

# **InterRent Real Estate Investment Trust**

## **Condensed Consolidated Financial Statements**

**March 31, 2011**

**(unaudited - See Notice to Reader)**

### **Notice to Reader**

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

# InterRent Real Estate Investment Trust

## Condensed Consolidated Balance Sheets

Unaudited (Cdn \$ Thousands)

	Note	March 31, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>				
Investment properties	5	\$308,312	\$305,726	\$277,134
Prepays and deposits		1,632	1,721	2,060
Other assets	6	1,537	1,930	1,508
Cash		483	-	12
Assets held for sale	7	25,308	26,917	-
		<b>\$337,272</b>	<b>\$336,294</b>	<b>\$280,714</b>
<b>Liabilities</b>				
Mortgages and loans payable	8	\$155,555	\$154,340	\$156,306
Subordinated convertible debentures	9	21,287	20,861	24,732
Credit facilities	10	5,913	3,966	1,220
Bank indebtedness		-	239	-
Accounts payable and accrued liabilities		6,058	8,958	4,931
Tenant rental deposits		2,928	2,940	2,712
LP Class B unit liability	11	-	-	511
Unit-based compensation liability	12	679	320	44
Conversion feature of convertible debentures	9	1,262	1,745	3,486
Liabilities related to assets held for sale	7	12,720	13,350	-
		<b>206,402</b>	<b>206,719</b>	<b>193,942</b>
Trust unit liability	13	-	-	42,098
<b>Unitholders' Equity</b>				
Unit capital	13	48,204	48,049	
Retained earnings		82,666	81,526	44,674
		<b>\$337,272</b>	<b>\$336,294</b>	<b>\$280,714</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

# InterRent Real Estate Investment Trust

Condensed Consolidated Statements of Income and Retained Earnings  
 For the Three Months Ended March 31  
 Unaudited (Cdn \$ Thousands)

	Note	2011	2010
<b>Operating Revenues</b>			
Revenue from investment properties		<b>\$9,421</b>	\$8,604
<b>Operating Expenses</b>			
Property operating costs		<b>1,800</b>	2,076
Property taxes		<b>1,419</b>	1,488
Utilities		<b>1,867</b>	2,100
		<b>5,086</b>	5,664
<b>Net operating income</b>		<b>\$4,335</b>	\$2,940
Financing costs		<b>\$3,034</b>	2,944
Administrative costs		<b>697</b>	861
		<b>3,731</b>	3,805
<b>Income (loss) before the undernoted</b>		<b>604</b>	(865)
Loss on disposition of investment properties	7	<b>(221)</b>	-
Fair value adjustments of investment properties	5	<b>1,320</b>	2,957
Other fair value gains	14	<b>412</b>	2,165
Interest on units classified as financial liabilities	12/13	<b>(11)</b>	(843)
<b>Net income for period</b>		<b>2,104</b>	3,414
Retained earnings at beginning of period		<b>81,526</b>	44,674
Distributions		<b>(964)</b>	-
<b>Retained earnings at end of period</b>		<b>\$82,666</b>	\$48,088

The accompanying notes are an integral part of these condensed consolidated financial statements.

# InterRent Real Estate Investment Trust

## Condensed Consolidated Statements Unitholders' Equity

For the Three Months Ended March 31

Unaudited (Cdn \$ Thousands)

	Trust units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings	Total Unitholders' equity
Balance, January 1, 2010	\$ -	\$44,674	\$ -	\$44,674	\$44,674
Units issued					
Profit for the period	-	3,414	-	3,414	3,414
Distributions declared to Unitholders					
Balance, March 31, 2010	\$ -	\$48,088	\$ -	\$48,088	\$48,088
Balance, December 31, 2010	\$48,049	\$81,798	\$(272)	\$81,526	\$129,575
Units issued	155	-	-	-	155
Profit for the period	-	2,104	-	2,104	2,104
Distributions declared to Unitholders	-	-	(964)	(964)	(964)
<b>Balance, March 31, 2011</b>	<b>\$48,204</b>	<b>\$83,902</b>	<b>\$(1,236)</b>	<b>\$82,666</b>	<b>\$130,870</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

# InterRent Real Estate Investment Trust

## Condensed Consolidated Statements of Cash Flows For the Three Months Ended March 31 Unaudited (Cdn \$ Thousands)

	Note	2011	2010
<b>Cash flows from (used in) operating activities</b>			
Net income for the period		<b>\$2,102</b>	\$3,414
Add items not affecting cash			
Amortization		5	8
loss on disposition of investment properties	7	221	-
Fair value adjustments investment properties		<b>(1,320)</b>	(2,957)
Unrealized gain on financial instruments	14	<b>(412)</b>	(2,165)
Unit-based compensation expense	12	288	102
Amortization of deferred finance costs and premiums on assumed debt		143	115
Accretion of discount on convertible debt		426	393
Tenant inducements		119	50
		<b>1,572</b>	(1,040)
Changes in non-cash operating assets and liabilities			
Other assets		300	49
Prepays and deposits		109	(22)
Accounts payable and accrued liabilities		<b>(3,041)</b>	(616)
Tenant deposits		<b>(32)</b>	(41)
Trust unit liability		-	63
		<b>(1,092)</b>	(1,607)
<b>Cash flows from (used in) investing activities</b>			
Acquisition of investment properties	4	<b>(3,670)</b>	-
Proceeds from sale of investment properties	7	<b>5,925</b>	-
Additions to investment properties	5	<b>(2,186)</b>	(1,548)
		<b>69</b>	(1,548)
<b>Cash flows from financing activities</b>			
Mortgage and loan repayments		<b>(3,787)</b>	(945)
Mortgage advances		<b>4,526</b>	-
Financing fees		<b>(133)</b>	1
Credit facility advances (repayments)		<b>1,947</b>	3,695
Units issued, net of cost		-	-
Distributions paid		<b>(808)</b>	-
		<b>1,745</b>	2,751
Increase (decrease) in cash during the period		<b>722</b>	(404)
Cash (bank indebtedness) at the beginning of period		<b>(239)</b>	12
		<b>\$483</b>	\$(392)
<b>Cash paid for interest</b>			
		<b>\$2,898</b>	\$4,087

Amounts paid for interest are included in cash flows from operating activities in the consolidated statement of cash flows.

The accompanying notes are an integral part of these condensed consolidated financial statements.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 1. ORGANIZATIONAL INFORMATION

InterRent Real Estate Investment Trust (the "Trust" or the "REIT") is an unincorporated, open-ended real estate investment trust created pursuant to a Declaration of Trust, dated October 10, 2006, and most recently amended and restated on December 29, 2010, under the laws of the Province of Ontario.

The Trust was created to invest in income producing residential properties within Canada. InterRent REIT Trust Units are listed on the Toronto Stock Exchange under the symbol IIP.UN. The registered office of the Trust and its head office operations are located at 485 Bank Street, Suite 207, Ottawa, Ontario.

