

# **InterRent Real Estate Investment Trust**

**Condensed Consolidated Interim Financial Statements**

**June 30, 2020  
(unaudited)**

# InterRent Real Estate Investment Trust

## Condensed Consolidated Interim Balance Sheets

Unaudited (Cdn \$ Thousands)

	Note	June 30, 2020	December 31, 2019
<b>Assets</b>			
Investment properties	3	\$ 2,807,281	\$ 2,748,342
Investment in joint venture	6	26,618	25,200
Prepays and deposits		2,905	2,229
Receivables and other assets	7	15,338	15,332
Cash		112,788	753
<b>Total assets</b>		<b>\$ 2,964,930</b>	<b>\$ 2,791,856</b>
<b>Liabilities</b>			
Mortgages payable	8	\$ 831,510	\$ 881,509
Credit facilities	9	-	26,865
Class B LP unit liability	11	48,876	53,345
Unit-based compensation liabilities	12	58,438	66,070
Tenant rental deposits		11,547	11,722
Accounts payable and accrued liabilities	10	22,101	30,409
<b>Total liabilities</b>		<b>972,472</b>	<b>1,069,920</b>
<b>Unitholders' equity</b>			
Unit capital	14	995,466	766,282
Retained earnings		996,992	955,654
<b>Total unitholders' equity</b>		<b>1,992,458</b>	<b>1,721,936</b>
<b>Total liabilities and unitholders' equity</b>		<b>\$ 2,964,930</b>	<b>\$ 2,791,856</b>

Commitments and contingencies (note 23)

Subsequent events (note 24)

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

On behalf of the Trust

Ronald Leslie  
Trustee

Michael McGahan  
Trustee

# InterRent Real Estate Investment Trust

## Condensed Consolidated Interim Statements of Income

For the three and six months ended June 30

Unaudited (Cdn \$ Thousands)

	Note	Three months ended June 30		Six months ended June 30	
		2020	2019	2020	2019
<b>Operating Revenues</b>					
Revenue from investment properties	15	\$ 39,004	\$ 34,742	\$ 78,372	\$ 68,473
<b>Operating Expenses</b>					
Property operating costs		6,907	5,110	13,201	9,948
Property taxes		4,749	4,299	9,467	8,587
Utilities		2,510	2,291	6,158	5,736
Total operating expenses		14,166	11,700	28,826	24,271
<b>Net operating income</b>		<b>24,838</b>	23,042	<b>49,546</b>	44,202
Financing costs	16	6,459	6,521	13,379	12,793
Administrative costs		2,790	2,807	5,777	5,792
<b>Income before other income and expenses</b>		<b>15,589</b>	13,714	<b>30,390</b>	25,617
<b>Other income and expenses</b>					
Fair value adjustments of investment properties	3	15,994	18,402	16,976	35,288
Loss on disposition of investment properties	5	-	-	-	(675)
Income from joint ventures	6	10	-	21	-
Other fair value gains/(losses)	17	(8,266)	5,227	14,443	(8,721)
Interest on units classified as financial liabilities	18	(613)	(548)	(1,205)	(1,084)
<b>Net income for the period</b>		<b>\$ 22,714</b>	\$ 36,795	<b>\$ 60,625</b>	\$ 50,425

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

# InterRent Real Estate Investment Trust

## Condensed Consolidated Interim Statements of Changes in Unitholders' Equity

For the six months ended June 30

Unaudited (Cdn \$ Thousands)

	Trust units	Cumulative profit	Cumulative distributions to Unitholders	Retained earnings	Total Unitholders' equity
Balance, January 1, 2019	\$ 558,615	\$ 715,538	\$ (111,365)	\$ 604,173	\$ 1,162,788
Units issued	7,160	-	-	-	7,160
Net income for the period	-	50,425	-	50,425	50,425
Distributions declared to Unitholders	-	-	(15,425)	(15,425)	(15,425)
<b>Balance, June 30, 2019</b>	<b>\$ 565,775</b>	<b>\$ 765,963</b>	<b>\$ (126,790)</b>	<b>\$ 639,173</b>	<b>\$ 1,204,948</b>
Balance, January 1, 2020	\$ 766,282	\$ 1,100,427	\$ (144,773)	\$ 955,654	\$ 1,721,936
Units issued (note 14)	229,184	-	-	-	229,184
Net income for the period	-	60,625	-	60,625	60,625
Distributions declared to Unitholders	-	-	(19,287)	(19,287)	(19,287)
<b>Balance, June 30, 2020</b>	<b>\$ 995,466</b>	<b>\$ 1,161,052</b>	<b>\$ (164,060)</b>	<b>\$ 996,992</b>	<b>\$ 1,992,458</b>

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

# InterRent Real Estate Investment Trust

## Condensed Consolidated Interim Statements of Cash Flows

For the three and six months ended June 30

(Cdn \$ Thousands)

