



Consolidated Financial Statements

For the period from April 24, 2018 (date of formation) to December 31, 2018



Independent Auditors' Report

To the Unitholders of Minto Apartment Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of Minto Apartment Real Estate Investment Trust (the "Entity"), which comprise:

- the consolidated balance sheet as at December 31, 2018;
- the consolidated statement of net income and comprehensive income for the period from April 24, 2018 (date of formation) to December 31, 2018;
- the consolidated statement of changes in unitholders' equity for the period from April 24, 2018 (date of formation) to December 31, 2018;
- the consolidated statement of cash flows for the period from April 24, 2018 (date of formation) to December 31, 2018; and
- notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the period from April 24, 2018 (date of formation) to December 31, 2018 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2018 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We have obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the 2018 Annual Report as of the date of the auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Thomas Rothfischer.

Toronto, Canada

March 19, 2019

Minto Apartment Real Estate Investment Trust

Consolidated Balance Sheet

(in thousands of Canadian dollars)

As at	Note	December 31, 2018
Assets		
Investment properties	4	\$ 1,197,811
Prepaid expenses and other assets	6	7,233
Resident and other receivables	7	989
Cash		892
		<hr/>
		\$ 1,206,925
Liabilities and Unitholders' Equity		
Liabilities		
Mortgages	8	\$ 275,601
Credit facility	8	35,925
Class B LP Units	9	385,899
Class C LP Units	10	231,037
Due to related parties	11	4,289
Tenant rental deposits		6,594
Accounts payable and accrued liabilities	12	9,328
		<hr/>
		\$ 948,673
Unitholders' equity		
Contingencies and commitments	17	258,252
Subsequent events	22	
		<hr/>
		\$ 1,206,925

See accompanying notes to the consolidated financial statements.

Minto Apartment Real Estate Investment Trust

Consolidated Statement of Net Income and Comprehensive Income

For the period from April 24, 2018 (date of formation) to December 31, 2018

(in thousands of Canadian dollars)

	Note	December 31, 2018
Revenue from investment properties	15	\$ 42,475
Property operating expenses		
Property operating costs		8,257
Property taxes		4,528
Utilities		3,580
		16,365
Property operating income		26,110
Other expenses (income)		
General and administrative		2,267
Fair value adjustment to investment properties	4	(40,048)
Fair value adjustment to Class B LP Units	9,16	81,713
Fair value adjustment to unit-based compensation	21	76
Finance costs - operations	16	11,875
Bargain purchase gain	3	(79,163)
		(23,280)
Net income and comprehensive income		\$ 49,390

See accompanying notes to the consolidated financial statements.

Minto Apartment Real Estate Investment Trust

Consolidated Statement of Changes in Unitholders' Equity

For the period from April 24, 2018 (date of formation) to December 31, 2018

(in thousands of Canadian dollars)

		Units	Distributions	Retained earnings	Total
Balance, April 24, 2018	\$	-	\$ -	\$ -	\$ -
Units issued, net of issue costs (Note 13)		212,078	-	-	212,078
Net income and comprehensive income		-	-	49,390	49,390
Distributions		-	(3,216)	-	(3,216)
Balance, December 31, 2018	\$	212,078	\$ (3,216)	\$ 49,390	\$ 258,252

See accompanying notes to the consolidated financial statements.

Minto Apartment Real Estate Investment Trust

Consolidated Statement of Cash Flows

For the period from April 24, 2018 (date of formation) to December 31, 2018

(in thousands of Canadian dollars)

	Note	December 31, 2018
Cash provided by (used in):		
Operating activities		
Net income		\$ 49,390
Adjustments for:		
Finance costs - operations	16	11,875
Fair value adjustment to investment properties	4	(40,048)
Fair value adjustment to Class B LP Units	9,16	81,713
Fair value adjustment to unit-based compensation	21	76
Bargain purchase gain	3	(79,163)
Change in non-cash working capital	20	5,320
Cash provided by operating activities		29,163
Financing activities		
Proceeds from issuance of Units, net of issue costs		212,877
Repayment of acquisition note	3	(183,288)
Net proceeds from mortgage financing	8	26,024
CMHC premiums paid		(1,566)
Financing costs	8	(11)
Principal repayments on mortgages	8	(2,206)
Proceeds from credit facility	8	41,383
Repayments on credit facility	8	(5,458)
Repayment of unsecured promissory notes	11	(54,150)
Redemption of Class B LP Units	9	(28,277)
Distributions on Class B LP Units		(3,516)
Distributions on Class C LP Units, used to repay principal	10	(2,329)
Distributions on Units		(2,674)
Interest paid		(7,492)
Cash used in financing activities		(10,683)
Investing activities		
Cash balance transferred in acquisition of the Initial Portfolio	3	2,100
Acquisition of investment property	5	(7,465)
Capital additions to investment properties		(12,223)
Cash used in investing activities		(17,588)
Change in cash during the period		892
Cash, April 24, 2018		-
Cash, December 31, 2018		\$ 892