These condensed interim consolidated financial statements for the period ended March 31, 2011 were authorized for issuance by the Trustees of the Trust on June 6, 2011.

### 2. BASIS OF PRESENTATION

#### Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with IAS 34, using accounting policies consistent with International Financial Reporting Standards ("IFRS").

These are the Trust's first condensed consolidated financial statements prepared in accordance with IAS 34. The accounting policies have been selected to be consistent with IFRS as is expected to be effective on December 31, 2011, the Trust's first annual IFRS reporting date. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented. They also have been applied in the preparation of an opening IFRS balance sheet as at January 1, 2010, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from Canadian GAAP to IFRS is explained in Note 21.

The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual period that are relevant to these condensed consolidated financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ending December 31, 2011.

These condensed consolidated financial statements should be read in conjunction with the Trust's consolidated annual financial statements for the year ended December 31, 2010 prepared in accordance with Canadian GAAP. Note 21 discloses supplementary information under IFRS for the year ended December 31, 2010 that is relevant to an understanding of these condensed consolidated financial statements.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 2. BASIS OF PRESENTATION (Continued)

#### Basis of presentation

These condensed consolidated financial statements have been prepared on historical cost basis except for:

- i) Investment properties, which are measured at fair value;
- ii) Financial assets and financial liabilities classified as at fair value through profit and loss, which are measured at fair value; and
- iii) Unit-based compensation liability which is measured at fair value.

#### Basis of consolidation

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

#### Critical accounting estimates

The preparation of these condensed consolidated financial statements requires management to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the financial statements.

#### Investment properties

Investment properties are re-measured to fair value at each reporting date, determined based on either internal valuation models incorporating market evidence, or valuations performed by third-party appraisers. When estimating the fair value of investment properties, management makes estimate and assumptions that have a significant affect on the measurement of investment properties. Estimates used in determining the fair value of the investment properties include capitalization rates, inflation rates, vacancy rates, standard costs and net operating income.

#### Financial Liabilities

The measurement of the conversion feature of the convertible debentures and unit-based compensation liabilities require management to make estimates and assumptions that effect the reported amount of the liabilities and the corresponding compensation expense and gain or loss on changes in fair value. Estimates and assumptions used in determining the fair value of these liabilities include the expected life of the instruments and the volatility of the Trust's units prices.

#### Assets held for sale

Assets held for sale are measured at the lower of carrying value and fair value less costs to sell. To determine fair value less costs to sell, management must make estimates regarding the expected outcome of a sale of the assets.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Investment properties

The Trust's Investment properties include multi-family residential properties that are held to earn rental income. Investment properties acquired through an asset purchase are initially recognized at cost, which includes all amounts directly related to the acquisition of the properties. Investment properties acquired through a business combination are recognized at fair value.

Investment properties are re-measured to fair value at each reporting date. Fair value is determined based on either internal valuation models incorporating market evidence, or valuations performed by third-party appraisers. Changes in the fair value of investment properties are recorded in the statement of income in the period in which they arise. Investment properties are not amortized.

#### Assets held for sale

Investment properties are reclassified to assets held for sale when it is expected that its carrying amount will be recovered principally through a sale transaction rather than continuing use, the property is available for immediate sale, and a sale is highly probable. The Trust presents assets classified as held for sale and their associated liabilities separately from other assets and liabilities beginning from the period in which they were first classified as 'for sale'. Assets held for sale are measured at the lower of carrying value and fair value less costs to sell.

#### Revenue Recognition

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

Tenant inducements such as free rent or move-in allowances are initially deferred and included in other assets. The balance is amortized over the term of the related lease, reducing the revenue recognized. In the event that a tenant vacates its leased space prior to the contractual term of the lease, any unamortized balance is recorded as an expense in the income statement.

#### Financial Instruments

The Trust recognizes financial assets and financial liabilities when the Trust becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument:

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Trust's financial assets classified as FVTPL include cash and cash equivalents. The Trust does not currently hold any derivative assets.

#### Loans and Receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method.

Rents and other receivables, mortgage holdbacks and mortgages receivables are classified as loans and receivables.

#### Financial liabilities at FVTPL

Financial liabilities are classified as FVTPL if they are designated as such by management, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statement of income.

Management has designated the trust unit liability and the LP Class B unit liability as FVTPL. The conversion feature of the convertible debentures is considered to be a derivative liability, and as such, is classified as FVTPL.

#### Other financial liabilities

Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Trust's other financial liabilities include the convertible debentures, credit facilities, accounts payable and accrued liabilities, tenant deposits, and mortgages and vendor take-back loans.

The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

Fair value measurements recognized in the balance sheet accounts are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Trust Unit Liability

Under the terms of the Declaration of Trust in place at January 1, 2010, the trust units are classified as a liability due to a contractual obligation to deliver cash in the form of mandatory distributions. Management has designated the trust unit liability as FVTPL, and as such the liability is re-measured to fair value at each reporting date with changes recorded in the statement of income.

#### Trust Units

Effective December 29, 2010, changes were made to the Declaration of Trust so that distributions are made at the discretion of the Trustees. Subsequent to this change the trust units, while still defined as a liability, meet the conditions that permit classification as equity. At this time, the trust units were reclassified from liabilities to unitholders' equity. The carrying value of the trust units reflects their fair value on the date of the reclassification to unitholders' equity.

#### LP Class B Unit Liability

The LP Class B units are exchangeable on demand for trust units, which in turn are redeemable into cash at the option of the holder. As such, the LP Class B units are classified as a liability. Management has designated the trust unit liability as FVTPL, and the LP Class B unit liability is re-measured to fair value at each reporting date with changes recorded in the statement of income.

On October 1, 2010, all of the outstanding LP Class B units were exchanged for trust units on a one-for-one basis.

#### Convertible Debentures

The convertible debentures are comprised of two components, the debt component and the conversion feature. The debt component of the convertible debt is initially recognized at fair value and carried at amortized cost.

The convertible debentures are convertible into trust units, which in turn are redeemable into cash at the option of the holder. As such, the conversion feature of the subordinated convertible debentures is considered a derivative instrument classified as a liability. The conversion feature of the subordinated convertible debenture is re-measured to fair value at each reporting period, with changes recorded in the statement of income.

#### Unit-Based Compensation

The Trust maintains compensation plans which include the granting of unit options and deferred units to Trustees and employees. The Trust records the expense associated with these awards over the vesting period. Unit options and deferred units are settled with the issuance of Trust Units. However, due to the fact that Trust Units are redeemable, awards of unit options and deferred units are considered to be cash-settled. As such, the fair value of unit options and deferred units are recognized as a liability and re-measured at each reporting date, with changes recognized in the statement of income.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Income Taxes

The Trust is taxed as a Mutual Fund Trust for income tax purposes and intends to distribute its income for income tax purposes each year to Unitholders to such an extent that it would not be liable for income tax under Part I of the Income Tax Act (Canada) ("Tax Act"). Accordingly, no provision for income taxes is included in the condensed consolidated financial statements.