	Note	Three months ended June 30		Six months ended June 30	
		2020	2019	2020	2019
<b>Cash flows from/(used in) operating activities</b>					
Net income for the period		\$ 22,714	\$ 36,795	\$ 60,625	\$ 50,425
Add items not affecting cash:					
Income from joint ventures	6	(10)	-	(21)	-
Loss on disposition of investment properties	5	-	-	-	675
Amortization		162	135	317	268
Fair value adjustments on investment properties	3	(15,994)	(18,402)	(16,976)	(35,288)
Other fair value (gains)/losses	17	8,266	(5,227)	(14,443)	8,721
Unit-based compensation expense	12	1,324	1,039	4,578	4,367
Financing costs	16	6,459	6,521	13,379	12,793
Interest expense	16	(6,329)	(6,299)	(13,096)	(12,340)
Tenant inducements		131	164	263	329
		16,723	14,726	34,626	29,950
Net income items related to financing activities	18	264	247	528	494
Changes in non-cash operating assets and liabilities	19	2,648	(25)	(3,964)	980
<b>Cash from operating activities</b>		<b>19,635</b>	<b>14,948</b>	<b>31,190</b>	<b>31,424</b>
<b>Cash flows from/(used in) investing activities</b>					
Acquisition of investment properties	4	(43)	(73,495)	(20,033)	(107,054)
Investment in joint ventures	6	(418)	(324)	(1,397)	(703)
Proceeds from sale of investment properties	5	-	41,124	-	75,634
Additions to investment properties	3	(13,802)	(18,955)	(28,079)	(34,760)
<b>Cash used in investing activities</b>		<b>(14,263)</b>	<b>(51,650)</b>	<b>(49,509)</b>	<b>(66,883)</b>
<b>Cash flows from/(used in) financing activities</b>					
Mortgage and loan repayments		(78,482)	(4,399)	(91,994)	(14,548)
Mortgage advances		-	-	42,227	-
Financing fees		(333)	-	(568)	(17)
Credit facility advances/(repayments)		(37,245)	46,715	(26,865)	61,705
Trust units issued, net of issue costs	14	220,528	60	220,905	449
Deferred units purchased and cancelled	12	(385)	-	(609)	(1,017)
Interest paid on units classified as financial liabilities	18	(264)	(247)	(528)	(494)
Distributions paid	19	(6,440)	(5,186)	(12,214)	(10,217)
<b>Cash from financing activities</b>		<b>97,379</b>	<b>36,943</b>	<b>130,354</b>	<b>35,861</b>
Increase in cash during the period		102,751	241	112,035	402
Cash at the beginning of period		10,037	684	753	523
<b>Cash at end of period</b>		<b>\$ 112,788</b>	<b>\$ 925</b>	<b>\$ 112,788</b>	<b>\$ 925</b>

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

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

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### 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 May 21, 2019, 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, K2P 1Z2.

These condensed consolidated interim financial statements for the period ended June 30, 2020 were authorized for issuance by the Trustees of the Trust on August 10, 2020.

### 2. BASIS OF PRESENTATION

#### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed.

The financial statements have been presented in Canadian dollars, which is the Trust's functional currency, rounded to the nearest thousand unless otherwise indicated.

These condensed consolidated interim financial statements should be read in conjunction with the Trust's annual consolidated financial statements for the year ended December 31, 2019.

#### Basis of presentation

The Trust presents its consolidated balance sheets based on the liquidity method, whereby all assets and liabilities are presented in increasing order of liquidity.

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

- i) Investment properties, which are measured at fair value (except for investment properties under development where fair value is not reliably determinable);
- ii) Financial assets and financial liabilities classified as "fair value through profit and loss", which are measured at fair value; and
- iii) Unit-based compensation liabilities and Class B LP unit liability which are measured at fair value.

#### Significant accounting policies

The condensed consolidated interim financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2019.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

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## 2. BASIS OF PRESENTATION (Continued)

### Basis of consolidation

The condensed consolidated interim financial statements include the accounts of the Trust and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. Subsidiaries are entities over which the Trust has control and are consolidated from the date control commences until control ceases. Control is achieved when the Trust has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

### Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment when applying the Trust's accounting policies. The critical accounting estimates and judgments have been set out in notes 2 and 3 to the Trust's consolidated financial statements for the year ended December 31, 2019.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The duration and impact of the COVID-19 pandemic on the Trust is unknown at this time. As such, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Trust. Any estimates are therefore subject to significant uncertainty, and may materially and adversely affect the Trust's operations and financial results.

In light of the COVID-19 pandemic, management has made judgments in determining the valuation inputs used in its internal valuation model to measure fair value of investment properties. The carrying value for the Trust's investment properties reflects its best estimate for the highest and best use as at June 30, 2020 (note 3).

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 3. INVESTMENT PROPERTIES

Investment properties include income properties, properties under development and land held for development.

	June 30, 2020	December 31, 2019
Income properties	\$ 2,769,916	\$ 2,713,669
Properties under development	37,365	34,673
	<b>\$ 2,807,281</b>	<b>\$ 2,748,342</b>

#### Income properties:

	June 30, 2020	December 31, 2019
Balance, beginning of period	\$ 2,713,669	\$ 2,021,874
Acquisitions (note 4)	18,604	297,436
Property capital investments	20,667	76,208
Fair value adjustments	16,976	353,160
Dispositions (note 5)	-	(35,009)
	<b>\$ 2,769,916</b>	<b>\$ 2,713,669</b>

#### Properties under development:

Properties that are undergoing a significant amount of development work to prepare the property for use as income properties.

