minto
Apartment REIT

Condensed Consolidated Interim Financial Statements of

MINTO APARTMENT REAL ESTATE INVESTMENT TRUST

For the three months ended September 30, 2018 and the period from April 24, 2018 (date of formation) to September 30, 2018

Unaudited

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Balance Sheet

Unaudited

(in thousands of Canadian dollars)

As at	Note		September 30, 2018
Assets			
Investment properties	5	$	1,130,495
Prepaid expenses and other assets	6		3,435
Resident and other receivables	7		583
Cash			1,538
		$	1,136,051
Liabilities and Unitholders' Equity			
Liabilities			
Mortgages	8	$	238,590
Credit facility	8		23,103
Class B LP Units	9		356,070
Class C LP Units	10		232,390
Unsecured promissory note	11		25,707
Due to related parties	11		2,740
Tenant rental deposits			5,154
Accounts payable and accrued liabilities	12		8,637
		$	892,391
Unitholders' equity			243,660
Contingencies and commitments	17		
		$	1,136,051

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Statement of Net Income and Comprehensive Income

For the three months ended September 30, 2018 and the period from April 24, 2018 (date of formation) to September 30, 2018

Unaudited

(in thousands of Canadian dollars)

	Note		Refer to Note 1
Revenue from investment properties	15	$	21,098
Property operating expenses			
Property operating costs			4,004
Property taxes			2,279
Utilities			1,727
			8,010
Property operating income			13,088
Other expenses (income)			
General and administrative			1,055
Fair value adjustment to Class B LP Units	9,16		51,884
Finance costs - operations	16		6,139
Bargain purchase gain	4		(79,163)
			(20,085)
Net income and comprehensive income		$	33,173

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Statement of Changes in Unitholders' Equity

For the period from April 24, 2018 (date of formation) to September 30, 2018

Unaudited

(in thousands of Canadian dollars)

	Units	Distributions	Retained earnings	Total
Balance, beginning of period	$ -	$ -	$ -	$ -
Units issued, net of issue costs (Note 13)	212,078	-	-	212,078
Net income and comprehensive income	-	-	33,173	33,173
Distributions	-	(1,591)	-	(1,591)
Balance, end of period	$ 212,078	$ (1,591)	$ 33,173	$ 243,660

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Statement of Cash Flows

For the three months ended September 30, 2018 and the period from April 24, 2018 (date of formation) to September 30, 2018

Unaudited

(in thousands of Canadian dollars)

	Note		Refer to Note 1
Cash provided by (used in):			
Operating activities			
Net income		$	33,173
Adjustments for:			
Finance costs - operations	16		6,139
Fair value adjustment to Class B LP Units	9,16		51,884
Straight line receivables			14
Bargain purchase gain	4		(79,163)
Change in non-cash working capital	20		3,269
Cash provided by operating activities			15,316
Financing activities			
Proceeds from issuance of Units, net of issuance costs			213,054
Principal repayments on mortgages	8		(1,067)
Proceeds from credit facility	8		28,561
Repayments on credit facility	8		(5,458)
Repayment of unsecured promissory note	4,11		(28,458)
Redemption of Class B LP Units	9		(28,277)
Distributions on Class B LP Units			(1,379)
Distributions on Class C LP Units			(2,310)
Distributions on Units			(1,049)
Interest paid			(1,786)
Cash provided by financing activities			171,831
Investing activities			
Acquisition of the Portfolio	4		(183,288)
Cash balance transferred in acquisition of Portfolio	4		2,100
Capital additions to investment properties			(4,421)
Cash used in investing activities			(185,609)
Change in cash during the period			1,538
Cash, beginning of period			-
Cash end of period		$	1,538

See accompanying notes to the unaudited condensed consolidated interim financial statements.

1. Description of the entity

Minto Apartment Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated April 24, 2018, which was amended and restated on June 27, 2018, and further amended by the first amendment and restated declaration of trust on July 10, 2018. The REIT was formed to own and operate a portfolio of income-producing multi-residential rental properties located in Canada. For the period from April 24, 2018 to June 30, 2018 there were no results of operations and as a result the REIT has not provided separate statements of net income and comprehensive income and cash flows corresponding to this period.

The REIT's operations commenced on July 2, 2018 when the REIT indirectly acquired a portfolio of 22 multi-residential rental properties (the "Portfolio"), comprising an aggregate of 4,279 suites located in urban centres in Ontario and Alberta. The Portfolio is held by Minto Apartment Limited Partnership (the "Partnership") which is consolidated by the REIT. On July 3, 2018, the REIT completed its initial public offering ("IPO") of trust Units ("Units") and raised gross proceeds of $200,013 through the issuance of 13,794,000 Units at a price of $14.50 per Unit.

On July 10, 2018, pursuant to the over-allotment option granted to the underwriters in connection with the IPO, the REIT issued an additional 2,069,100 Units at a price of $14.50 per Unit, resulting in proceeds of $30,002. The proceeds of the over-allotment option were used to redeem 2,069,100 Class B LP Units held by Minto Properties Inc. ("MPI"). Following the closing of the over-allotment option, there are 15,863,100 Units issued and outstanding.

