedule “A”. All members of the Committee shall, to the satisfaction of the Trustees, be “financially literate” as such term is defined in Schedule “A”.

The members of the Committee shall be elected by the Trustees at the annual organizational meeting of the Board of Trustees or until their successors shall be duly elected and qualified. Unless a Chair is elected by the Board of Trustees, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

The Committee shall meet at least four times annually, or more frequently as circumstances require. The Committee shall meet prior to the filing of quarterly financial statements to review and discuss the unaudited financial results for the preceding quarter and the related Management Discussion & Analysis and shall meet prior to filing the annual audited financial statements to review and discuss the audited financial results for the year and related Management Discussion & Analysis.

As part of its job to foster open communication, the Committee should meet at least annually with management and the independent auditor in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their oversight related duties, members of the Committee shall have full access to all Trust information and shall be permitted to discuss such information and any other matters relating to the financial position of the Trust with senior employees, officers and independent auditors of the Trust.

Quorum for the transaction of business at any meeting of the Audit Committee shall be a majority of the number of members of the Committee or such greater number as the Audit Committee shall by resolution determine.

Meetings of the Audit Committee shall be held from time to time as the Audit Committee or the Chairperson of the Audit Committee shall determine upon 48 hours notice to each of the members. The notice period may be waived by a quorum of the Audit Committee.

### **III. RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties the Audit Committee shall:

1. Create an agenda for the ensuing year.
2. Review and update this Charter at least annually, as conditions dictate.
3. Assist management in providing the information required by Form 52-110F1 in the Trust's Annual Information Form or such other disclosure document required by National Instrument 52-110 and other legal requirements.
4. Report periodically to the Board of Trustees.

#### **Documents/Reports Review**

1. Review the Trust's interim and annual financial statements as well as all interim and annual MD&A's and interim and annual earnings press releases prior to their publication and/or filing with any governmental body, or the public.
2. Satisfy itself that adequate procedures are in place for the review of the Trust's public disclosure of financial information extracted or derived from the Trust's financial statements, other than the public disclosure referred to in paragraph 5, and periodically access the adequacy of such procedures.

#### **Independent Auditor**

1. Recommend to the Board of Trustees the selection of the independent auditor, considering independence and effectiveness and approve the fees and other compensation to be paid to the independent auditor.



2. Monitor the relationship between management and the independent auditor including reviewing any management letters or other reports of the independent auditor and discussing and resolving any material differences of opinion between management and the independent auditor.
3. Review and discuss, on an annual basis, with the independent auditor all significant relationships they have with the Trust to determine their independence.
4. Pre-approve all non-audit services to be provided to the Trust or its subsidiaries by the independent auditor.
5. Oversee the work and review the performance of the independent auditor and approve any proposed discharge of the independent auditor when circumstances warrant. Consider with management and the independent auditor the rationale for employing accounting/auditing firms other than the principal independent auditor.
6. Periodically consult with the independent auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the organization's financial statements. Particular emphasis should be given to the adequacy of internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper.
7. Ensure that the independent auditor reports directly to the Audit Committee and arrange for the independent auditor to be available to the Audit Committee and the Board of Trustees as needed.
8. Review and approve the Trust's hiring policies regarding partners, employees and former partners and employees of the Trust's independent auditor.

### **Financial Reporting Processes**

1. In consultation with the independent auditor review the integrity of the organization's financial reporting processes, both internal and external.
2. Consider the independent auditor's judgments about the quality and appropriateness, not just the acceptability, of the Trust's accounting principles and financial disclosure practices, as applied in its financial reporting, particularly about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates and whether those principles are common practices or are minority practices.
3. Consider and approve, if appropriate, major changes to the Trust's accounting principles and practices as suggested by management with the concurrence of the independent auditor and ensure that the management's reasoning is described in determining the appropriateness of changes in accounting principles and disclosure.

### **Process Improvement**

1. Establish regular and separate systems of reporting to the Audit Committee by each of management and the independent auditor regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.