	June 30, 2020	December 31, 2019
Balance, beginning of period	\$ 34,673	\$ -
Acquisitions (note 5)	1,429	22,285
Transfer from land held for development	-	10,481
Property capital investments	1,263	1,907
	<b>\$ 37,365</b>	<b>\$ 34,673</b>

#### Land held for development:

	June 30, 2020	December 31, 2019
Balance, beginning of period	\$ -	\$ 55,177
Property capital investments	-	2,116
Transfer to properties under development	-	(10,481)
Disposition (note 6)	-	(46,812)
	<b>\$ -</b>	<b>\$ -</b>

The fair value of the income properties is determined internally by the Trust. The fair value methodology of the Trust's investment properties is considered a level 3 as significant unobservable inputs are required to determine fair value.

The Trust determined the fair value of each income property internally based upon the direct capitalization income approach method of valuation. The fair value was determined by applying a capitalization rate to forecasted stabilized net operating income ("SNOI"), which incorporates turnover estimates, market rent adjustments, allowances for vacancy, management fees, labour and repairs and maintenance for the property. In order to substantiate management's valuation, the Trust engaged a leading independent national real estate appraisal firm to provide appraisals for substantially all of the portfolio at December 31, 2019. The Trust engaged the firm once again to review and advise of any significant changes in any of the key input assumptions in the model (such as capitalization rate, turnover estimate and market rent adjustments) as at June 30, 2020, in order for the Trust to complete its internal valuations.



# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 3. INVESTMENT PROPERTIES (Continued)

The capitalization rate assumptions for the income properties are included in the following table:

	June 30, 2020		December 31, 2019	
	Range	Weighted average	Range	Weighted average
Capitalization rate	3.25% - 6.00%	4.23%	3.25% - 6.00%	4.24%

The direct capitalization income approach method of valuation requires that SNOI be divided by a capitalization rate ("Cap Rate") to determine a fair value. As such, changes in both SNOI and Cap Rate could significantly alter the fair value of the investment properties. The tables below summarize the impact of changes in both SNOI and Cap Rate on the Trust's fair value of the income properties:

#### As at June 30, 2020

Forecasted stabilized net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 113,652	\$ 115,995	<b>\$ 117,167</b>	\$ 118,339	\$ 120,682
Capitalization rate						
-0.25%	3.98%	\$ 2,855,578	\$ 2,914,456	\$ 2,943,894	\$ 2,973,333	\$ 3,032,211
Cap rate used	<b>4.23%</b>	\$ 2,686,808	\$ 2,742,206	<b>\$ 2,769,916</b>	\$ 2,797,604	\$ 2,853,003
+0.25%	4.48%	\$ 2,536,875	\$ 2,589,181	\$ 2,615,335	\$ 2,641,488	\$ 2,693,795

#### As at December 31, 2019

Forecasted stabilized net operating income		-3%	-1%	As estimated	+1%	+3%
		\$ 111,608	\$ 113,909	<b>\$ 115,060</b>	\$ 116,211	\$ 118,512
Capitalization rate						
-0.25%	3.99%	\$ 2,797,198	\$ 2,854,872	\$ 2,883,709	\$ 2,912,546	\$ 2,970,221
Cap rate used	<b>4.24%</b>	\$ 2,632,269	\$ 2,686,542	<b>\$ 2,713,669</b>	\$ 2,740,816	\$ 2,795,090
+0.25%	4.49%	\$ 2,485,706	\$ 2,536,958	\$ 2,562,584	\$ 2,588,209	\$ 2,639,461

Land held for development is measured initially at cost, including transaction costs and subsequently measured at fair value.

The two properties under development are valued at acquisition cost plus development costs. The direct capitalization income approach method of valuation is not a reliable measure as the properties are undergoing a significant amount of work which will affect multiple components of the estimated net operating income as well as the Cap Rate. The Trust expects the fair value of the properties to be reliably determinable when development is substantially complete, and will measure both investment properties under development at cost until either its fair value becomes reliably determinable or development is completed (whichever is earlier).

Cash outflow used for additions to investment properties for the three and six months ended:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Property capital investments	<b>\$ (9,045)</b>	\$ (23,423)	<b>\$ (21,930)</b>	\$ (37,462)
Changes in non-cash investing accounts payable and accrued liabilities	<b>(4,757)</b>	4,468	<b>(6,149)</b>	2,702
	<b>\$ (13,802)</b>	\$ (18,955)	<b>\$ (28,079)</b>	\$ (34,760)

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 4. INVESTMENT PROPERTY ACQUISITIONS

During the six months ended June 30, 2020, 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
February 27, 2020	57	\$ 18,604	\$ 13,613	2.59%	March 2, 2021
March 31, 2020 <sup>(1)</sup>	4	1,429	-	-%	n/a
	<b>61</b>	<b>\$ 20,033</b>	<b>\$ 13,613</b>		

<sup>(1)</sup> Development site (0.11 acres) includes a fourplex which will be operated during the interim period prior to construction.

During the six months ended June 30, 2019, 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
February 12, 2019	30	\$ 8,553	\$ 4,608	3.210%	March 1, 2028
February 12, 2019	104	20,171	7,131	3.839%	February 15, 2024
February 12, 2019	33	7,921	2,509	2.760%	December 15, 2022
February 12, 2019	45	12,385	6,541	3.100%	February 15, 2028
February 12, 2019	41	11,980	6,166	3.000%	March 15, 2028
April 3, 2019	74	11,721	-	-%	n/a
April 24, 2019 <sup>(1)</sup>	-	22,285	-	-%	n/a
June 26, 2019 <sup>(2)</sup>	121	39,398	-	-%	n/a
	<b>448</b>	<b>\$ 134,414</b>	<b>\$ 26,955</b>		

<sup>(1)</sup> vacated office building to be developed into residential suites.