At the end of 2010, the Trust and its wholly owned subsidiaries satisfied certain conditions available to REITs (the "REIT Exception") under amendments to the Tax Act, intended to permit a corporate income tax rate of nil as long as the specified conditions continue to be met. Without satisfying these conditions, the Trust would have been liable for income taxes beginning in the 2011 taxation year.

#### Furniture and fixtures

Furniture and fixtures are measured at cost less accumulated depreciation and is primarily comprised of office furniture, office equipment and information technology systems. Furniture and fixtures are presented within other assets on the consolidated balance sheet. These assets are amortized on a straight-line basis over their estimated useful lives of seven years.

#### Critical judgments in applying accounting policies

In the preparation of these condensed consolidated financial statements management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

#### Leases

Management makes judgements in determining whether leases in which the Trust is the lessor are operating or finance leases, and determined that all of its leases are operating leases, the accounting treatment of leases as finance leases would have a significant effect on the measurement of transactions and balances in the financial statements.

#### Property acquisitions

When investment properties are acquired, management is required to apply judgment as to whether or not the transaction should be accounted for as an asset acquisition or business combination. Most of the Trust's property acquisitions have been accounted for as asset acquisition. Accounting treatment of property acquisitions as business combinations could result in significant differences in the measurement of balances and transactions.

#### Income Tax

Deferred income taxes are not recognized in the financial statements on the basis that the Trust can deduct distributions paid such that its liability for income taxes is substantially reduced or eliminated for the year. In applying this accounting policy, management has made the judgment that Trust intends to continue to distribute its taxable income and continue to qualify as a real estate investment trust for the foreseeable future.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Assets held for sale

Investment properties are reclassified to assets held for sale when it is expected that its carrying amount will be recovered principally through a sale transaction rather than continuing use, the property is available for immediate sale, and a sale is highly probable. Application of this accounting policy requires management to make judgments regarding the likelihood assets will be sold.

#### Future accounting changes

##### *IFRS 7 Financial Instruments: Disclosures*

In October 2010, the IASB issued amendments to IFRS 7 regarding Disclosures – Transfer of Financial Assets, which are effective for annual periods beginning on or after July 1, 2011 with earlier application permitted. These amendments comprise additional disclosures on transfer transactions of financial assets and will not have an impact on the results of operations or financial position of the Company as they are only disclosure requirements.

##### *IFRS 9 Financial Instruments*

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

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

##### *IFRS 13 Fair Value Measurement*

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

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

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 4. INVESTMENT PROPERTY ACQUISITIONS

- (i) During the three months ended March 31, 2011, the Trust completed the following investment property acquisitions, which have contributed to the operating results effective from the acquisition date.

Acquisition Date	Suite Count	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
March 24, 2011	70	\$ 3,670	\$ 1,901	5.33%	July 1, 2020

- (ii) The Trust acquired no income producing properties during the three months ended March 31, 2010.

### 5. INVESTMENT PROPERTIES

	Three months ended March 31, 2011	Year ended December 31, 2010
Balance, beginning of period	\$ 332,379	\$ 277,134
Acquisitions	3,670	-
Property capital investments	2,186	20,565
Fair value gains	1,320	38,018
Dispositions	(6,148)	(3,338)
	<b>\$ 333,407</b>	<b>\$ 332,379</b>
Reclass to assets held for sale (Note 7)	(25,095)	(26,653)
	<b>\$ 308,312</b>	<b>\$ 305,726</b>

An independent valuation was completed by accredited appraisal firms for approximately 90% of the value of the investment property portfolio as at January 1, 2010 and December 31, 2010. The fair value of the remaining portfolio was determined internally by the Trust using the same assumptions and valuation techniques used by the external valuation professionals. Despite not performing a valuation on all of the Trust's properties, the Appraisers provided the Trust with a summary of the major assumptions and market data by city in order for the Trust to complete its internal valuations.

As at March 31, 2011, no properties were valued by external appraisals. Fair value was determined internally based on assumptions and market data provided by the Appraisers and by applying the same valuation techniques as the Appraisers, as they valued the properties as at January 1, 2010 and December 31, 2010.

Investment property valuations are most sensitive to changes in the cap-rate. The cap-rate assumptions for the investment properties are included in the following table:

	March 31, 2011		December 31, 2010		January 1, 2010	
	Range	Weighted average	Range	Weighted average	Range	Weighted average
Capitalization rate	5.74% - 10.00%	6.38%	5.70% - 10.00%	6.41%	6.06% - 13.22%	7.21%

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 6. OTHER ASSETS

	March 31, 2011	December 31, 2010	January 1, 2010
Mortgage holdbacks	\$ 65	\$ 270	\$ 265
Rents and other receivables, net of allowance for uncollectable amounts	320	512	453
Furniture and fixtures, net of accumulated amortization of \$134 (2010 - \$129)	60	64	110
Mortgages receivable	631	560	560
Tenant inducements <sup>(1)</sup>	209	256	120
Loan receivable long-term incentive plan (Note 15)	252	268	-
	<b>\$ 1,537</b>	<b>\$ 1,930</b>	<b>\$ 1,508</b>

<sup>(1)</sup> Comprised of straight-line rent. This amount is reduced from the fair value of the investment properties.

### 7. ASSETS HELD FOR SALE

The Trust classified sixteen investment properties (439 suites) as assets held for sale as a result of the Trust initiating an active program to dispose of these properties. The following tables set forth the assets and liabilities associated with these properties.

	March 31, 2011	December 31, 2010	January 1, 2010
Properties	16	17	-
Suites	439	482	-
Investment properties	<b>\$ 25,095</b>	\$ 26,653	\$ -
Prepays and deposits	114	134	-
Other assets	99	130	-
Assets held for sale	<b>\$ 25,308</b>	\$ 26,917	\$ -
Mortgages and loans payable	<b>\$ 11,967</b>	\$ 12,434	\$ -
Accounts payable and accrued liabilities	520	663	-
Tenant deposits	233	253	-
Liabilities related to assets held for sale	<b>\$ 12,720</b>	\$ 13,350	\$ -

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 7. ASSETS HELD FOR SALE (Continued)

During the three months ended March 31, 2011, the Trust completed the following investment property dispositions. These dispositions do not meet the definition of discontinued operations under IFRS.

Disposition Date	Suite Count	Sale Price	Cash Proceeds	Mortgage(s) Repaid
January 12, 2011	11	\$ 1,145	\$ 1,090	-
February 4, 2011	14	850	769	\$ 245
February 7, 2011	4	582	550	82
March 7, 2011	49	3,055	2,915	1,345
March 15, 2011	6	640	601	-
<b>Total</b>	<b>84</b>	<b>\$ 6,272</b>	<b>\$ 5,925</b>	<b>\$ 1,672</b>

A loss of \$221 was recognized in the three months ended March 31, 2011 (March 31, 2010 - \$nil) in connection with these property dispositions.