See accompanying notes to the consolidated financial statements.

Minto Apartment Real Estate Investment Trust

Notes to the Consolidated Financial Statements

For the period from April 24, 2018 (date of formation) to December 31, 2018

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

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 to the Amended 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.

The REIT's operations commenced on July 2, 2018 when the REIT indirectly acquired a portfolio of 22 multi-residential rental properties (the "Initial Portfolio"), comprising an aggregate of 4,279 suites located in urban centres in Ontario and Alberta. The Initial 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 gross proceeds of \$30,002. The net proceeds of the over-allotment option were used to redeem 2,069,100 Class B LP Units of the Partnership held by a limited partnership wholly-owned by Minto Properties Inc. ("MPI"). Following the closing of the over-allotment option, there are 15,863,100 Units issued and outstanding.

At December 31, 2018, the REIT's portfolio consists of 23 multi-residential rental properties, comprising an aggregate of 4,350 suites.

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. Significant accounting policies

(a) Basis of presentation and measurement

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

(b) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

These consolidated financial statements were approved by the Board of Trustees of the REIT and authorized for issuance on March 19, 2019.

Minto Apartment Real Estate Investment Trust

Notes to the Consolidated Financial Statements

For the period from April 24, 2018 (date of formation) to December 31, 2018

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

(c) Basis of consolidation

The consolidated 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 the 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 the consolidated statement of net income and comprehensive 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, positive 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 the consolidated statement of net income and comprehensive income.

Minto Apartment Real Estate Investment Trust

Notes to the Consolidated Financial Statements

For the period from April 24, 2018 (date of formation) to December 31, 2018

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

(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, except when acquired through a business combination, where such costs are expensed as incurred. 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 the consolidated statement of net income and comprehensive income during the period 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 the consolidated statement of net income and comprehensive 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 estimated aggregate future capital expenditures. Capitalization rates reflect the characteristics, location and market of each property. Fair value is determined based on internal valuation models incorporating market data and valuations performed by external appraisers.

Fair value for commercial properties is determined using the discounted future cash flow approach 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 based on internal valuation models incorporating market data and valuations performed by external appraisers.

(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 consolidated statement of net income and comprehensive 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 the consolidated statement of net income and comprehensive income.

Minto Apartment Real Estate Investment Trust

Notes to the Consolidated Financial Statements

For the period from April 24, 2018 (date of formation) to December 31, 2018

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

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 recognized in other comprehensive income, and the remaining amount of change in fair value recognized in the consolidated statement of net income and comprehensive 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
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 in the consolidated statement of net income and comprehensive 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.

Minto Apartment Real Estate Investment Trust

Notes to the Consolidated Financial Statements

For the period from April 24, 2018 (date of formation) to December 31, 2018

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

As a result of the redemption feature of the Units, they meet the definition of a financial liability under IAS 32 and may not be considered as equity for the purposes of calculating net income on a per unit basis in accordance with IAS 33, *Earnings Per Share*. The REIT has therefore elected to not report an earnings per unit calculation, as permitted under IFRS.

Units represent a Unitholder's proportionate undivided beneficial interest in the REIT. No Unit has any preference or priority over another. No Unitholder has or is deemed to have any right of ownership in any of the assets of the REIT. Each Unit confers the right to one vote at any meeting of Unitholders and to participate pro rata in any distributions and, on liquidation, to a pro rata share of the residual net assets remaining after preferential claims thereon of debtholders.