<sup>(2)</sup> includes 31,500 sq ft of leasable commercial space

Cash outflow used for investment property acquisitions for the three and six months ended:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Total acquisition costs	\$ (43)	\$ (73,495)	\$ (20,033)	\$ (134,414)
Fair value adjustment of assumed debt	-	-	-	405
Assumed debt	-	-	-	26,955
	<b>\$ (43)</b>	<b>\$ (73,495)</b>	<b>\$ (20,033)</b>	<b>\$ (107,054)</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 5. INVESTMENT PROPERTY DISPOSITIONS

No investment properties were disposed of during the six months ended June 30, 2020.

During the six months ended June 30, 2019, 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	Net Proceeds	Mortgage(s) Discharged
January 17, 2019	28	\$ 2,949	\$ 2,835	\$ 1,031
January 17, 2019	17	1,585	1,519	-
January 17, 2019	12	1,000	940	-
January 17, 2019	18	1,519	1,455	-
January 17, 2019	70	7,215	7,097	-
January 17, 2019	85	9,015	8,878	-
January 17, 2019	68	6,736	6,541	2,725
January 17, 2019	22	2,090	1,993	880
January 17, 2019	29	3,191	3,076	1,190
May 30, 2019	-	46,812	46,812	-
<b>Total</b>	<b>349</b>	<b>\$ 82,112</b>	<b>\$ 81,146</b>	<b>\$ 5,826</b>

A loss of \$675 was recognized for the six months ended June 30, 2019 in connection with these property dispositions. The loss represents the difference between the net proceeds (sale price less closing costs) and the carrying value of the properties at the date of disposition.

Cash inflow received from sale of investment properties for the three and six months ended:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Proceeds	\$ -	\$ 46,812	\$ -	\$ 81,146
Non-cash closing costs	-	-	-	176
Investment in joint venture	-	(5,688)	-	(5,688)
	<b>\$ -</b>	<b>\$ 41,124</b>	<b>\$ -</b>	<b>\$ 75,634</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 6. INVESTMENT IN JOINT VENTURES

The Trust accounts for its joint venture interests using the equity method. The following table details the Trust's ownership interest in its equity accounted investments:

Equity Investee	Location	Principal Activity	June 30, 2020	December 31, 2019
TIP Albert Limited Partnership	Ottawa	Develop, own and operate investment property	33.3%	33.3%
Fairview Limited Partnership	Burlington	Develop, own and operate investment property	25.0%	25.0%

The Trust is contingently liable for certain obligations of the joint ventures, up to the Trust's interest. All of the net assets of the joint ventures are available for the purpose of satisfying such obligations and guarantees.

The Trust is responsible to fund its total investment in the joint ventures for the development of the investment property.

The following table shows the changes in the carrying value of the investment in joint venture:

	June 30, 2020	December 31, 2019
Balance, beginning of period	\$ 24,693	\$ 17,064
Additions	1,397	7,605
Share of net income	21	24
Distributions	-	-
	\$ 26,111	\$ 24,693
Transaction costs	\$ 507	\$ 507
Carrying value of the investment in joint venture	\$ 26,618	\$ 25,200

The following tables shows the summarized financial information of the Trust's joint venture:

	June 30, 2020	December 31, 2019
Current assets	\$ 754	\$ 765
Non-current assets	145,505	138,935
Current liabilities	(2,811)	(1,141)
Non-current liabilities	(57,750)	(57,750)
Net assets	\$ 85,698	80,809
Trust's share	\$ 26,111	\$ 24,693

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Revenue	\$ 57	\$ -	\$ 113	\$ -
Expenses	17	-	30	-
Net income	\$ 40	\$ -	\$ 83	\$ -
Trust's share	\$ 10	\$ -	\$ 21	\$ -

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 7. RECEIVABLES AND OTHER ASSETS

	June 30, 2020	December 31, 2019
Current:		
Rents and other receivables, net of allowance for uncollectable amounts	\$ 1,480	\$ 1,528
Tenant inducements <sup>(1)</sup>	447	467
	<b>\$ 1,927</b>	<b>\$ 1,995</b>
Non-current:		
Automobiles, software, equipment and furniture and fixtures, net of accumulated amortization of \$2,065 (2019 - \$1,802)	\$ 1,998	\$ 1,680
Deferred finance fees on credit facilities, net of accumulated amortization of \$1,678 (2019 - \$1,606)	292	239
Loan receivable long-term incentive plan (note 13)	11,121	11,418
	<b>\$ 13,411</b>	<b>\$ 13,337</b>
	<b>\$ 15,338</b>	<b>\$ 15,332</b>

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

### 8. MORTGAGES AND LOANS PAYABLE

Mortgages are secured by the investment properties and bear interest at a weighted average interest rate of 2.83% (December 31, 2019 – 3.02%).

The mortgages mature at various dates between the years 2020 and 2030.