The REIT was established under the laws of the Province of Ontario. The principal and registered office of the REIT is 200-180 Kent Street, Ottawa, Ontario.

2. Basis of preparation

(a) Basis of presentation and measurement

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis, except for investment properties, Class B LP Units and deferred unit plans which have been measured at fair value. The unaudited condensed consolidated interim financial statements have been presented in Canadian dollars, which is the REIT's functional currency.

(b) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34, *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

These unaudited condensed consolidated interim financial statements were approved by the Board of Trustees of the REIT and authorized for issuance on November 12, 2018.

3. Significant accounting policies

(c) Basis of consolidation

The unaudited condensed consolidated interim financial statements include the financial statements of the REIT and its subsidiaries, including the Partnership. Subsidiaries are consolidated from the date of acquisition, being the date on which the REIT obtains control, and continue to be consolidated until the date when control is lost. Control exists when the REIT is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The accounting policies of subsidiaries have been modified when necessary to align them with the policies adopted by REIT. All intra-group balances, transactions and unrealized gains and losses are eliminated in full upon consolidation.

(d) Business combinations

At the time of acquisition of property, whether through a controlling share investment or directly, the REIT considers whether the acquisition represents the acquisition of a business. The REIT accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired. If no significant processes, or only insignificant processes, are acquired, the acquisition is treated as an asset acquisition rather than a business combination.

The cost of a business combination is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. The REIT recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination.

Subsequent changes in the fair value of contingent consideration arrangements are recognized in net income. The difference between the purchase price and the fair value of the acquired identifiable net assets and liabilities is goodwill. On the date of acquisition, goodwill is recorded as an asset. A bargain purchase gain is recognized immediately in the consolidated statement of net income and comprehensive income. The REIT expenses transaction costs associated with business combinations in the period incurred. When an acquisition does not meet the criteria for business combination accounting treatment, it is accounted for as an acquisition of a group of assets and liabilities, the cost of which includes transaction costs that are allocated upon initial recognition to the assets and liabilities acquired based upon their relative fair values.

Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period”, which cannot exceed one year from the acquisition date about facts and circumstances that existed at the acquisition date. Subsequent changes in fair value of contingent consideration classified as assets or liabilities that do not qualify as measurement period adjustments are recognized as a gain or loss in net income.

(e) Investment properties

The REIT uses the fair value method to account for real estate classified as investment property. Property that is held for long-term rentals or for capital appreciation or both is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property. Subsequent capital expenditures are added to the carrying value of the investment properties only when it is probable that future economic benefits will flow to the property and the cost can be measured reliably. All repairs and maintenance costs are expensed as incurred.

The acquisition of investment properties is initially measured at cost including directly attributable acquisition costs. Directly attributable acquisition costs include professional fees, land transfer taxes and other transaction costs.

After initial recognition, investment properties are carried at fair value, which is determined based on available market evidence at each reporting date. Gains or losses arising from changes in fair value are included in net income during the year in which they arise. When an investment property is disposed of, the gain or loss is determined as the difference between the disposal proceeds, net of selling costs and the carrying amount of the property and is recognized in net income in the period of disposal.

Fair value for residential properties is determined using the direct capitalization approach. Estimated stabilized net operating income is based on the respective property’s forecasted results, less aggregate future capital expenditures. Capitalization rates reflect the characteristics, location and market of each property. Fair value is determined using both internal and external valuations.

Fair value for commercial properties is determined using the discounted future cash flow method over a term of ten years plus a terminal value. Capitalization rates reflect the characteristics, location and market of each property. Future cash flows are based on estimated rental revenue from future leases less related estimated future cash outflows. Fair value is determined using both internal and external valuations.

(f) Financial instruments

Financial instruments are generally measured at fair value on initial recognition. The classification and measurement of financial assets consists of the following categories: (i) measured at amortized cost, (ii) fair value through profit and loss ("FVTPL"), and (iii) fair value through other comprehensive income (“FVTOCI”). Financial assets classified at amortized cost are measured using the effective interest method. Financial assets classified as FVTPL are measured at fair value with gains and losses recognized in the condensed consolidated statement of net income. Financial assets classified as FVTOCI are measured at fair value with gains or losses recognized through other comprehensive income, except for gains and losses pertaining to impairment or foreign exchange recognized through net income.

The classification and measurement of financial liabilities consists of the following categories: (i) measured at amortized cost and (ii) FVTPL. Financial liabilities classified at amortized cost are measured using the effective interest method. Financial liabilities classified as FVTPL are measured at fair value with changes in fair value attributable to changes in the credit risk of the liability presented in other comprehensive income, and the remaining amount of change in fair value presented in the condensed consolidated statement of net income.

The REIT has made the following classifications for its financial instruments:

Account	Measurement
Restricted cash	Amortized cost
Resident and other receivables	Amortized cost
Cash	Amortized cost
Mortgages	Amortized cost
Credit facility	Amortized cost
Class B LP Units	FVTPL
Class C LP Units	Amortized cost
Unsecured promissory note	Amortized cost
Due to related parties	Amortized cost
Tenant rental deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

The REIT derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The REIT derecognizes a financial liability when, and only when, the REIT's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized through net income.

Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method. These costs include interest, amortization of discounts or premiums relating to borrowings, fees and commissions paid to agents, brokers and advisers and transfer taxes and duties.

Units

Units are redeemable at the holder's option and therefore are considered to be a puttable instrument in accordance with IAS 32, *Financial Instruments: Presentation* ("IAS 32"). Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case the puttable instruments may be presented as equity. The Units meet the exemption conditions of IAS 32 and are presented as equity.

Class B LP Units

The Class B LP Units of the Partnership are economically equivalent to Units, receive distributions equal to the distributions paid on Units and are exchangeable at the holder's option into Units. One Special Trust Voting Unit in the REIT is issued to the holder of Class B LP Units for each Class B LP Unit held. However, the limited IAS 32 exception for presentation as equity does not extend to the Class B LP Units. As a result, the Class B LP Units have been classified as financial liabilities and are measured at FVTPL. The fair value of the Class B LP Units is measured every period by reference to the traded value of the Units, with changes in measurement recorded in net income. Distributions on the Class B LP Units are recorded as a finance cost in the condensed consolidated statements of net income and comprehensive income in the period in which they become payable.

Class C LP Units

The Class C LP Units provide for monthly distributions from the Partnership to the holder of such Class C LP Units to be paid in priority, subject to certain restrictions, to distributions to holders of the Units and Class B LP Units. Due to the nature of such distributions, the Class C LP Units have been classified as financial liabilities and are carried at amortized cost. Distributions on the Class C LP Units consist of principal repayments and interest expense, with principal repayments reducing the outstanding amount of Class C LP Units and interest expense recorded in finance costs in the condensed consolidated statements of net income and comprehensive income in the period in which they become payable.

Impairment

The REIT has adopted the practical expedient to determine the expected credit loss ("ECL") on resident and other receivables using a provision matrix based on historical credit loss experience adjusted for current and forecasted future economic conditions to estimate ECL. Resident and other receivables are initially measured at fair value and are subsequently measured at amortized cost less a provision for impairment.

(g) Fair value measurement

The REIT measures financial instruments, such as Class B LP Units, and non-financial assets, such as investment properties, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the REIT.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interests.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The REIT uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the unaudited condensed consolidated interim financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

(a) Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

(b) Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

(c) Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the unaudited condensed consolidated interim financial statements on a recurring basis, the REIT determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash, restricted cash, resident and other receivables, due to related parties, tenant rental deposits and accounts payable and accrued liabilities are carried at amortized cost, which, due to their short term nature, approximates fair value. Additionally, the credit facility is carried at amortized cost as its variable rate approximates fair value.

The REIT estimates the fair value of its mortgages, Class C LP Units and the unsecured promissory note based on the rates that could be obtained for similar debt instruments with similar terms and maturities. Their fair value qualifies as level 2 in the fair value hierarchy above.

There were no transfers of assets between fair value levels during the periods presented herein.

(h) Restricted cash

Restricted cash consists of tenant security deposits held in trust accounts.

(i) Cash

Cash includes cash on hand and cash maintained in bank accounts.

(j) Income taxes

The REIT is a "mutual fund trust" and a "real estate investment trust" as defined in the Income Tax Act (Canada). Under current tax legislation, a “real estate investment trust” is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to Unitholders. The REIT qualifies as a “real estate investment trust” and intends to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

(k) Revenue recognition

The REIT retains substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases.

Rental revenue includes base rents earned from tenants under operating lease agreements which is allocated to lease components based on relative stand-alone selling prices. The stand-alone selling prices of the rental component are determined using an adjusted market assessment approach and the stand-alone selling prices of the service components are determined using an expected cost plus a margin approach.

Rental revenue from the rental component is recognized on a straight-line basis over the lease term. When the REIT provides incentives to its tenants, the cost of incentives is recognized over the lease term, on a straight-line basis, as a reduction of revenue.

Revenue from services represents the service component of the REIT’s leases and is accounted for in accordance with IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”). These services consist primarily of the recovery of utility, property maintenance and amenity costs where the REIT has determined it is acting as a principal and is recognized over time when the services are provided. Payments are due at the beginning of each month and any payments made in advance of scheduled due dates are recorded as contract liabilities.

(l) Expenses

Operating expenses and general and administrative expenses are recognized in net income and comprehensive income in the period in which they are incurred.

(m) Finance costs

Finance costs are comprised of interest expense on secured debt and unsecured debt, amortization of mark-to-market adjustments and financing charges, distributions on Class B LP Units and Class C LP Units and fair value adjustment to Class B LP Units. Finance costs associated with financial liabilities presented at amortized cost are presented in net income using the effective interest method.

(n) Unit-based compensation

The REIT maintains an Omnibus Equity Incentive Plan (the "Plan") for its Trustees, employees and consultants pursuant to which eligible participants may receive Deferred Units, Performance Units, Restricted Units or other similar types of security based compensation. Awards under these plans may be settled by Units issued from treasury or, if so elected by the participant and subject to the approval of the Board of Trustees, cash payable upon vesting. The grant date fair value of the amount payable is recognized as part of the general and administrative expenses over the vesting period, with a corresponding increase in liabilities over the service period related to the award. The grant date fair value is calculated using the market price of the Units on the grant date. The liability is remeasured at each reporting date and settlement date using market price of the Units as defined in the Plan as of the date of measurement. Any changes in the value of the liability are recognized as fair value adjustments through net income.