Unitholders have the right to redeem their Units at the lesser of (i) 90% of the market price of the Units (market price is defined as the weighted average trading price of the previous 10 trading days) and (ii) 100% of the closing market price (closing market price is defined as the weighted average trading price on the specified date) on the redemption date. The redemption price will be satisfied by cash up to a limit of \$50 for all redemptions in a calendar month.

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 Voting Unit in the REIT is issued to the holder of Class B LP Units for each Class B LP Unit held. 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 the consolidated statement of net income and comprehensive income. Distributions on the Class B LP Units are recorded as a finance cost in the consolidated statement of net income and comprehensive income in the period in which the distributions become payable.

Class C LP Units

The Class C LP Units of the Partnership 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 liability and interest expense recorded in finance costs in the consolidated statement of net income and comprehensive income in the period in which the distributions become payable.

Minto Apartment Real Estate Investment Trust

Notes to the Consolidated Financial Statements

For the period from April 24, 2018 (date of formation) to December 31, 2018

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

Impairment

The REIT has adopted the practical expedient to estimate 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. 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 consolidated 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

Minto Apartment Real Estate Investment Trust

Notes to the Consolidated Financial Statements

For the period from April 24, 2018 (date of formation) to December 31, 2018

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

For assets and liabilities that are recognized in the consolidated 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, which, due to its variable rate, approximates fair value.

The REIT estimates the fair value of its mortgages and Class C LP Units 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.

The fair value of Class B LP Units is measured every period by reference to the traded value of Units and is considered Level 2 in the fair value hierarchy.

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

(h) Prepaid CMHC premiums

Insurance premiums and fees paid to the Canada Mortgage and Housing Corporation ("CMHC") are presented within prepaid expenses and other assets. They are amortized over the loan amortization period, typically 25 to 40 years, and the amortization expense is included in finance costs in the consolidated statement of net income and comprehensive income.

(i) Restricted cash

Restricted cash consists of tenant security deposits and a capital asset replacement reserve fund held in trust accounts. The capital asset replacement reserve fund was established as a condition of a forgivable loan provided by the City of Toronto to support affordable housing at a certain Toronto property.

(j) Cash

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

(k) 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. Accordingly, no net current tax expenses or current or deferred income tax asset or liability has been recorded in the consolidated financial statements.

Minto Apartment Real Estate Investment Trust

Notes to the Consolidated Financial Statements

For the period from April 24, 2018 (date of formation) to December 31, 2018

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

(l) 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.

(m) Expenses

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

(n) Finance costs

Finance costs are comprised of interest expense on secured debt and unsecured debt, amortization of mark-to-market adjustments, CMHC premiums and financing charges, distributions on Class B LP Units and Class C LP Units, fair value adjustment to Class B LP Units and gain on retirement of debt. Finance costs associated with financial liabilities presented at amortized cost are presented in the consolidated statement of net income and comprehensive income using the effective interest method. Finance costs also includes interest income which is recognized as earned.

Minto Apartment Real Estate Investment Trust

Notes to the Consolidated Financial Statements

For the period from April 24, 2018 (date of formation) to December 31, 2018

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

(o) 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 settlement. The grant date fair value of the amount payable is recognized as part of 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. Market price is defined as the volume weighted average closing price of the Units on the Toronto Stock Exchange for the five trading days immediately preceding such date. The liability is remeasured at each reporting date and settlement date using the 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 the consolidated statement of net income and comprehensive income.

(p) 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 consolidated financial statements:

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* ("IFRS 3"). This assessment requires management to make judgments 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.

Income taxes

The REIT is a mutual fund trust and a real estate investment trust as defined in the Income Tax Act (Canada). The REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to Unitholders each year. The REIT is a real estate investment trust if it meets the prescribed conditions under the Income Tax Act (Canada) relating to the Real Estate Investment Trust Conditions. The REIT uses judgment in reviewing the Real Estate Investment Trust Conditions and assessing its interpretation and application to the REIT's assets and revenue, and it has determined that it qualifies as a real estate investment trust for the current period.

(q) 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:

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

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.

(r) 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 consolidated 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 in the final stages of evaluation of the impact of this standard on its consolidated financial statements. Based on its assessment to date, the REIT has determined that the standard will not have a material impact on the consolidated financial statements.

The REIT intends to adopt IFRS 16 in its consolidated financial statements beginning on January 1, 2019, when the standard becomes effective.