The aggregate future minimum principal payments, including maturities, are as follows:

2020	\$ 108,719
2021	90,707
2022	71,183
2023	81,439
2024	69,912
Thereafter	425,281
	847,241
Less: Deferred finance costs and mortgage premiums	15,731
	<b>\$ 831,510</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 9. CREDIT FACILITIES

	June 30, 2020	December 31, 2019
Demand credit facility <sup>(i)</sup>	\$ -	\$ -
Term credit facility <sup>(ii)</sup>	-	20,435
Term credit facility <sup>(iii)</sup>	-	6,430
Term credit facility <sup>(iv)</sup>	-	-
	<b>\$ -</b>	<b>\$ 26,865</b>

(i) The Trust has a \$2,000 (2019 - \$500) demand credit facility with a Canadian chartered bank secured by a general security agreement. The weighted average interest rate on amounts drawn during the period ended June 30, 2020 was 3.59% (2019 – 4.45%).

(ii) The Trust has a \$55,000 (2019 - \$55,000) term credit facility, maturing in 2022, with a Canadian chartered bank secured by a general security agreement and second collateral mortgages on ten (2019 – ten) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. The weighted average interest rate on amounts drawn during the period ended June 30, 2020 was 3.46% (2019 – 4.65%).

(iii) The Trust has a \$25,000 (2019 - \$25,000) term credit facility, maturing in 2021, with a Canadian chartered bank secured by a general security agreement, first mortgage on one (2019 – one) of the Trust's properties and second collateral mortgages on two (2019 – two) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread. The weighted average interest rate on amounts drawn during the period ended June 30, 2020 was 3.74% (2019 – 4.60%).

(iv) The Trust has a \$100,000 (2019 - \$60,000) term credit facility, maturing in 2021, with a Canadian chartered bank secured by a general security agreement, first mortgages on two (2019 – two) of the Trust's properties and second collateral mortgages on four (2019 – five) of the Trust's properties. Interest is charged at a floating rate plus a pre-defined spread for prime advances and banker's acceptances. The weighted average interest rate on amounts drawn during the period ended June 30, 2020 was 3.25% (2019 – 3.78%).

### 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2020	December 31, 2019
Accounts payable	\$ 2,462	\$ 7,219
Accrued liabilities	14,361	18,328
Accrued distributions	3,648	3,226
Mortgage interest payable	1,630	1,636
	<b>\$ 22,101</b>	<b>\$ 30,409</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 11. CLASS B LP UNIT LIABILITY

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

A summary of Class B LP Unit activity is presented below:

<b>Number of Units</b>	
<b>Balance – December 31, 2018</b>	<b>3,410,766</b>
Units issued	-
<b>Balance - December 31, 2019</b>	<b>3,410,766</b>
Units issued	-
<b>Balance – June 30, 2020</b>	<b>3,410,766</b>

The Class B LP Units represented an aggregate fair value of \$48,876 at June 30, 2020 (December 31, 2019 - \$53,345). The fair value represents the closing price of the Trust Units on the TSX on the reporting date, or the first trading date after the reporting date. Each Class B LP Unit is accompanied by a Special Voting Unit, which entitles the holder to receive notice of, attend and vote at all meetings of Unitholders. There is 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.

### 12. UNIT-BASED COMPENSATION LIABILITIES

Unit-based compensation liabilities are comprised of awards issued under the deferred unit plan (“DUP”) and the unit option plan as follows:

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Unit-based liabilities, beginning of period	<b>\$ 66,070</b>	\$ 48,392
Compensation expense – deferred unit plan	<b>3,901</b>	5,360
Compensation expense – unit option plan	-	51
DRIP <sup>(1)</sup> expense – deferred unit plan	<b>677</b>	1,205
DUP units converted, cancelled and forfeited	<b>(1,346)</b>	(2,296)
Unit options exercised and expired	<b>(890)</b>	(1,110)
(Gain)/Loss on fair value of liability (note 17)	<b>(9,974)</b>	14,468
Unit-based liabilities, end of period	<b>\$ 58,438</b>	\$ 66,070

<sup>(1)</sup> Distribution reinvestment plan

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

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

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 financial liability and re-measured at each reporting date, with changes recognized in the statement of income.

The maximum number of Trust Units issuable under the Trust's equity incentive compensation plans, which includes the DUP and unit options, as well as the long-term incentive plan (note 13) is 7% of the issued and outstanding Trust Units.

#### (i) DEFERRED UNIT PLAN

The deferred unit plan entitles trustees, officers and employees, at the participant's option, to elect to receive deferred units (elected portion) in consideration for trustee fees or bonus compensation under the employee incentive plan, as the case may be. The Trust matches the elected portion of the deferred units received. The matched portion of 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).

A summary of Deferred Unit activity is presented below:

<b>Number of Units</b>	
<b>Balance - December 31, 2018</b>	<b>3,942,911</b>
Units issued under deferred unit plan	376,081
Reinvested distributions on deferred units	85,135
Deferred units exercised into Trust Units	(76,697)
Deferred units purchased and cancelled	(75,871)
Deferred units cancelled	(22,635)
<b>Balance - December 31, 2019</b>	<b>4,228,924</b>
Units issued under deferred unit plan	304,079
Reinvested distributions on deferred units	45,945
Deferred units exercised into Trust Units (note 14)	(48,152)
Deferred units purchased and cancelled	(34,447)
Deferred units cancelled	(8,196)
<b>Balance - June 30, 2020</b>	<b>4,488,153</b>

The fair value of each unit granted is determined based on the weighted average observable closing market price of the REIT's Trust Units for the ten trading days preceding the date of grant.