2. Review the scope and plans of the independent auditor's audit and reviews prior to the audit and reviews being conducted. The Committee may authorize the independent auditor to perform supplemental reviews or audits as the Committee may deem desirable.
3. Following completion of the annual audit and quarterly reviews, review separately with each of management and the independent auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and reviews, including any restrictions on the scope of work or access to required information and the cooperation that the independent auditor received during the course of the audit and reviews.
4. Review and resolve any significant disagreements among management and the independent auditor in connection with the preparation of the financial statements.
5. Where there are significant unsettled issues the Committee shall ensure that there is an agreed course of action for the resolution of such matters.
6. Review with the independent auditor and management significant findings during the year and the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.
7. Review activities, organizational structure, and qualifications of the Chief Financial Officer and the staff in the financial reporting area and see to it that matters related to succession planning within the Trust are raised for consideration at the Board of Trustees.
8. It is the responsibility of the Committee to satisfy itself on behalf of the Board of Trustees with respect to the Trust's internal control system:
9. identifying, monitoring and mitigating business risks; and
10. ensuring compliance with legal, ethical and regulatory requirements.

### **Ethical and Legal Compliance**

1. Establish procedures for the receipt, retention and treatment of complaints received by the Trust regarding accounting internal controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
2. Review and update periodically a Code of Ethical Conduct and ensure that management has established a system to enforce this Code. Review through appropriate actions taken to ensure compliance with the Code of Ethical Conduct and to review the results of confirmations and violations of such Code.
3. Review management's monitoring of the Trust's system in place to ensure that the Trust's financial statements, reports and other financial information disseminated to governmental organizations, and the public satisfy legal requirements.

4. Review, with the organization's counsel, legal and regulatory compliance matters, including corporate securities trading policies, and matters that could have a significant impact on the organization's financial statements.

### **Risk Management**

1. Review management's program of risk assessment and steps taken to address significant risks or exposures, including insurance coverage.

### **General**

1. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities.
2. The committee shall be empowered to retain and compensate independent counsel, accountants and other professionals to assist it in the performance of its duties as it deems necessary.
3. Perform any other activities consistent with this Charter, the Amended and Restated Declaration of Trust and governing law, as the Committee or the Board of Trustees deem necessary or appropriate.

## Schedule "A"

### Independence Requirement of National Instrument 52-110

In addition to being "Independent" for the purposes of the Declaration of Trust, as amended, a member of the Audit Committee shall be considered "independent", in accordance with *National Instrument 52-110 - Audit Committees* ("NI 52-110"), subject to the additional requirements or exceptions provided in NI 52-110, if that member has no direct or indirect relationship with the Trust, which could reasonably interfere with the exercise of the member's independent judgment. The following persons are considered to have a material relationship with the Trust and, as such, cannot be a member of the Audit Committee:

- (a) an individual who is, or has been within the last three years, an employee or executive officer of the Trust;
- (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the Trust;
- (c) an individual who:
  - a. is a partner of a firm that is the Trust's internal or external auditor;
  - b. is an employee of that firm; or
  - c. was within the last three years a partner or employee of that firm and personally worked on the Trust's audit within that time;
- (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:
  - a. is a partner of a firm that is the Trust's internal or external auditor;
  - b. is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or
  - c. was within the last three years a partner or employee of that firm and personally worked on the Trust's audit within that time;
- (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the Trust's current executive officers serves or served at the same time on the entity's governance committee; and
- (f) an individual who received, or whose immediate family member who is employed as an executive officer of the Trust received, more than \$75,000 in direct compensation from the Trust during any 12 month period within the last three years, other than as remuneration for acting in his or her capacity as a member of the Board of Trustees or any Board committee, or the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service for the Trust if the compensation is not contingent in any way on continued service.

For the purposes of the foregoing, “Trust” includes a subsidiary of the Trust and a parent of the Trust, if any.

In addition to the independence criteria discussed above, any individual who:

- (a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from the Trust or any subsidiary entity of the Trust, other than as remuneration for acting in his or her capacity as a member of the Board of Trustees or any board committee; or as a part-time chair or vice-chair of the board or any board or committee, or
- (b) is an affiliated entity of the Trust or any of its subsidiary entities,

is deemed to have a material relationship with the Trust, and therefore, is deemed not to be independent.

The indirect acceptance by an individual of any consulting, advisory or other fee includes acceptance of a fee by:

- (a) an individual’s spouse, minor child or stepchild, or a child or stepchild who shares the individual’s home; or
- (b) an entity in which such individual is a partner, member, an officer such as a managing Trustee occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Trust or any subsidiary entity of the Trust.

### **Financial Literacy Under National Instrument 52-110**

“Financially literate”, in accordance with NI 52-110, means that the Trustee has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Trust’s financial statements.