(o) Critical judgments in applying accounting policies

The following are the critical judgments that have been made in applying the REIT's accounting policies and that have the most significant effect on the amounts in the unaudited condensed consolidated interim financial statements:

(i) Investment property acquisitions

The REIT must assess whether an acquisition transaction should be accounted for as an asset acquisition or a business combination under IFRS 3, *Business Combinations*. This assessment requires management to make judgements on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the REIT obtains control of the business.

(p) Critical accounting estimates and assumptions

The REIT makes estimates and assumptions that affect the carrying amounts of assets and liabilities and the reported amount of income for the period. Actual results could differ from estimates. The estimates and assumptions that the REIT considers critical include:

(i) Investment properties valuation

In applying the REIT’s policy with respect to investment properties, estimates and assumptions are required to determine the valuation of the properties under the fair value model.

(q) Future changes in accounting standards

The following accounting standards under IFRS have been issued or revised, however are not yet effective and as such have not been applied to these unaudited condensed consolidated interim financial statements.

(i) IFRS 16, *Leases* ("IFRS 16")

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, *Leases*, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have also been impacted, including the definition of a lease. Transitional provisions have been provided.

The REIT is reviewing the standard to determine the potential impact, if any. The REIT intends to adopt IFRS 16 in its consolidated financial statements beginning on January 1, 2019, when the standard becomes effective, using the modified retrospective approach with any cumulative effect of initially applying IFRS 16 recorded as an adjustment to opening equity at the date of initial application.

(ii) IAS 19, *Employee Benefits* ("IAS 19")

If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The REIT is reviewing the standard to determine the potential impact, if any, prior to the effective date of January 1, 2019.

There are no other accounting standards or interpretations under IFRS that are not yet effective that would be expected to have a material impact on the REIT's unaudited condensed consolidated interim financial statements.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

4. Business combination

On July 2, 2018, the REIT completed the indirect acquisition of the Portfolio from MPI. The acquisition of the Portfolio was accounted for as a business combination using the purchase method of accounting with the preliminary allocation to the fair value of identifiable net assets acquired as follows:

		July 2, 2018
Investment properties	$	1,123,000
Cash		2,100
Prepaids and other assets		4,677
Accounts receivable		87
Assumed secured debt, including mark-to-market adjustment of $2,742		(239,754)
Accounts payable and accrued liabilities		(1,067)
Tenant rental deposits		(5,234)
Due to related parties		(1,049)
		882,760
Excess fair value of net assets acquired over consideration paid		(79,163)
Total consideration for acquisition	$	803,597
Consideration given by the REIT consists of the following:		
Issuance of Class B LP Units	$	(332,463)
Issuance of Class C LP Units, including mark-to-market adjustment of $3,558		(233,608)
Unsecured promissory note issued to MPI, including mark-to-market adjustment of $88		(25,780)
Unsecured promissory note issued to MPI		(28,458)
Acquisition note issued to MPI		(183,288)
Total consideration for acquisition	$	(803,597)

The initial accounting for the business combination is preliminary and may be subject to adjustments should additional information arise affecting facts and circumstances that existed at the acquisition date.

The unsecured promissory note of $28,458 and the acquisition note of $183,288 were paid on July 3, 2018.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

5. Investment properties

		September 30, 2018
Balance, beginning of period	$	-
Additions		
Acquisition of the Portfolio		1,123,000
Capital expenditures		7,454
Other		41
Balance, end of period	$	1,130,495

The following is a breakdown of the REIT's investment properties by type:

		September 30, 2018
Residential properties	$	1,113,295
Commercial properties		17,200
	$	1,130,495

The fair value methodology for the REIT's investment properties is considered level 3, as significant unobservable inputs are required to determine fair value. The fair value of investment properties is based on external or internal valuations. For the three months ended September 30, 2018, 100% of the value of the REIT's investment property portfolio was internally valued.

The fair value of the REIT's investment properties is determined by qualified, independent external appraisers annually. The qualified external appraisers hold recognized relevant professional qualifications and have recent experience in the location and category of the respective property. On an interim basis, management undertakes a review of its investment property valuation between external appraisal dates to assess the continuing validity of the underlying assumptions, such as rent increases, cash flows, capitalization rates and discount rates. These assumptions are tested against market information obtained from independent appraisal firms. Where increases or decreases are warranted, the carrying values of the REIT's investment properties are adjusted.