The aggregate fair value of vested deferred units was \$53,023 at June 30, 2020 (December 31, 2019 - \$58,834). The fair value of the vested deferred units represents the closing price of the Trust Units on the TSX on the reporting date, or the first trading date after the reporting date, representing the fair value of the redemption price.



# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

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

#### (ii) UNIT OPTIONS

The Trust has a unit option plan and provides for options to be granted to the benefit of employees, Trustees and certain other third parties. 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. At the time of granting options, the Board of Trustees determines the time, or times, when an option or part of an option shall be exercisable. The Trust will not provide financial assistance to any optionee in connection with the exercise of options.

Options granted, exercised and expired during the six months ended June 30 are as follows:

	2020		2019	
	Number of units	Weighted average exercise price	Number of units	Weighted average exercise price
Balance, beginning of period	854,140	\$ 6.11	1,006,585	\$ 6.11
Exercised	(97,395)	\$ 4.73	(77,440)	\$ 5.80
<b>Balance, end of period</b>	<b>756,745</b>	<b>\$ 6.28</b>	<b>929,145</b>	<b>\$ 6.13</b>

Options outstanding at June 30, 2020:

Exercise price	Number of units	Remaining life in years	Number of units exercisable
\$ 5.50	55,000	2.18	55,000
\$ 5.65	252,500	2.96	252,500
\$ 5.81	225,500	4.47	225,500
\$ 7.67	223,745	7.08	223,745
	<b>756,745</b>		<b>756,745</b>

Total compensation expense for the six months was \$nil (2019 - \$44). Compensation cost was determined based on an estimate of the fair value using the Black-Scholes option pricing model at date of grant using the following weighted average assumptions for the 2017 grant: market price of unit \$7.86, expected option life 6 years, risk-free interest rate 1.67%, expected volatility, based on historical, 25% and expected distribution yield 5.0%.

The weighted average market price of options exercised in the six months ended June 30, 2020 was \$15.60.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

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Unaudited (Cdn \$ Thousands except unit amounts)

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

The unit options represented an aggregate fair value of \$5,415 at June 30, 2020 (December 31, 2019 - \$7,236). The fair value of unit options is re-valued at each reporting period based on an estimate of the fair value using the Black-Scholes option pricing model using the following weighted average valuation assumptions:

	June 30, 2020	December 31, 2019
Market price of Unit	\$ 14.33	\$ 15.64
Expected option life	1.7 years	1.7 years
Risk-free interest rate	0.30%	1.67%
Expected volatility (based on historical)	30%	17%
Expected distribution yield	5.0%	5.0%

### 13. 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 maximum number of Trust Units issuable under the Trust's equity incentive compensation plans, which includes the long-term incentive plan, as well as the DUP and unit option plan (note 12) is 7% of the issued and outstanding Trust Units. 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 7) 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 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.

Date of award	Number of units	Interest rate	Loan receivable
March 8, 2012	250,000	3.57%	\$ 726
June 29, 2012	25,000	3.35%	79
September 11, 2012	100,000	3.35%	456
June 27, 2013	150,000	3.85%	725
December 16, 2014	100,000	3.27%	507
June 9, 2015	75,000	3.44%	431
June 30, 2016	285,000	2.82%	2,050
July 28, 2017	465,000	3.09%	3,312
March 5, 2018	310,000	3.30%	2,835
	1,760,000		\$ 11,121

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 14. TRUST UNITS

As a result of the redeemable feature of the Trust Units, the Trust Units are defined as a financial liability; however, for the purposes of financial statement classification and presentation, the Trust Units are presented as equity instruments in accordance with IAS 32, Financial Instruments.

	Trust Units	Amount
<b>Balance – December 31, 2018</b>	<b>106,032,017</b>	<b>\$ 558,615</b>
Issued from prospectus	14,375,000	201,250
Unit issue costs	-	(8,559)
Units Issued under the deferred unit plan (note 12(i))	76,697	1,045
Units Issued under distribution reinvestment plan	842,562	11,888
Units Issued from options exercised (note 12(ii))	152,445	2,043
<b>Balance – December 31, 2019</b>	<b>121,478,721</b>	<b>\$ 766,282</b>
Issued from prospectus	15,709,000	230,137
Unit issue costs	-	(9,692)
Units Issued under the deferred unit plan (note 12(i))	48,152	737
Units Issued under distribution reinvestment plan	449,030	6,652
Units Issued from options exercised (note 12(ii))	97,395	1,350
<b>Balance – June 30, 2020</b>	<b>137,782,298</b>	<b>\$ 995,466</b>

On June 4, 2020 the Trust completed a bought deal prospectus offering whereby it issued 15,709,000 Trust Units for cash proceeds of \$230,137 and incurred \$9,692 in issue cost.

On May 5, 2020, the TSX approved the Trust's normal course issuer bid ("Bid") for a portion of its Trust Units. Under the Bid, the Trust may acquire up to a maximum of 11,481,830 of its Trust Units, or approximately 10% of its public float of 114,818,300 Trust Units as of April 30, 2020, for cancellation over the next 12 months commencing on May 11, 2020 until the earlier of May 10, 2021 or the date on which the Trust has purchased the maximum number of Trust Units permitted under the Bid. The number of Trust Units that can be purchased pursuant to the Bid is subject to a current daily maximum of 125,709 Trust Units (being 25% of the average daily trading volume), except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Purchases will be made at market prices through the facilities of the TSX.