(ii) Definition of a business (Amendments to IFRS 3, *Business Combinations*)

On October 22, 2018, the IASB issued amendments to IFRS 3, *Business Combinations* that seek to clarify whether a transaction results in an asset acquisition or a business combination. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The REIT intends to adopt the amendments in its consolidated financial statements beginning on January 1, 2020, when the standard becomes effective.

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3. Business combination

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

	July 2, 2018
Investment properties	\$ 1,123,000
Prepaid expenses and other assets	4,677
Resident and other receivables	87
Cash	2,100
Mortgages, including mark-to-market adjustment of \$2,742	(239,754)
Due to related parties	(1,049)
Tenant rental deposits	(5,234)
Accounts payable and accrued liabilities	(1,067)
	882,760
Excess fair value of net assets acquired over consideration paid - bargain purchase gain	(79,163)
Total consideration for acquisition	\$ 803,597
<i>Consideration given by the REIT consists of the following:</i>	
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 unsecured promissory note of \$28,458 and the acquisition note of \$183,288 were paid on July 3, 2018.

The unsecured promissory note of \$25,780 was repaid on November 23, 2018.

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

4. Investment properties

	December 31, 2018	
Balance, April 24, 2018	\$	-
Additions		
Acquisition of the Initial Portfolio		1,123,000
Acquisition of investment property (Note 5)		20,376
Capital expenditures		14,387
Fair value adjustments		40,048
Balance, December 31, 2018	\$	1,197,811

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

	December 31, 2018	
Residential properties	\$	1,175,915
Commercial properties		21,896
	\$	1,197,811

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 internal valuations and as at December 31, 2018, the entire portfolio was internally valued. The REIT's internal valuation team consists of qualified individuals who hold recognized relevant professional qualifications and have recent experience in the location and category of the respective properties.

The REIT also engaged leading independent national real estate appraisal firms with representation and expertise across Canada, and specifically in the markets in which the REIT operates, to provide appraisals for the entire portfolio at December 31, 2018. These external appraisals were used by management to assist in the validation of the market assumptions and market data used as part of its internal valuation methodology. On a go-forward basis, the REIT intends to rotate its properties annually to ensure that every property is externally appraised at least once every three years.

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The table below 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.

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

	December 31, 2018		
	Min	Max	Weighted Average
Capitalization rate	3.38%	5.00%	4.20%

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

	December 31, 2018		
	Min	Max	Weighted Average
Discount rate	5.75%	6.75%	6.07%
Terminal capitalization rate	5.25%	6.25%	5.54%
Number of discount years			11.00

The table below summarizes the sensitivity of the fair value of investment properties to changes in the capitalization and discount rates as at December 31, 2018:

Rate sensitivity	Capitalization rate only		Discount and capitalization rates	
	Residential fair value	Change in fair value	Commercial fair value	Change in fair value
+ 75 basis points	\$ 989,758	\$ (186,157)	\$ 18,738	\$ (3,158)
+ 50 basis points	1,045,000	(130,915)	19,703	(2,193)
+ 25 basis points	1,106,651	(69,264)	20,755	(1,141)
Base rate	1,175,915	-	21,896	-
- 25 basis points	1,254,324	78,409	23,166	1,270
- 50 basis points	1,343,864	167,949	24,558	2,662
- 75 basis points	1,447,155	271,240	26,099	4,203

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5. Acquisition of investment property

The REIT completed the following investment property acquisition, which was accounted for as an asset acquisition, and has contributed to the operating results effective from the acquisition date:

Location	Date of acquisition	Suite count	Total acquisition cost	Assumed mortgage financing	Interest rate and maturity
Calgary, AB	December 18, 2018	70	\$ 20,376	\$ 12,744	3.59% - June 1, 2020

Cash used in acquisition of investment property is as follows:

	December 31, 2018
Total acquisition cost	\$ (20,376)
Assumed mortgage financing	12,744
Working capital assumed	167
Cash consideration	\$ (7,465)

6. Prepaid expenses and other assets

	December 31, 2018
Prepaid expenses	\$ 1,145
Prepaid CMHC premiums	1,618
Restricted cash	792
Deposits	3,678
	\$ 7,233
Current	\$ 5,408
Non-current	1,825
	\$ 7,233