The below table summarizes the key unobservable inputs:

	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Residential properties	Direct capitalization approach	Capitalization rates	There is an inverse relationship between the capitalization rates and the fair value; in other words, the higher the capitalization rates, the lower the estimated fair value.
Commercial properties	Discounted future cash flow approach	Discount and terminal capitalization rates	There is an inverse relationship between the discount and capitalization rates and the fair value; in other words, the higher the discount and/or capitalization rate, the lower the estimated fair value.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

The following table summarizes the key valuation metrics of the REIT's residential properties:

	September 30, 2018		
	Min	Max	Weighted Average
Capitalization rate	3.59%	5.00%	4.24%

The following table summarizes the key valuation metrics of the REIT's commercial properties:

	September 30, 2018		
	Min	Max	Weighted Average
Discount rate	5.75%	6.75%	6.07%
Terminal capitalization rate	5.25%	6.25%	5.57%
Number of discount years			10.00

The below table summarizes the sensitivity of the fair value of investment properties to changes in the capitalization and discount rates as at September 30, 2018:

	Capitalization rate only		Discount and capitalization rates	
Rate sensitivity	Residential fair value	Change in fair value	Commercial fair value	Change in fair value
+ 75 basis points	$ 932,166	$ (181,129)	$ 14,500	$ (2,700)
+ 50 basis points	982,586	(130,709)	15,300	(1,900)
+ 25 basis points	1,038,617	(74,678)	16,200	(1,000)
Base rate	1,113,295	-	17,200	-
- 25 basis points	1,171,730	58,435	18,300	1,100
- 50 basis points	1,251,624	138,329	19,500	2,300
- 75 basis points	1,342,955	229,660	20,800	3,600

6. Prepaid expenses and other assets

	September 30, 2018
Current	
Prepaid expenses	$ 3,208
Restricted cash	158
Deposits	69
	$ 3,435

(in thousands of Canadian dollars, except Unit and per Unit amounts)

7. Resident and other receivables

		September 30, 2018
Current		
Resident receivables	$	265
Other receivables		386
Less: Allowance for credit losses		(68)
	$	583

There is no significant concentration of credit risk with respect to trade receivables as the REIT has a large number of tenants.

8. Secured debt

		September 30, 2018
Mortgages[1]	$	235,945
Unamortized mark-to-market adjustment		2,645
Total mortgages		238,590
Credit facility[2]		23,103
	$	261,693
Current		4,829
Non-current		256,864
	$	261,693

[1] Mortgages are secured by investment properties, bear interest at a weighted average contractual interest rate of 3.19% and mature at various dates from 2022 through 2030.

[2] The REIT has a committed credit facility of $150,000 that is secured by several investment properties, matures on July 3, 2021 and will be used to fund working capital requirements and for general corporate purposes. At September 30, 2018, $126,897 of this facility was available in accordance with its terms and conditions and $23,103 was utilized. The credit facility bears interest at bankers' acceptance plus 1.75% or prime plus 0.75% and as at September 30, 2018, the variable interest rate was 3.67%.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

Secured debt balances at September 30, 2018, excluding mark-to-market adjustments, are due as follows:

2018	$	1,179
2019		4,798
2020		4,953
2021		28,216
2022 and thereafter		219,902

Secured debt activity for the period from April 24, 2018 (date of formation) to September 30, 2018 is as follows:

	Mortgages	Unamortized mark-to-market premium	Credit facility	Total
Balance, beginning of period	$ -	$ -	$ -	$ -
Cash flows				
Issued	-	-	28,561	28,561
Repayments	(1,067)	-	(5,458)	(6,525)
	(1,067)	-	23,103	22,036
Non-cash movement				
Debt assumed upon business combination	237,012	2,742	-	239,754
Amortization of mark-to-market	-	(97)	-	(97)
	237,012	2,645	-	239,657
Balance, end of period	$ 235,945	$ 2,645	$ 23,103	$ 261,693

As at September 30, 2018 the REIT was in compliance with all financial covenants relating to its debt obligations.

Fair value for mortgages is calculated based on current market rates plus risk-adjusted spreads on discounted cash flows. As at September 30, 2018, the current market rates plus risk-adjusted spreads ranged from 3.09% to 3.94% and the fair value of the mortgages was $234,831 and is considered level 2 within the fair value hierarchy. The value of the credit facility approximates its fair value and is considered level 2 within the fair value hierarchy.

9. Class B LP Units

On July 3, 2018, 22,928,510 Class B LP Units were issued and outstanding with a fair value of $332,463. On July 10, 2018, pursuant to the over-allotment option granted to the underwriters in connection with the IPO, the REIT issued 2,069,100 additional Units for net proceeds of $28,277. The net proceeds received were used to redeem 2,069,100 Class B LP Units.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

The following table presents the change in and outstanding amount of Class B LP Units for the period from April 24, 2018 (date of formation) to September 30, 2018.

	Units		$
Class B LP Units, beginning of period	-	$	-
Cash flows			
Class B LP Units redeemed	(2,069,100)		(28,277)
Non-cash movement			
Class B LP Units issued	22,928,510		332,463
Fair value adjustments	-		51,884
	22,928,510		384,347
Class B LP Units, end of period	20,859,410	$	356,070

Distributions of $2,092 to Class B LP Unitholders were declared during the period ended September 30, 2018.

The fair value methodology for the Class B LP Units is considered level 2 within the fair value hierarchy.

10. Class C LP Units

The following table presents the change in and outstanding amount of Class C LP Units for the period from April 24, 2018 (date of formation) to September 30, 2018.