For the six month period ended June 30, 2020, the Trust did not purchase any Trust Units.

On July 9, 2019 the Trust completed a bought deal prospectus offering whereby it issued 14,375,000 Trust Units for cash proceeds of \$201,250 and incurred \$8,559 in issue cost.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

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### 14. TRUST UNITS (Continued)

#### Declaration of Trust

The Declaration of Trust authorizes the Trust to issue an unlimited number of units for 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 the 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 Class B LP 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 Class B LP 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. There is no value assigned to the Special Voting Units.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 15. REVENUE FROM INVESTMENT PROPERTIES

The components of revenue from investments properties are as follows:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Lease revenue <sup>(1)</sup>	\$ 38,218	\$ 33,928	\$ 76,694	\$ 66,887
Other revenue <sup>(2)</sup>	786	814	1,678	1,586
	<b>\$ 39,004</b>	<b>\$ 34,742</b>	<b>\$ 78,372</b>	<b>\$ 68,473</b>

<sup>(1)</sup> Consists of lease revenue from residential, parking and commercial tenants

<sup>(2)</sup> Consists of revenue from non-lease items such as laundry, commercial common area maintenance and ancillary services

### 16. FINANCING COSTS

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Mortgages and loans payable	\$ 6,362	\$ 6,253	\$ 13,083	\$ 12,486
Credit facilities	320	700	794	1,056
Interest income	(148)	(106)	(248)	(236)
Interest capitalized to land held for development	(205)	(548)	(533)	(966)
Interest expense	6,329	6,299	13,096	12,340
Amortization of deferred finance costs on mortgages	243	226	508	454
Amortization of deferred finance costs on credit facilities	36	65	72	130
Amortization of fair value on assumed debt	(149)	(69)	(297)	(131)
	<b>\$ 6,459</b>	<b>\$ 6,521</b>	<b>\$ 13,379</b>	<b>\$ 12,793</b>

### 17. OTHER FAIR VALUE GAINS/(LOSSES)

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Class B LP unit liability	\$ (3,480)	\$ 2,524	\$ 4,469	\$ (2,558)
Unit-based compensation liability (deferred unit plan)	(4,076)	2,216	9,043	(5,394)
Unit-based compensation liability (option plan)	(710)	487	931	(769)
	<b>\$ (8,266)</b>	<b>\$ 5,227</b>	<b>\$ 14,443</b>	<b>\$ (8,721)</b>

### 18. INTEREST ON UNITS CLASSIFIED AS FINANCIAL LIABILITIES

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Class B LP unit liability	\$ 264	\$ 247	\$ 528	\$ 494
Unit-based compensation liability (deferred unit plan)	349	301	677	590
	<b>\$ 613</b>	<b>\$ 548</b>	<b>\$ 1,205</b>	<b>\$ 1,084</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 19. SUPPLEMENTAL CASH FLOW INFORMATION

#### (a) Net change in non-cash operating assets and liabilities

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Receivables and other assets	\$ (76)	\$ 1,038	\$ (533)	\$ 1,525
Prepaid and deposits	2,445	(1,767)	(676)	656
Accounts payable and accrued liabilities	(38)	234	(2,580)	(1,439)
Tenant rental deposits	317	470	(175)	238
	<b>\$ 2,648</b>	<b>\$ (25)</b>	<b>\$ (3,964)</b>	<b>\$ 980</b>

#### (b) Net cash distributions to unitholders

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Distributions declared to unitholders	\$ 9,856	\$ 7,722	\$ 19,287	\$ 15,425
Add: Distributions payable at beginning of period	3,146	2,571	3,138	2,563
Less: Distributions payable at end of period	(3,559)	(2,575)	(3,559)	(2,575)
Less: Distributions to participants in the DRIP	(3,003)	(2,532)	(6,652)	(5,196)
	<b>\$ 6,440</b>	<b>\$ 5,186</b>	<b>\$ 12,214</b>	<b>\$ 10,217</b>

#### (c) Interest paid

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Interest expense	\$ 6,329	\$ 6,299	\$ 13,096	\$ 12,340
Add: Mortgage interest payable at beginning of period	1,652	1,540	1,636	1,512
Less: Mortgage interest payable at end of period	(1,630)	(1,540)	(1,630)	(1,540)
Add: Interest capitalized	205	548	533	966
Add: Interest income received	148	106	248	236
	<b>\$ 6,704</b>	<b>\$ 6,953</b>	<b>\$ 13,883</b>	<b>\$ 13,514</b>

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 19. SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

#### (d) Reconciliation of liabilities arising from financing activities

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
<b>Mortgages payable</b>				
Balance, beginning of period	\$ 925,723	\$ 834,318	\$ 897,008	\$ 817,512
Mortgage advances	-	-	42,227	-
Assumed mortgages	-	-	-	26,955
Repayment of mortgages	(78,482)	(4,399)	(91,994)	(14,548)
	<b>\$ 847,241</b>	<b>\$ 829,919</b>	<b>\$ 847,241</b>	<b>\$ 829,919</b>

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
<b>Credit Facilities</b>				
Balance, beginning of period	\$ 37,245	\$ 38,540	\$ 26,865	\$ 23,550
Advances of credit facilities	-	46,715	-	61,705
Repayment of credit facilities	(37,245)	-	(26,865)	-
	<b>\$ -</b>	<b>\$ 85,255</b>	<b>\$ -</b>	<b>\$ 85,255</b>

### 20. 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, Class B LP units and deferred unit capital and options recorded as unit-based compensation liabilities.