### 8. MORTGAGES AND LOANS PAYABLE

Mortgages and vendor take-back loans are secured by the investment properties and bear interest at fixed rates with a weighted average interest rate of 4.70%.

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

Excluding mortgages on the sixteen properties included in assets held for sale (see Note 7), the aggregate future minimum principal payments, including maturities, are as follows:

2011	\$ 25,546
2012	54,019
2013	27,461
2014	9,837
2015	3,548
Thereafter	37,652
	158,063
Less: Deferred finance costs and mortgage premiums	2,508
	<b>\$ 155,555</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 9. SUBORDINATED CONVERTIBLE DEBENTURES

The subordinated convertible debentures are comprised of two components, the debt component and the conversion feature. The debt component of the convertible debt is initially recognized at fair value and carried at amortized costs.

#### Convertible debenture

	March 31, 2011	December 31, 2010	January 1, 2010
Convertible debenture 1 <sup>(i)</sup>	\$ 21,287	\$ 20,861	\$ 19,317
Convertible debenture 2 <sup>(ii)</sup>	-	-	\$ 5,415
	<b>\$ 21,287</b>	<b>\$ 20,861</b>	<b>\$ 24,732</b>

(i) On January 15, 2008, the Trust issued a \$25,000 subordinated convertible debenture which bears interest at 7.0% per annum and is due on January 31, 2013. The debentures are convertible into Units of the Trust at \$4.60 per Unit at the option of the holder. The Trust accounts for its convertible debenture as a compound financial instrument in accordance with IAS 32 which requires both elements of debt and equity be accounted for separately. The convertible instrument was first segregated between debt and equity based on the fair value of the debt component. The difference between the estimated fair value of the debt at issuance and the face amount (net of incurred costs) was \$6,912. This discount is being amortized to earnings as financing costs over the term of the debenture. In addition, the Trust incurred costs of \$1,451 in connection with issuing the convertible debt. Of these costs, \$1,050 has been allocated to the liability component and \$401 has been allocated to the equity component. The discount on the debt results in a weighted average effective interest rate of 16.7%.

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

#### Conversion feature of convertible debenture

The convertible debentures are convertible into trust units, which in turn are redeemable into cash at the option of the holder. As such, the conversion feature of the subordinated convertible debentures are considered a derivative instrument classified as a liability. The conversion feature of the subordinated convertible debenture is re-measured to fair value at each reporting period, by adjusting market-based valuation assumptions (such as expected term, risk free rate and volatility) with changes recorded in the statement of income.

	March 31, 2011	December 31, 2010	January 1, 2010
Conversion feature of convertible debenture 1	\$ 1,262	\$ 1,745	\$ 3,486
Conversion feature of convertible debenture 2	-	-	-
	<b>\$ 1,262</b>	<b>\$ 1,745</b>	<b>\$ 3,486</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 10. CREDIT FACILITIES

	March 31, 2011	December 31, 2010	January 1, 2010
Demand operating loan <sup>(i)</sup>	\$ 4,875	\$ 310	\$ 1,220
Demand credit facility <sup>(ii)</sup>	1,038	3,656	-
	<b>\$ 5,913</b>	<b>\$ 3,966</b>	<b>\$ 1,220</b>

(i) The Trust has a \$5,000 demand operating loan bearing interest at prime plus 1%, secured by a general security agreement and a collateral mortgage in the amount of \$5,000 constituting a second fixed charge on eighteen (2010 – eighteen) of the Trust's properties.

(ii) The Trust has a \$2,916 (2010 - \$4,103) demand credit facility with a financial institution bearing interest at prime plus 3.0%, secured by collateral mortgages on five (2010 - seven) of the Trust's properties.

### 11. LP CLASS B UNIT LIABILITY

The LP Class B units are non-transferable, except under certain circumstances, but are exchangeable, on a one-for-one basis, into Trust units at any time at the option of the holder. Prior to such exchange, distributions will be made on the exchangeable units in an amount equivalent to the distributions which would have been made had the units of Trust been issued.

The LP Class B units were exchangeable on demand for trust units, which in turn are redeemable into cash at the option of the holder. As such, LP Class B units are classified as a liability.

On October 1, 2010, all of the outstanding LP Class B units in InterRent Holdings Limited Partnership were exchanged, in accordance with the Exchange Agreement, for Trust units on a one-for-one basis.

As at March 31, 2010 and January 1, 2010, there were 336,106 LP Class B Units issued and outstanding.

The LP Class B Units, representing an aggregate fair value of \$491 at March 31, 2010 (\$511 – January 1, 2010). Each LP Class B Unit was accompanied by a Special Voting Unit, which entitled the holder to receive notice of, attend and vote at all meetings of Unitholders. There was no value assigned to the Special Voting Units. The gains or losses that resulted from changes in the fair value were recorded in the consolidated statement of income.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 12. UNIT-BASED COMPENSATION LIABILITIES

Unit-based compensation liability is comprised of awards issued under the deferred unit plan and the unit option plan as follows:

	Three months ended March 31, 2011	Year ended December 31, 2010
Unit-based liabilities, beginning of period	\$ 320	\$ 44
Compensation expense	288	280
(Gain)/loss on fair value of liability	71	(4)
Unit based liabilities, end of period	\$ 679	\$ 320

Unit options and deferred units are settled with the issuance of Trust Units. However, due to the fact that Trust Units are redeemable, awards of unit options and deferred units are considered to be cash-settled. As such, the fair value of unit options and deferred units are recognized as a liability and re-measured at each reporting date, with changes recognized in the statement of income.

#### (i) DEFERRED UNIT PLAN

The Trust implemented a deferred unit plan in 2007 which was subsequently amended in 2009. The deferred unit plan allows the Trust to issue a maximum number of trust units equal to 7.5% of the Trust's issued and outstanding trust units. The plan entitles trustees, officers and employees, at the participant's option, to receive deferred units in consideration for trustee fees or bonus compensation under the management incentive plan, as the case may be, with the Trust matching the number of deferred units received. The deferred units vest 50% on the third anniversary and 25% on each of the fourth and fifth anniversaries, subject to provisions for earlier vesting in certain events. The deferred units earn additional deferred units for the distributions that would otherwise have been paid on the deferred units (i.e. had they instead been issued as trust units on the date of grant). The deferred unit plan must be reapproved by the unitholders every three years. The deferred unit plan was approved, without change, on June 28, 2010.