	Units		$
Class C LP Units, beginning of period	-	$	-
Cash movements			
Distributions used to repay principal	-		(1,097)
Non-cash movements			
Class C LP Units issued	22,978,700		230,050
	-		228,953
Unamortized mark-to-market adjustment	-		3,437
Class C LP Units, end of period	22,978,700	$	232,390
Current			5,461
Non-current			226,929
		$	232,390

The REIT made distributions of $1,808 to Class C LP Unitholders that were accounted for as finance costs during the period ended September 30, 2018.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

The mortgages of investment properties to which the distributions of the Class C LP Units relate bear a weighted average contractual interest rate of 3.16% and mature at various dates between 2023 and 2030.

Distributions on Class C LP Units as at September 30, 2018, excluding mark-to-market adjustments, are due as follows:

2018	$	1,233
2019		5,019
2020		5,178
2021		5,341
2022 and thereafter		212,182

Fair value for the Class C LP Units is calculated based on current market rates plus risk-adjusted spreads on discounted cash flows. As at September 30, 2018, the current market rates plus risk-adjusted spreads ranged from 3.13% to 3.32% and the fair value of the Class C LP Units was $228,234 and is considered level 2 within the fair value hierarchy.

11. Related-party transactions

In the normal course of operations, the REIT enters into various transactions with related parties and the REIT's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

(a) Administrative Support Agreement

On July 3, 2018, the REIT and MPI entered into a five year renewable Administrative Support Agreement ("ASA"). This agreement provides the REIT with certain advisory, transaction and support services, including clerical and administrative support, operational support for the administration of day-to-day activities of the REIT and office space. The REIT will pay MPI $500 plus harmonized sales tax for the services during the first year.

As at September 30, 2018, due to related parties includes $141 incurred by the REIT for services rendered under this agreement. After the first year, these services will be provided on a cost recovery basis, subject to a maximum for all general and administrative expenses, excluding public company costs, of 32bps of the gross book value of the REIT's assets.

(b) Unsecured promissory notes

On closing of the IPO, the REIT issued a promissory note to MPI with a principal amount of $25,692 and mark-to-market adjustment of $88, bearing interest at 2.84%, with interest and principal payments due monthly in arrears. The unsecured promissory note will mature on July 1, 2019, at which time the REIT has the option to refinance this promissory note. As at September 30, 2018, the fair value of the unsecured promissory note is $25,698 and is considered level 2 within the fair value hierarchy.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

The changes in the unsecured promissory note for the period from April 24, 2018 (date of formation) to September 30, 2018 are as follows:

		$
Unsecured promissory note, beginning of period	$	-
Cash flows		
Repaid		(51)
Non-cash movements		
Issued		25,692
		25,641
Unamortized mark-to-market adjustments		66
Unsecured promissory note, end of period		25,707

On July 3, 2018 the REIT fully repaid a separate unsecured promissory note issued to MPI in the amount of $28,458.

(c) Due to related parties

Amounts due to related parties includes $713 and $595 relating to distributions payable to MPI on Class B LP Units and Class C LP Units respectively. Additionally, amounts payable to MPI include $820 to reimburse transaction costs, $471 for working capital prior to the acquisition of the Portfolio and $141 in connection with the ASA.

Due to related parties includes amounts that are non-interest bearing, unsecured and are due on demand.

(d) Revenue and expenses

- Included in rental revenue is $112 of revenue from MPI for rent paid for office space, furnished suites and parking at certain REIT properties.
- Compensation expense includes $160 paid to key management personnel.
- Included in finance costs are distributions on Class B LP Units and Class C LP Units of $2,092 and $1,808 paid or payable to MPI respectively.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

12. Accounts payable and accrued liabilities

		September 30, 2018
Current		
Accounts payable	$	4,169
Accrued liabilities		3,926
Distributions payable		542
	$	8,637

13. Units

The following table presents the change in and outstanding amount of Units for the period from April 24, 2018 (date of formation) to September 30, 2018.

	Units		$
Authorized	Unlimited		
Units issued and outstanding:			
On date of formation, April 24, 2018	2	$	-
On IPO closing, July 3, 2018	13,794,000		200,013
Units redeemed, July 3, 2018	(2)		-
On over-allotment option, July 10, 2018	2,069,100		30,002
	15,863,100		230,015
Less: Issue costs	-		(17,937)
Units, end of period	15,863,100	$	212,078

Distributions of $1,591 to Unitholders were declared during the period ended September 30, 2018.

14. Segment reporting

The REIT owns, manages and operates multi-residential rental properties located in Canada, including two mixed-use residential apartment and commercial buildings. Management, when measuring the REIT's performance, does not distinguish or group its operations on a geographical or any other basis. Accordingly, the REIT has a single reportable segment for disclosure purposes in accordance with IFRS.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

15. Revenue from investment properties

The components of revenue from investment properties are as follows:

For the period from April 24, 2018 (date of formation) to		September 30, 2018
Rental revenue	$	17,108
Revenue from services		3,990
	$	21,098

The REIT's main revenue streams and the nature and effects of initially applying IFRS 15 on the REIT's unaudited condensed consolidated interim financial statements are disclosed in Note 3.