7. Resident and other receivables

	December 31, 2018
Current	
Resident receivables	\$ 478
Other receivables	589
Less: Allowance for credit losses	(78)
	\$ 989

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

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8. Secured debt

	December 31, 2018	
Mortgages ⁽¹⁾	\$	273,574
Unamortized mark-to-market adjustment		2,038
Unamortized deferred financing costs		(11)
Total mortgages		275,601
Credit facility ⁽²⁾		35,925
	\$	311,526
Current		5,822
Non-current		305,704
	\$	311,526

⁽¹⁾ Mortgages are secured by investment properties, bear interest at a weighted average contractual interest rate of 3.20% and mature at various dates from 2020 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, acquisitions and for general corporate purposes. At December 31, 2018, \$114,075 of this facility was available in accordance with its terms and conditions and \$35,925 was utilized. The credit facility bears interest at bankers' acceptance plus 1.75% or prime plus 0.75% and as at December 31, 2018, the weighted average variable interest rate was 3.94%.

Secured debt balances at December 31, 2018, excluding unamortized mark-to-market adjustments and unamortized deferred financing costs, are due as follows:

2019	\$	5,524
2020		17,572
2021		41,352
2022		91,994
2023 and thereafter		153,057

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For the period from April 24, 2018 (date of formation) to December 31, 2018

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

Secured debt activity for the period from April 24, 2018 (date of formation) to December 31, 2018 is as follows:

	Mortgages	Unamortized mark-to- market adjustment	Unamortized deferred financing costs	Credit facility	Total
Balance, April 24, 2018	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Cash flows</i>					
Issued ⁽³⁾	26,024	-	(11)	41,383	67,396
Repayments	(2,206)	-	-	(5,458)	(7,664)
	23,818	-	(11)	35,925	59,732
<i>Non-cash movement</i>					
Assumed upon business combination	237,012	2,742	-	-	239,754
Assumed on asset acquisition	12,744	-	-	-	12,744
Gain on retirement of mortgage	-	(519)	-	-	(519)
Amortization of mark-to-market adjustment	-	(185)	-	-	(185)
	249,756	2,038	-	-	251,794
Balance, December 31, 2018	\$ 273,574	\$ 2,038	\$ (11)	\$ 35,925	\$ 311,526

⁽³⁾ On November 23, 2018, the REIT obtained new mortgage financing associated with two of its Toronto buildings in the amount of \$49,831; it bears interest at 3.25% and matures in December 2022. The financing was used to repay an existing mortgage of \$23,807 associated with these buildings and the outstanding balance of an unsecured promissory note of \$25,587 due to MPI.

As at December 31, 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 December 31, 2018, the current market rates plus risk-adjusted spreads ranged from 2.81% to 3.38% and the fair value of the mortgages was \$276,954 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.

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For the period from April 24, 2018 (date of formation) to December 31, 2018

(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 December 31, 2018.

	Units	\$
Class B LP Units, April 24, 2018	-	-
<i>Cash flows</i>		
Class B LP Units redeemed	(2,069,100)	(28,277)
<i>Non-cash movement</i>		
Class B LP Units issued	22,928,510	332,463
Fair value adjustments	-	81,713
	22,928,510	414,176
Class B LP Units, December 31, 2018	20,859,410	\$ 385,899

Distributions of \$4,229 to Class B LP unitholders were declared during the period from April 24, 2018 (date of formation) to December 31, 2018.

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 December 31, 2018.

	Units	\$
Class C LP Units, April 24, 2018	-	-
<i>Cash flows</i>		
Distributions used to repay principal	-	(2,329)
<i>Non-cash movements</i>		
Class C LP Units issued	22,978,700	230,050
	22,978,700	227,721
Unamortized mark-to-market adjustment	-	3,316
Class C LP Units, December 31, 2018	22,978,700	\$ 231,037
Current		5,499
Non-current		225,538
	\$	231,037

The REIT made distributions of \$3,606 to Class C LP unitholders that were accounted for as finance costs during the period from April 24, 2018 (date of formation) to December 31, 2018.