A summary of Deferred Unit activity is presented below:

<b>Number of Units</b>	
<b>Balance – January 1, 2010</b>	<b>57,905</b>
Units issued under deferred unit plan	322,543
Reinvested distributions on deferred units	16,383
Deferred units exercised into Trust Units	(17,232)
Deferred units forfeited	(5,584)
<b>Balance - December 31, 2010</b>	<b>374,015</b>
Units issued under deferred unit plan	326,250
Reinvested distributions on deferred units	7,762
<b>Balance - March 31, 2011</b>	<b>708,027</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 12. UNIT-BASED COMPENSATION LIABILITIES (Continued)

As of March 31, 2011, none of the deferred units awarded and outstanding either through the matching or reinvestment of distributions have vested.

The fair value of such Units represents the closing price of the Trust Units on the TSX on the last trading day on which the Units traded prior to the reporting date, representing the fair value of the redemption price.

#### (ii) UNIT OPTIONS

The Trust has an incentive unit option plan (the "Plan"). The Plan provides for options to be granted to the benefit of employees, Trustees and certain other third parties. The maximum number of trust units allocated to and made available to be issued under the Plan shall not exceed 530,000. The exercise price of options granted under the unit option plan will be determined by the Trustees, but will be at least equal to the volume weighted average trading price of the trust units for the five trading days immediately prior to the date the option was granted. The term of any option granted shall not exceed 10 years or such other maximum permitted time period under applicable regulations. Except as otherwise provided elsewhere in the unit option Plan, the options shall vest over the term of the option at time(s) fixed by the Board of Trustees. Since inception all options granted by the Trust have vested immediately. The Trust will not provide financial assistance to any optionee in connection with the exercise of options.

---

#### Number of Units

---

<b>Balance – January 1, 2010</b>	<b>90,000</b>
Units expired	(65,000)
<b>Balance - December 31, 2010</b>	<b>25,000</b>
<b>Balance - March 31, 2011</b>	<b>25,000</b>

---

The fair value of Unit Options is determined at each reporting period by adjusting market-based valuation assumptions used in arriving at the estimated fair market value.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 13. TRUST UNITS

Under the terms of the Declaration of Trust in place at January 1, 2010, the trust units are classified as a liability due to a contractual obligation to deliver cash in the form of mandatory distributions.

Effective December 29, 2010, changes were made to the Declaration of Trust so that distributions are made at the discretion of the Trustees. Subsequent to this change the trust units, while still defined as a liability, meet the conditions that permit classification as equity. At this time, the trust units were reclassified from liabilities to unitholders' equity.

#### Trust unit liability

	Trust Units	Amount
<b>Balance – January 1, 2010</b>	<b>27,696,100</b>	<b>\$ 42,098</b>
Units Issued under distribution reinvestment plan	254,293	360
Issued from private placement	3,743,787	5,372
Units issued under long-term incentive plan (Note 15)	200,000	288
Units issued under the deferred unit plan	17,232	26
LP Class B Units exchanged for Trust Units	336,106	1,251
Fair value gain		(1,346)
<b>Balance - December 28, 2010</b>	<b>32,247,518</b>	<b>48,049</b>
Reclassified to unit holders' equity	(32,247,518)	(48,049)
<b>Trust unit liability – December 31, 2010 and March 31, 2011</b>	<b>-</b>	<b>\$ -</b>

The fair value of such Units represents the closing price of the Trust Units on the TSX on the last trading day on which the Units traded prior to the reporting date, representing the fair value of the redemption price.

#### Trust units (within unitholders' equity)

	Trust Units	Amount
<b>Balance – January 1, 2010</b>	<b>-</b>	<b>\$ -</b>
Reclassified from trust unit liability	32,247,518	48,049
<b>Balance – December 31, 2010</b>	<b>32,247,518</b>	<b>\$ 48,049</b>
Units Issued under distribution reinvestment plan	107,502	155
<b>Balance - March 31, 2011</b>	<b>32,355,020</b>	<b>\$ 48,204</b>

Trust units reclassified from the trust unit liability were reclassified at their fair value on the effective date of the changes to the Declaration of Trust (December 29, 2010).

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 13. TRUST UNITS (Continued)

#### Declaration of Trust

The Declaration of Trust authorizes the Trust to issue an unlimited number of units for the consideration and on terms and conditions established by the Trustees without the approval of any unitholders. The interests in the Trust are represented by two classes of units: a class described and designated as “Trust Units” and a class described and designated as “Special Voting Units”. The beneficial interests of the two classes of units are as follows:

#### (a) Trust Units

Trust Units represent an undivided beneficial interest in the Trust and in distributions made by the Trust. The Trust Units are freely transferable, subject to applicable securities regulatory requirements. Each Trust Unit entitles the holder to one vote at all meetings of unitholders. Except as set out under the redemption rights below, the Trust Units have no conversion, retraction, redemption or pre-emptive rights.

Trust Units are redeemable at any time, in whole or in part, on demand by the holders. Upon receipt by Trust of a written redemption notice and other documents that may be required, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder shall be entitled to receive a price per Trust Unit equal to the lesser of:

- i) 90% of the “market price” of the Trust Units on the principal market on which the Trust Units are quoted for trading during the twenty-day period ending on the trading day prior to the day on which the Trust Units were surrendered to Trust for redemption; and
- ii) 100% of the “closing market price” of the Trust Units on the principal market on which the Trust Units are quoted for trading on the redemption notice date.

#### (b) Special Voting Units

The Declaration of Trust provides for the issuance of an unlimited number of Special Voting Units that will be used to provide voting rights to holders of LP Class B units or other securities that are, directly or indirectly, exchangeable for Trust Units.

Each Special Voting Unit entitles the holder to the number of votes at any meeting of unitholders, which is equal to the number of Trust Units that may be obtained upon surrender of the LP Class B unit to which the Special Voting Unit relates. The Special Voting Units do not entitle or give any rights to the holders to receive distributions or any amount upon liquidation, dissolution or winding-up of Trust.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 14. OTHER FAIR VALUE GAINS

For the three month period ended March 31

	2011	2010
Trust unit liability	\$ -	\$ 1,661
LP Class B unit liability	-	20
Unit-based compensation liability (deferred unit plan)	(71)	4
Conversion feature of convertible debenture	483	480
	<b>\$ 412</b>	<b>\$ 2,165</b>

### 15. LONG-TERM INCENTIVE PLAN

The Board of Trustees may award long-term incentive plan ("LTIP") units to certain officers and key employees, collectively the "Participants." The Participants can subscribe for trust units at a purchase price equal to the weighted average trading price of the trust units for the five trading days prior to issuance. The purchase price is payable in instalments, with an initial instalment of 5% paid when the trust units are issued. The balance represented by a loan receivable (Note 6) is due over a term not exceeding ten years. Participants are required to pay interest at a ten-year fixed rate based on the Trust's fixed borrowing rate for long-term mortgage financing (5.0% for units issued in 2010) and are required to apply cash distributions received on these units toward the payment of interest and the remaining instalments. Participants may pre-pay any remaining instalments at their discretion. The Trust has recourse on the loans receivable and has reasonable assurance that the Trust will collect the full amount of the loan receivable. The loans receivable are secured by the units as well as the distributions on the units. If a Participant fails to pay interest and/or principal, the Trust can enforce repayment which may include the election to reacquire or sell the units in satisfaction of the outstanding amounts.