16. Finance costs

Finance costs are comprised of the following:

For the period from April 24, 2018 (date of formation) to		September 30, 2018
Interest expense on mortgages	$	1,894
Interest expense on credit facility		409
Interest expense on unsecured debt		136
Amortization of financing charges		41
Amortization of mark-to-market		(241)
Interest expense and other financing charges		2,239
Distributions on Class B LP Units		2,092
Distributions on Class C LP Units		1,808
Finance costs - operations	$	6,139
Fair value adjustment to Class B LP Units		51,884
Finance costs	$	58,023

17. Contingencies and commitments

The REIT is subject to claims and legal actions that arise in the ordinary course of business. It is the opinion of management that any ultimate liability that may arise from such matters would not have a significant adverse effect on the unaudited condensed consolidated interim financial statements of the REIT.

The REIT has committed to acquire from MPI a certain investment property currently under reconstruction due to a fire. The purchase price for this investment property is expected to be at fair value and is payable once the construction at the investment property is complete and the investment property is stabilized. The maximum purchase price is $8,356.

The REIT has an off-balance sheet arrangement at one of its properties in the Toronto area pursuant to which the City of Toronto provided a forgivable loan to support affordable housing at this property. Provided that certain conditions are met, the REIT will not need to make repayments under the arrangement. The remaining unforgiven balance of the loan is $18,360 as of September 30, 2018. To date the REIT has met all conditions related to this forgivable loan and management intends to continue to meet these requirements.

The REIT has entered into a rate hold agreement for new financing associated with two of its Toronto buildings. The financing, in the amount of $49,831, bears interest at 3.25% and matures in November 2022. The REIT expects to close the financing on November 22, 2018, and the proceeds will be used to repay the existing mortgages associated with the buildings and the unsecured promissory note due to MPI.

18. Risk management

The REIT's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of interest rate risk, currency risk and other price risk.

(i) Interest rate risk

As the REIT’s interest-bearing assets do not generate significant amounts of interest, changes in market interest rates do not have any significant direct effect on the REIT’s income.

The majority of the REIT's financial liabilities are fixed rate instruments. The REIT faces interest rate risk on its fixed rate debt due to the expected requirement to refinance such debt in the year of maturity or shortly thereafter. In addition, there is interest rate risk associated with the REIT's variable rate financial liabilities.

The REIT manages interest rate risk by structuring its financings to stagger the maturities of its debt, thereby mitigating its exposure to interest rate and other credit market fluctuations.

For the portion of the REIT’s financial liabilities that are floating rate instruments, from time to time the REIT may enter into interest rate swap contracts or other financial instruments to modify the interest rate profile of its outstanding debt without an exchange of the underlying principal amount.

As at September 30, 2018, the REIT has a variable rate credit facility of $23,103. A 1% change in prevailing interest rates would change annualized interest charges incurred by $231.

(ii) Currency risk

The REIT's financial statement presentation currency is Canadian dollars. Operations are located in Canada and the REIT has limited or no operational transactions in foreign-denominated dollars. As such, the REIT has no significant exposure to currency risk.

(iii) Other price risk

Other price risk is the risk of variability in fair value due to movements in equity prices or other market prices such as commodity prices and credit spreads.

The REIT is exposed to other price risk on its Class B LP Units. A 1% change in prevailing market price of the REIT Units would have a $3,561 change in the fair value of the Class B LP Units.

Credit risk

Credit risk is the risk that tenants and/or debtors may experience financial difficulty and be unable to fulfil their lease commitments or loan repayments. An allowance for impairment is taken for all estimated collectability risks.

At a high level, the REIT's risk of credit loss is mitigated through diversification. The REIT's residential rental business is carried on in the Ottawa, Toronto, Calgary and Edmonton regions. The nature of this business involves a high volume of tenants with individually small monthly rent amounts. The REIT monitors the collection of residential rent receivables on a regular basis with strictly followed procedures designed to minimize credit loss in cases of non-payment.

Liquidity risk

Liquidity risk is the risk that the REIT will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The REIT mitigates liquidity risk by staggering the maturity dates of its borrowing, maintaining borrowing relationships with various lenders, proactively renegotiating expiring credit agreements well in advance of the maturity date and by maintaining sufficient availability on its lines of credit.

The REIT has a committed credit facility for general corporate and working capital purposes. The committed credit facility consists of the following:

		September 30, 2018
Committed	$	150,000
Available		126,897
Utilized		23,103

(in thousands of Canadian dollars, except Unit and per Unit amounts)

An analysis of the contractual cash flows associated with the REIT's material financial liabilities is set out below:

	2018	2019	2020	2021	2022 and thereafter	Total
Mortgages	$ 1,179	$ 4,798	$ 4,953	$ 5,113	$ 219,902	$ 235,945
Credit facility	-	-	-	23,103	-	23,103
	1,179	4,798	4,953	28,216	219,902	259,048
Unsecured promissory note	81	25,560	-	-	-	25,641
Class C LP Units	1,233	5,019	5,178	5,341	212,182	228,953
Interest obligation	2,869	8,611	7,627	6,822	19,392	45,321
Refundable tenant deposits	5,154	-	-	-	-	5,154
Due to related parties	2,740	-	-	-	-	2,740
Accounts payable and accrued liabilities	8,637	-	-	-	-	8,637
	$ 21,893	$ 43,988	$ 17,758	$ 40,379	$ 451,476	$ 575,494

The contractual cash flows do not include any unamortized mark-to-market adjustments.