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The mortgages of investment properties to which the distributions on 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 December 31, 2018, excluding unamortized mark-to-market adjustments, are due as follows:

2019	5,019
2020	5,178
2021	5,341
2022	5,510
2023 and thereafter	206,673

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 December 31, 2018, the current market rates plus risk-adjusted spreads ranged from 2.81% to 3.64% and the fair value of the Class C LP Units was \$230,210 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. In addition to the related party transactions disclosed elsewhere in these consolidated financial statements, related party transactions include:

(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 for the period from July 3, 2018 to June 30, 2019.

As at December 31, 2018, due to related parties includes \$282 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 32 bps of the gross book value of the REIT's assets.

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(b) Unsecured promissory notes

On closing of the IPO, the REIT issued an unsecured 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 and a maturity date of July 1, 2019. On November 23, 2018, the REIT fully repaid the promissory note to MPI.

On July 3, 2018 the REIT fully repaid an 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 \$602 relating to distributions payable to limited partnerships wholly owned by MPI on Class B LP Units and Class C LP Units respectively. Additionally, amounts payable to MPI include \$1,049 to reimburse transaction costs, \$1,643 for working capital and \$282 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 \$229 of revenue from MPI and its affiliates for rent paid for office space, furnished suites and parking at certain REIT properties.
- Compensation expense includes \$296 paid to key management personnel. Additional compensation to key management personnel for services provided to the REIT was paid by MPI.
- Included in finance costs are distributions on Class B LP Units and Class C LP Units of \$4,229 and \$3,606 respectively, paid or payable to limited partnerships wholly-owned by MPI.

(e) Distributions

- Distributions of \$2,329 to a limited partnership wholly-owned by MPI were made to repay principal on Class C LP Units.

12. Accounts payable and accrued liabilities

	December 31, 2018	
Current		
Accounts payable	\$	4,843
Accrued liabilities		3,943
Distributions payable		542
	\$	9,328

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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 December 31, 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, December 31, 2018	15,863,100	\$ 212,078

Distributions of \$3,216 to Unitholders were declared during the period from April 24, 2018 (date of formation) to December 31, 2018. This represents monthly distributions of \$0.03196 per Unit for July 2018 and \$0.03416 per Unit for August 2018 to December 2018.

14. Segment reporting

The REIT owns, manages and operates multi-residential rental properties located in Canada, including three 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.

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	December 31, 2018
Rental revenue	\$ 34,072
Revenue from services	8,403
	\$ 42,475

The REIT's main revenue streams and the nature and effects of initially applying IFRS 15 on the REIT's consolidated financial statements are disclosed in Note 2.

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16. Finance costs

Finance costs are comprised of the following:

For the period from April 24, 2018 (date of formation) to	December 31, 2018
Interest income	\$ (8)
Interest expense on mortgages	3,881
Interest expense and standby fees on credit facility	809
Interest expense on unsecured debt	298
Amortization of financing charges	92
Amortization of CMHC premiums	4
Amortization of mark-to-market adjustments	(463)
Gain on retirement of debt	(573)
Interest expense and other financing charges	4,040
Distributions on Class B LP Units	4,229
Distributions on Class C LP Units	3,606
Finance costs - operations	\$ 11,875
Fair value adjustment to Class B LP Units	81,713
Finance costs	\$ 93,588

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 consolidated financial statements of the REIT.

The REIT has committed to pay MPI for 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 December 31, 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 an off-balance sheet arrangement at one of its properties in the Calgary area pursuant to which the Province of Alberta 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 this arrangement. The remaining unforgiven balance of the loan is \$4,704 as of December 31, 2018. To date, the REIT has met all conditions related to this forgivable loan and management intends to continue to meet these requirements.

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The REIT has committed to advance up to \$30,000 of financing to support MPI's planned redevelopment of a commercial property located in Ottawa, Ontario into a mixed-use multi-residential rental and retail property. The financing, which is expected to be advanced in July 2019, will bear an interest rate of 6% per annum and will mature in March 2022 and will be subordinate to senior construction financing. The REIT intends to provide the financing through draws on its revolving credit facility. In connection with this financing, the REIT will have the exclusive option to purchase the property upon stabilization at 95% of fair market value.

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 December 31, 2018, the REIT has a variable rate credit facility of \$150,000 with an outstanding balance of \$35,925. A 1% change in prevailing interest rates would change annualized interest charges incurred by \$359.

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(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 \$3,859 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 expected credit losses.

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.