### 16. RELATED PARTY TRANSACTIONS

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

#### (i) Accounts Payable

As at March 31, 2011, \$151 (2010 - \$317) was included in accounts payable and accrued liabilities which is due to a company that is controlled by an officer of the Trust. The amounts were non-interest bearing and due on demand.

#### (ii) Services

During the three month period ended March 31, 2011, the Trust incurred \$892 (2010 - \$745) in property and project management services from a company controlled by an officer of the Trust. Of the services received approximately \$349 (2010 - \$279) has been capitalized to the income producing properties and the remaining amounts are included in operating and administrative costs.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 16. RELATED PARTY TRANSACTIONS (Continued)

#### (iii) Key management remuneration

Key management consists of the Trustees and executive management team of the Trust. Compensation paid or payable is provided in the following table as additional disclosure for the year ended December 31, 2010 as permitted by IFRS.

Salaries and other short-term employee benefits	\$ 399
Deferred unit plan	393
Deferred unit plan – gain on fair value of liability	4
Termination benefits	185
<b>Total</b>	<b>\$ 981</b>

Loans outstanding from key management for indebtedness relating to the LTIP at December 31, 2010 were \$255. Accrued compensation for key management at December 30, 2010 was \$156.

### 17. CAPITAL RISK MANAGEMENT

The Trust's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its unitholders. The Trust defines capital that it manages as the aggregate of its unitholders' equity, which is comprised of issued capital and retained earnings.

The Trust manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Trust's working capital requirements. In order to maintain or adjust its capital structure, the Trust, upon approval from its Board of Trustees, may issue or repay long-term debt, issue units, repurchase units through a normal course issuer bid, pay distributions or undertake other activities as deemed appropriate under the specific circumstances. The Board of Trustees reviews and approves any material transactions out of the ordinary course of business, including approval of all acquisitions of income producing properties, as well as capital and operating budgets.

The Trust monitors capital using a debt to gross book value ratio, as defined in the declaration of trust which requires the Trust to maintain a debt to gross book value ratio below 75%. As at March 31, 2011, the debt to gross book value ratio is 58.1% (2010 – 57.6%).

### 18. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

#### a) Overview

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

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 18. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

#### b) Credit Risk

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

The amounts disclosed as rents and other receivables in the consolidated balance sheet are net of allowances for doubtful accounts, estimated by the Trust's management based on prior experience and their assessment of the current economic environment. The Trust establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of rents and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and an overall loss component established based on historical trends. At March 31, 2011, the Trust had rents and other receivables of \$751, net of an allowance for doubtful accounts of \$431 which adequately reflects the Trust's credit risk.

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

The Trust has established various internal controls, such as credit checks and security deposits, designed to mitigate credit risk. While the Trust's credit controls and processes have been effective in mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective or that the Trust's current credit loss experience will improve.

The amounts shown in the consolidated balance sheet as mortgage holdbacks relate primarily to amounts that will be released upon the completion of repairs to certain buildings. Mortgages receivable represent vendor take back loans on the sale of buildings and are secured by the building. Management believes there is minimal credit risk due to the nature of these amounts receivable and the underlying collateral.

#### c) Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The Trust manages liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 17 to the consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities (excluding derivative and other financial instruments reported as liabilities at fair value under IFRS) when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust's reputation.

As at March 31, 2011, the Trust had a \$5,000 demand operating facility with a Canadian chartered bank bearing interest at 1% above the prime lending rate. This line of credit is secured by collateral mortgages on eighteen of the Trust's properties. As at March 31, 2011, the Trust had utilized \$ 4,875 of this facility. In addition, the Trust had a \$ 2,916 operating facility with a financial institution bearing interest at prime plus 3.0%. This line of credit is secured by collateral second mortgages on five of the Trust's properties. As at March 31, 2011, the Trust had utilized \$ 1,038 of this facility.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 18. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Notes 8 and 9 reflect the contractual maturities for mortgage and debenture debt of the Trust at March 31, 2011, excluding interest payments. The Trust continues to refinance the outstanding debts as they mature. Given the Trust's available credit and its available liquid resources from both financial assets and on-going operations, management assesses the Trust's liquidity risk to be low.

#### d) Fair Value

Financial instruments are defined as a contractual right to receive or deliver cash or another financial asset. The fair values of the Trust's financial instruments, except for mortgages and vendor take back loans, approximate their recorded values due to their short-term nature and/or the credit terms of those instruments.

The fair value of the mortgages and vendor take back loans has been determined by discounting the cash flows using current market rates of similar instruments. These estimates are subjective in nature and therefore cannot be determined with precision. The fair value of mortgages payable, vendor take-back loans, credit facilities and subordinated convertible debentures is approximately \$185,200.

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

#### e) Market Risk

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

At March 31, 2011, all of the Trust's long-term debt is at fixed interest rates therefore, any change in the interest rate would not affect the cash flows. The Trust's credit facilities bear interest at variable rates. If there was a 100 basis point change in the interest rate, cash flows would have changed by approximately \$14 for the three month period ended March 31, 2011.

#### f) Utilities

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

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

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

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 19. CONTINGENCIES

In the ordinary course of business activities, the Trust may be contingently liable for litigation and claims with tenants, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required.

### 20. SUBSEQUENT EVENTS

The Trust completed the sale of two properties (32 suites) from April 1, 2011 to June 6, 2011 that were included in assets held for sale (Note 7).

### 21. TRANSITION TO IFRS

#### Overview

IFRS replaces current Canadian GAAP for publicly accountable enterprises, effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. These are the Trust's first condensed consolidated financial statements that have been prepared in accordance with IFRS using accounting policies consistent with IFRS.

The accounting policies have been selected to be consistent with IFRS as is expected to be effective on December 31, 2011, the Trust's first annual IFRS reporting date. Previously, the Trust prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

#### First-time adoption of IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of an entity's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Trust has elected to apply the following optional exemptions in its preparation of its opening IFRS consolidated balance sheet as at January 1, 2010, (Transition Date):

- To apply IFRS 3 *Business Combinations* prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.
- To apply IAS 23 *Borrowing Costs* prospectively from the Transition Date. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.
- To designate certain existing financial liabilities as FVTPL at the Transition Date.

IFRS 1 does not permit changes to estimates that have been made previously. Estimates used in the preparation of the Trust's opening IFRS statement of financial position, and other comparative information restated to comply with IFRS, are consistent with those made previously under current Canadian GAAP.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 21. TRANSITION TO IFRS (Continued)

#### Changes to accounting policies

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. Accounting policies have been changed to be consistent with IFRS as is expected to be effective on December 31, 2011.

The following summarizes the significant changes to the Trust's accounting policies on adoption of IFRS, and the effect on the Trust's opening IFRS consolidated statement of financial position.