19. Capital risk management

The REIT's capital consists of mortgages, a credit facility, Class B LP Units, Class C LP Units, an unsecured promissory note and unitholders' equity. The REIT invests its capital to achieve its business objectives and to generate an acceptable long-term return to the REIT's Unitholders. Primary uses of capital include property acquisitions, development activities, capital improvements, funding leasing costs and debt principal repayments.

The REIT's principal objective with respect to debt financing is to minimize its overall borrowing costs while maintaining balance in its maturity schedule, diversity in its lender base and have sufficient liquidity and flexibility to meet current obligations and to pursue new projects. The REIT is subject to certain financial covenants and is in compliance with these covenants.

The actual level and type of future financings to fund the REIT's capital obligations will be determined based on prevailing interest rates, various costs of debt and/or equity capital, capital market conditions and management's general view of the appropriate leverage in the business.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

The components of the REIT's capital as at September 30, 2018 are set out in the table below:

		September 30, 2018
Liabilities (principal amounts outstanding)		
Mortgages	$	235,945
Credit facility		23,103
Class B LP Units		356,070
Class C LP Units		228,953
Unsecured promissory note		25,641
		869,712
Unitholders' equity		243,660
	$	1,113,372

20. Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

For the period from April 24, 2018 (date of formation) to		September 30, 2018
Prepaids and other assets	$	1,242
Resident and other receivables		(496)
Due to related parties		2,117
Tenant rental deposits		(60)
Accounts payable and accrued liabilities		466
	$	3,269

21. Deferred Unit-based compensation

In connection with the IPO, the Board of Trustees adopted the Plan. Under the terms of the Plan, the Board of Trustees may from time to time, at its discretion, grant Trustees, employees and consultants Restricted Units, Performance Units, Deferred Units or other awards. The purpose of the Plan is to provide eligible participants with compensation opportunities that will encourage ownership of Units, enhance the REIT's ability to attract, retain and motivate executive officers and other key management and incentivize them to increase the long term growth and equity value of the REIT in alignment with the interests of Unitholders.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

Executives

Upon closing of the IPO, the REIT granted Deferred Units to its executive officers pursuant to the Plan. Deferred Units granted on closing vest on the second, third or fourth anniversaries of the grant date and will be settled by Units issued from treasury equivalent to the number of Deferred Units credited, including any distributions paid by the REIT on the Units that have accrued in the form of Deferred Units or, if so elected by the participant and subject to the approval of the Board of Trustees, cash payable upon the participant's separation from service with the REIT. A summary of the Deferred Units issued and the value of deferred unit compensation expense recorded during the period and as at September 30, 2018 is presented below.

	Units		$
Deferred Units issued during the period	48,462	$	47

Trustees

Trustees have the option to elect to receive up to 100% of all fees that are otherwise payable in cash (i.e. annual board retainer fee, meeting fees and additional retainers) in the form of Deferred Units. The REIT, on recommendation from the Compensation, Governance and Nominating Committee, determined that the REIT will match up to 50% of the total value of the annual board retainer fee that a Trustee elects to receive in the form of Deferred Units. Deferred Units granted in respect of a participant's election to receive Deferred Units in lieu of cash compensation will vest immediately upon grant. Deferred Units granted further to any match by the REIT will generally vest immediately. The Board of Trustees has the discretion to vary the manner in which the REIT contributed Deferred Units vest for any participant.

	Units		$
Deferred Units issued and vested during the period and as of September 30, 2018	13,327	$	206

22. Supplementary information

IFRS does not require disclosure of comparative information related to the financial position and performance of the acquiree prior to a business combination. The following information is being provided to comply with the requirements of Ontario Securities Commission staff notice 52-720.

The following figures have been obtained on a carve-out basis from the financial statements of MPI and present the financial performance of the Portfolio as if these properties had been accounted for on a stand-alone basis with estimates, where necessary, for certain allocations. The basis used is consistent with the presentation of the Annual Carve-out Financial Statements for the years ended December 31, 2017, 2016 and 2015 presented in the IPO Prospectus.

(in thousands of Canadian dollars, except Unit and per Unit amounts)

At December 31, 2017, the Portfolio consisted of 22 multi-residential rental properties, comprising an aggregate 4,279 suites located in Toronto, Ottawa, Calgary and Edmonton, including two mixed-use residential apartment and commercial buildings. These properties, together with their related assets and liabilities, were acquired by the REIT on July 2, 2018.

Due to the inherent limitations of carving out the assets, liabilities, operations and cash flows of these properties from legal entities controlled by MPI, these combined carve-out results of operations are not necessarily indicative of the results that would have been attained if these properties had been operated as a separate legal entity during the period presented. All transactions between properties have been eliminated upon combination.

		December 31, 2017
Investment properties	$	1,077,262

		Three months ended September 30, 2017
Revenue from investment properties	$	20,378
Property operating costs[1]		4,738
Other operating expenses		3,980
General and administrative expenses		1,020

[1] The figure for September 30, 2017 has been adjusted to exclude the insurance recovery of $2,082 on a property.