As at December 31, 2018, current liabilities were \$31,532, exceeding current assets of \$7,289, resulting in a working capital deficiency of \$24,243. The REIT expects to be able to meet all of its obligations as they become due utilizing some or all of the following sources of liquidity: (i) cash flow generated from property operations, (ii) property-specific mortgages, and (iii) credit facility, under which \$114,075 was available and undrawn at December 31, 2018. In addition, subject to market conditions, the REIT may seek to raise funding through equity financing.

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

	December 31, 2018	
Committed	\$	150,000
Available		114,075
Utilized		35,925

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

	2019	2020	2021	2022	2023 and thereafter	Total
Mortgages	\$ 5,524	\$ 17,572	\$ 5,427	\$ 91,994	\$ 153,057	\$ 273,574
Credit facility	-	-	35,925	-	-	35,925
	5,524	17,572	41,352	91,994	153,057	309,499
Class C LP Units	5,019	5,178	5,341	5,510	206,673	227,721
Interest obligation	17,049	16,496	15,308	13,457	28,742	91,052
Due to related parties	4,289	-	-	-	-	4,289
Refundable tenant deposits	6,594	-	-	-	-	6,594
Accounts payable and accrued liabilities	9,328	-	-	-	-	9,328
	\$ 47,803	\$ 39,246	\$ 62,001	\$ 110,961	\$ 388,472	\$ 648,483

The contractual cash flows do not include any unamortized mark-to-market adjustments or unamortized deferred financing costs.

19. Capital risk management

The REIT's capital consists of mortgages, a credit facility, Class B LP Units, Class C LP Units 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.

Minto Apartment Real Estate Investment Trust

Notes to the Consolidated Financial Statements

For the period from April 24, 2018 (date of formation) to December 31, 2018

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

The components of the REIT's capital as at December 31, 2018 are set out in the table below:

	December 31, 2018
Liabilities (principal amounts outstanding)	
Mortgages	\$ 273,574
Credit facility	35,925
Class B LP Units	385,899
Class C LP Units	227,721
	923,119
Unitholders' equity	258,252
	\$ 1,181,371

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	December 31, 2018
Prepaid expenses and other assets	\$ (462)
Resident and other receivables	(902)
Due to related parties	1,241
Tenant rental deposits	1,270
Accounts payable and accrued liabilities	4,173
	\$ 5,320

21. 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.

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Executives

Upon closing of the IPO, the REIT granted Deferred Units to its executive officers pursuant to the Plan. Deferred Units granted on closing, generally 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 granted and the value of unit-based compensation expense recorded during the period and as at December 31, 2018 is presented below.

	Units	\$
Deferred Units, April 24, 2018	-	\$ -
Granted	48,742	139
Fair value adjustments	-	37
Deferred Units, December 31, 2018	48,742	\$ 176

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 Deferred Units vest for any participant.

	Units	\$
Deferred Units, April 24, 2018	-	\$ -
Granted and vested	18,652	306
Fair value adjustments	-	39
Deferred Units, December 31, 2018	18,652	\$ 345

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

22. Subsequent events

On January 7, 2019, the REIT completed the acquisition of a two-building multi-residential rental property comprising a total of 199 suites, located in Calgary, Alberta for a purchase price of \$63,750. The purchase price was satisfied using the REIT's existing credit facility. In relation to the new acquisition, new mortgage financing for \$44,316 was obtained on March 6, 2019, bearing interest at 3.04% and maturing on September 1, 2029. The mortgage was used to repay the credit facility.

23. Operating leases

The REIT has entered into lease agreements on its investment properties. The residential leases typically have lease terms of 1 to 12 months. The commercial leases have lease terms between 1 to 9 years. There were no residents that accounted for more than 10% of the REIT's total rental revenue for the period from April 24, 2018 (date of formation) to December 31, 2018. At December 31, 2018, the total future contractual minimum rent lease payments expected to be received under residential and commercial leases are as follows:

	December 31, 2018	
Less than 1 year	\$	17,714
Between 1 to 5 years		3,559
5 years and thereafter		109
	\$	21,382

24. 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 Initial 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.

At December 31, 2017, the Initial 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.

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

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

	Six months ended December 31, 2017	
Revenue from investment properties	\$	40,413
Property operating costs		8,646
Other operating expenses		8,141
General and administrative expenses		2,040