#### Investment properties

IFRS defines investment property as a property held to earn rentals or for capital appreciation or both. Investment property includes all properties previously classified as income producing properties.

Under Canadian GAAP, the Trust measured its investment properties using the historical cost model and recognized various tangible and intangible assets related to the investment property. IFRS permits an accounting policy choice for investment property between the fair value model and the cost model. The cost model is generally consistent with Canadian GAAP.

On adoption of IFRS, the Trust decided to adopt the fair value model for its investment properties. Under the fair value model, investment properties initially recognized at cost and then re-measured to fair value at each reporting date with changes recorded in the statement of income. Investment properties are not amortized.

The effect of applying this change in accounting policy at January 1, 2010 was a net increase in the carrying value of investment properties of \$16,771 and a corresponding decrease in the deficit within unitholders' equity. The fair value of the investment properties at January 1, 2010 was determined based on independent appraisals of substantially all the Trust's investment property portfolio.

#### Intangible assets and below market leases

Under Canadian GAAP when investment properties are acquired, a portion of the purchase price is allocated to in-place operating leases that are acquired in connection with the real estate property, to a separate tenant relationship intangible asset or a below market lease liability relating to the possibility or probability that existing tenants will renew their leases and to above or below market lease values. Under IFRS these assets and liabilities are not recognized as separate assets and liabilities, instead they form part of the carrying value of the investment properties.

As a result of this change, the carrying value of the intangible assets (\$122) and below market leases (\$45) were eliminated at January 1, 2010, with a corresponding net increase in investment properties before being re-measured to fair value.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 21. TRANSITION TO IFRS (Continued)

#### Deferred leasing commissions

Under Canadian GAAP, leasing commissions were deferred and amortized over the related lease term. Deferred leasing commissions were included in other assets on the consolidated balance sheet. Under IFRS deferred leasing commissions are not recognized as a separate asset, instead they form part of the carrying value of the investment properties.

As a result of this change, the carrying value of the deferred leasing commissions of \$108 was eliminated, with a corresponding increase in investment properties before being re-measured to fair value.

#### Trust Units

Under Canadian GAAP, trust units were classified as equity. The assessments required under IFRS differ from Canadian GAAP with respect to the classification of certain financial instruments as a liability or as equity. Under the terms of Declaration of Trust in place at January 1, 2010, IFRS requires the trust units to be classified as a liability due to a contractual obligation to deliver cash in the form of mandatory distributions.

As a result of this change, unit holders' capital was reduced by the trust units' carrying value of \$101,632. The trust units were recognized as a liability at their fair value of \$42,098 (based on the price of the Trust Units on the TSX on the reporting date, or the first trading date after the reporting date), with the difference recorded as a decrease in the deficit within unitholders' equity on January 1, 2010.

Effective December 29, 2010, changes were made to the Declaration of Trust so that distributions are made at the discretion of the Trustees. Subsequent to this change the trust units, while still defined as a liability, meet the conditions under IFRS that permit classification as equity. At this time, the trust units were reclassified from liabilities to unitholders' equity.

#### LP Class B Units

Under Canadian GAAP, the LP Class B units were classified as equity. The LP Class B units were exchangeable on demand for trust units, which in turn are redeemable into cash at the option of the holder. As such, under IFRS the LP Class B units are classified as a liability.

As a result of this change, unit holders' capital was reduced by the LP Class B units' carrying value of \$1,251. The LP Class B Units were recognized as a liability at their fair value of \$511 (based on the price of the Trust Units on the TSX on the reporting date, or the first trading date after the reporting date), with the difference recorded as a decrease in the deficit within unitholders' equity on January 1, 2010.

On October 1, 2010, all of the outstanding LP Class B units were exchanged for trust units on a one-for-one basis.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 21. TRANSITION TO IFRS (Continued)

#### Conversion feature of the subordinated convertible debentures

Under Canadian GAAP, the conversion feature of the subordinated convertible debentures was classified as equity. The subordinated convertible debentures are convertible into trust units, which in turn are redeemable into cash at the option of the holder. As such, under IFRS the conversion feature of the subordinated convertible debentures are considered a derivative instrument and classified as a liability. The conversion feature of the convertible debentures is re-measured to fair value at each reporting period, with changes recorded in the statement of income.

As a result of this change, the carrying value of the equity portion of the subordinated convertible debentures of \$6,974 was eliminated on January 1, 2010. The conversion feature of the subordinated convertible debentures was recognized as a liability at the fair value of \$3,486, with the difference recorded as a decrease in the deficit within unitholders' equity.

#### Unit-based compensation

The awards of unit options and deferred units under the Trust's compensation plans are settled in trust units. Under Canadian GAAP, these were considered equity-settled instruments and were recorded within unitholders' equity. Due to the fact that the trust units are considered cash-settled instruments under IFRS and are recorded as a liability. The liability is re-measured to fair value at each reporting period with changes recognized in the statement of income.

As a result of this change, the carrying value within unitholders' equity of contributed surplus (\$1,960), and of deferred unit capital (\$45) were eliminated on January 1, 2010. The combined fair value of the unit options and deferred units of \$44 was recorded as a liability, with the difference recorded as a decrease in the deficit within unitholders' equity.

#### Earnings per unit

Under Canadian GAAP, the number of trust units included in the calculation of basic and diluted earnings included all trust units and LP Class B units as they were classified as equity.

As a result of the change in accounting policy to classify the trust units and LP Class B units as liabilities, they may not be considered equity for the purposes of calculating net income on a per unit basis. Accordingly, the Trust has elected not to present an earnings per unit calculation, as is permitted under IFRS.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 21. TRANSITION TO IFRS (Continued)

#### Reconciliations of Canadian GAAP to IFRS

The following provides reconciliations of unit holders' equity and comprehensive income from Canadian GAAP to IFRS for the respective periods. Reconciliations of the condensed consolidated balance sheet at certain dates are included in Note 22.