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 investment 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 June 30, 2020, the debt to gross book value ratio is 28.0% (December 31, 2019 – 32.5%).

In addition, the Trust is subject to financial covenants in its mortgages payable and credit facilities such as minimum tangible net worth, interest coverage, debt service coverage and leverage ratio (similar to debt to gross book value as calculated in the Declaration of Trust). The Trust was in compliance with all financial covenants throughout the six month period ended June 30, 2020 and the year ended December 31, 2019.

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

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### 21. FINANCIAL RISK MANAGEMENT

#### 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.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The duration and impact of the COVID-19 pandemic on the Trust is unknown at this time but has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Uncertain economic conditions resulting from the COVID-19 outbreak may, in the short or long term, materially adversely impact: the Trust's tenants and their ability to pay rent (credit risk); and/or, the debt and equity markets and the Trust's ability to access debt and/or capital on acceptable terms, or at all (liquidity risk), all of which could materially adversely affect the Trust's operations and financial performance.

#### b) Credit Risk

The Trust's credit risk is attributable to its rents and other receivables and loan receivable long-term incentive plan.

Credit risk arises from the possibility that: (i) tenants may experience financial difficulty and be unable to fulfil their lease commitments; and (ii) a party defaults on the repayment of their debt causing a financial loss to the Trust.

For its rents receivable, the Trust conducts credit assessments for all prospective tenants and, where permitted, obtains a security deposit to assist in potential recoveries. The Trust monitors its collection process on a monthly basis and all receivables from past tenants and tenant receivables over 30 days are provided for in allowances for doubtful accounts.

Credit risk relating to other receivables and loan receivable long-term incentive plan is mitigated through recourse against such parties and/or the underlying security. These receivables are considered to have low credit risk.

At June 30, 2020, the Trust had past due rents and other receivables of \$2,828 (December 31, 2019 - \$2,674), net of an allowance for doubtful accounts of \$1,348 (December 31, 2019 - \$1,147) which adequately reflects the Trust's credit risk.



# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 21. FINANCIAL RISK MANAGEMENT (Continued)

#### 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 20 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) when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Trust's reputation. In addition, liquidity and capital availability risks are mitigated by diversifying the Trust's sources of funding, maintaining a staggered debt maturity profile and actively monitoring market conditions.

As at June 30, 2020, the Trust had credit facilities as described in note 9.

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.

The undiscounted contractual maturities and repayment obligations of the Trust's financial liabilities, excluding unit-based compensation liabilities and Class B LP unit liability as their redemption time is uncertain, as at June 30, 2020 are as follows:

Year	Mortgages payable	Mortgage interest <sup>(1)</sup>	Credit facilities	Accounts payable and accrued liabilities	Total
2020	\$108,719	\$11,531	\$-	\$22,101	\$142,351
2021	90,707	20,135	-	-	110,842
2022	71,183	18,085	-	-	89,268
2023	81,439	15,562	-	-	97,001
2024	69,912	13,223	-	-	83,135
Thereafter	425,281	43,890	-	-	469,171
	<b>\$847,241</b>	<b>\$122,426</b>	<b>\$-</b>	<b>\$22,101</b>	<b>\$991,768</b>

<sup>(1)</sup> Based on current in-place interest rates for the remaining term to maturity.

#### d) 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 June 30, 2020, approximately 5% (December 31, 2019 – 12%) of the Trust's mortgage debt is at variable interest rates and the Trust's credit facilities also bear interest at variable rates. If there was a 100 basis point change in the interest rate, cash flows would have changed by approximately \$396 for the six months ended June 30, 2020 (2019 - \$753).

# InterRent Real Estate Investment Trust

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

### 22. FAIR VALUE MEASUREMENT

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.

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 payable, approximate their recorded values due to their short-term nature and/or the credit terms of those instruments.

The fair value of the mortgages payable has been determined by discounting the cash flows using current market rates of similar instruments. These estimates are subjective in nature and therefore cannot be determined with precision. The fair value of mortgages payable, and credit facilities, which are measured at a fair value level 2, is approximately \$873,527 (December 31, 2019 - \$931,624) excluding any deferred financing costs.

The following table presents the fair values by category of the Trust's assets and liabilities:

<b>June 30, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>			
Investment properties	-	-	\$2,807,281
<b>Liabilities</b>			
Unit-based compensation liability	-	\$58,438	-
Class B LP unit liability	-	48,876	-
<b>December 31, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>			
Investment properties	-	-	\$ 2,748,342
<b>Liabilities</b>			
Unit-based compensation liability	-	\$ 66,070	-
Class B LP unit liability	-	53,345	-

# InterRent Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2020 and 2019 and as at December 31, 2019

Unaudited (Cdn \$ Thousands except unit amounts)

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## 23. COMMITMENTS AND 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.

## 24. SUBSEQUENT EVENTS

The Trust purchased two properties with a total of 60 suites that closed on July 16, 2020 for a combined purchase price of approximately \$17,700.

The Trust purchased a property with 36 suites that closed on July 23, 2020 for a purchase price of approximately \$5,200.