	December 31, 2010	March 31, 2010	January 1, 2010
<b>Unitholders' Equity as reported under Canadian GAAP</b>	<b>\$ 69,704</b>	<b>\$ 70,745</b>	<b>\$ 74,041</b>
<b>IFRS Adjustments</b>			
Opening cumulative adjustments	(29,367)	(29,367)	-
Fair value adjustment of investment properties (i)	37,760	2,922	(6,587)
Investment properties Accumulated depreciation (i)	7,405	1,788	23,359
Trust units – remove from unitholders' equity (ii)	(6,021)	(64)	(101,632)
Trust unit liability (ii)	1,321	1,661	61,494
Trust units – reclassify to unitholders' equity (ii)	48,049	-	-
LP Class B units – remove from unitholders' equity (iii)	-	-	(1,251)
LP Class B unit liability (iii)	(741)	20	741
Deferred units – remove from unitholders' equity (iv)	(255)	(93)	(45)
Contributed surplus – remove from unitholders' equity associated with equity items moved to liability (iv)	-	-	(1,960)
Unit-based compensation liability (iv)	(20)	(4)	-
Equity component of convertible debentures – remove from unitholders' equity (v)	-	-	(6,974)
Conversion feature of convertible debentures (liability) (v)	1,740	480	3,488
<b>Unitholders' equity as reported under IFRS</b>	<b>\$129,575</b>	<b>\$48,088</b>	<b>\$44,674</b>

	Year Ended December 31, 2010	Three Months Ended March 31, 2010
<b>Loss as reported under Canadian GAAP</b>	<b>\$ (6,996)</b>	<b>\$ (2,618)</b>
<b>IFRS adjustments</b>		
Fair value adjustment of investment properties (i)	37,769	2,922
Depreciation on investment properties (i)	7,651	1,788
Loss on sale of investment property (vi)	(255)	-
Trust unit liability (ii)	591	1,661
Trust Units – Interest expense (distributions) (ii)	(3,298)	(831)
LP Class B Units – Fair value adjustments (iii)	(10)	20
LP Class B Units – Interest expense (distributions) (iii)	(34)	(10)
Unit-based compensation expense (iv)	(39)	(2)
Unit-based compensation expense – fair value adjustment (iv)	4	4
Conversion feature of convertible debentures (liability) (v)	1,740	480
<b>Income as reported under IFRS</b>	<b>\$37,123</b>	<b>\$3,414</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

---

### 21. TRANSITION TO IFRS (Continued)

- i) The effect of the change in accounting policy to re-measure investment property at fair value at each reporting date, and the reversal of previously recorded depreciation, property related intangible assets and liabilities and deferred lease commissions included in fair value.
- ii) The effect of the change in accounting policy to classify the trust units as a liability and re-measure at fair value at each reporting date until the change in the Declaration of Trust on December 29, 2010 at which time the fair value of the trust unit liability is reclassified to unitholders' equity. Distributions on the units are recorded as interest expense.
- iii) The effect of the change in accounting policy to classify the LP Class B units as a liability and re-measure at fair value at each reporting date. Distributions on the units are recorded as interest expense.
- iv) The effect of the change in accounting policy to classify the unit-based compensation grants as a liability and re-measure at fair value at each reporting date.
- v) The effect of the change in accounting policy to classify the conversion feature of the convertible debentures as a liability and re-measure at fair value at each reporting date.
- vi) The difference in loss on the sale of an investment property resulting from the different carrying values of that property under Canadian GAAP and IFRS.

#### Changes to the Statement of Cash Flows

As a result of the Trust Units and LP Class B Units being classified as a financial liability in 2010, the distributions related to these Units are treated as a financing expense and are recorded in the consolidated statement of income. As a result, these distributions now appear within operating activities on the statement of cash flows while they were previously recorded as a financing activity on the statement of cash flows under Canadian GAAP. This resulted in a \$2.0 million cash inflow for financing activities and a corresponding cash outflow for operating activities for the three months ended March 31, 2010 from Canadian GAAP to IFRS.

There were no other material adjustments to the cash flow statement as a result of the conversion to IFRS.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 22. COMPARATIVE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following are reconciliations of the condensed consolidated balance sheet from Canadian GAAP to IFRS at the respective dates.

		December 31, 2010 (Canadian GAAP Comparative)	IFRS Adjustments	December 31, 2010 (IFRS)
<b>Assets</b>				
Investment properties	21 (i)	\$244,828	\$60,898	\$305,726
Intangible assets	21 (i)	6	(6)	-
Prepays and deposits		1,721	-	1,721
Other assets	21 (i)	2,299	(369)	1,930
Cash		-	-	-
Assets held for sale		25,506	1,411	26,917
		<b>\$274,360</b>	<b>\$61,934</b>	<b>\$336,294</b>
<b>Liabilities</b>				
Mortgages and loans payable		\$154,340	\$ -	\$154,340
Subordinated convertible debentures		20,861	-	20,861
Below-market leases	21 (i)	2	(2)	-
Credit facilities		3,966	-	3,966
Bank indebtedness		239	-	239
Accounts payable and accrued liabilities		8,958	-	8,958
Tenant rental deposits		2,940	-	2,940
LP Class B unit liability	21 (iii)	-	-	-
Unit-based compensation liability	21 (iv)	-	320	320
Conversion feature of convertible debentures		-	1,745	1,745
Liabilities related to assets held for sale		13,350	-	13,350
		<b>204,656</b>	<b>2,063</b>	<b>206,719</b>
Trust unit liability	21 (ii)	-	-	-
<b>Unitholders' Equity</b>				
Unitholders' capital	21 (ii)	108,904	(60,855)	48,049
Deferred unit capital	21 (iv)	309	(309)	-
Contributed surplus	21 (iv)	2,423	(2,423)	-
Equity portion of convertible debentures	21 (v)	6,511	(6,511)	-
Retained earnings (deficit)		(48,443)	129,969	81,526
		<b>\$274,360</b>	<b>\$61,934</b>	<b>\$336,294</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Financial Statements

Unaudited (Cdn \$ Thousands except unit amounts)

### 22. COMPARATIVE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Note	December 31, 2009 (Canadian GAAP Comparative)	IFRS Adjustments	January 1, 2010 (IFRS)
<b>Assets</b>				
Investment properties	21 (i)	\$260,177	\$16,957	\$277,134
Intangible assets	21 (i)	122	(122)	-
Prepays and deposits		2,060	-	2,060
Other assets	21 (i)	1,616	(108)	1,508
Cash		12	-	12
Assets held for sale		-	-	-
		<b>\$263,987</b>	<b>\$16,727</b>	<b>\$280,714</b>
<b>Liabilities</b>				
Mortgages and loans payable		\$156,306	\$-	\$156,306
Subordinated convertible debentures		24,732	-	24,732
Below-market leases	21 (i)	45	(45)	-
Credit facilities		1,220	-	1,220
Bank indebtedness		-	-	-
Accounts payable and accrued liabilities		4,931	-	4,931
Tenant rental deposits		2,712	-	2,712
LP Class B unit liability	21 (iii)	-	511	511
Unit-based compensation liability	21 (iv)	-	44	44
Conversion feature of convertible debentures		-	3,486	3,486
Liabilities related to assets held for sale		-	-	-
		<b>189,946</b>	<b>3,996</b>	<b>193,942</b>
Trust unit liability	21 (ii)	-	42,098	42,098
<b>Unitholders' Equity</b>				
Unitholders' capital	21 (ii)	102,883	(102,883)	-
Deferred unit capital	21 (iv)	45	(45)	-
Contributed surplus	21 (iv)	1,960	(1,960)	-
Equity portion of convertible debentures	21 (v)	6,974	(6,974)	-
Retained earnings (deficit)		(37,821)	82,495	44,674
		<b>\$263,987</b>	<b>\$16,727</b>	<b>\$280,714</b>