Consolidated Financial Statements

For the year ended December 31, 2019 and the period from April 24, 2018 (date of formation) to December 31, 2018

minto
Apartment REIT

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 sheets as at December 31, 2019 and December 31, 2018
- the consolidated statements of net income and comprehensive income for the year ended December 31, 2019 and for the period from April 24, 2018 (date of formation) to December 31, 2018
- the consolidated statements of changes in unitholders’ equity for the year ended December 31, 2019 and for the period from April 24, 2018 (date of formation) to December 31, 2018
- the consolidated statements of cash flows for the year ended December 31, 2019 and 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, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2019 and 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; and
- the information, other than the financial statements and the auditors’ report thereon, included in a document entitled “2019 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 2019 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 10, 2020

Minto Apartment Real Estate Investment Trust

Consolidated Balance Sheets

(in thousands of Canadian dollars)

	Note		December 31, 2019		December 31, 2018
Assets					
Investment properties	4	$	2,016,328	$	1,197,811
Loan receivable from related party	12		19,922		—
Prepaid expenses and other assets	7		10,295		7,233
Resident and other receivables	8		1,827		989
Cash			1,928		892
		$	2,050,300	$	1,206,925
Liabilities and Unitholders' Equity					
Liabilities					
Class B LP Units	9	$	527,104	$	385,899
Class C LP Units	10		225,537		231,037
Mortgages	11		489,307		275,601
Credit facility	11		91,009		35,925
Tenant rental deposits			8,712		6,594
Due to related parties	12		1,838		4,289
Accounts payable and accrued liabilities	13		20,018		9,328
		$	1,363,525	$	948,673
Unitholders' equity			686,775		258,252
Contingencies and commitments	18				
		$	2,050,300	$	1,206,925

See accompanying notes to the consolidated financial statements.

Minto Apartment Real Estate Investment Trust

Consolidated Statements of Net Income and Comprehensive Income

For the year ended December 31, 2019 and the period from April 24, 2018 (date of formation) to December 31, 2018

(in thousands of Canadian dollars)

	Note		Year ended December 31, 2019		Period from April 24, 2018 to December 31, 2018 (Note 1)
Revenue from investment properties	16	$	104,438	$	42,475
Property operating expenses					
Property operating costs			19,755		8,257
Property taxes			11,016		4,528
Utilities			8,370		3,580
			39,141		16,365
Property operating income			65,297		26,110
Other expenses (income)					
General and administrative			5,607		2,267
Finance costs - operations	17		30,132		11,875
Fair value gain on investment properties	4		(93,216)		(40,048)
Fair value loss on Class B LP Units	9, 17		104,241		81,713
Fair value gain on interest rate swap	7, 17		(879)		—
Fair value loss on Unit-based compensation	22		325		76
Fees and other income			(879)		—
Bargain purchase gain	3		—		(79,163)
			45,331		(23,280)
Net income and comprehensive income		$	19,966	$	49,390

See accompanying notes to the consolidated financial statements.

Minto Apartment Real Estate Investment Trust

Consolidated Statements of Changes in Unitholders' Equity

For the year ended December 31, 2019 and the period from April 24, 2018 (date of formation) to December 31, 2018

(in thousands of Canadian dollars)

	Note	Units	Distributions	Retained earnings	Total
Balance, April 24, 2018	1	$ —	$ —	$ —	$ —
Units issued, net of issue costs	14	212,078	—	—	212,078
Net income and comprehensive income		—	—	49,390	49,390
Distributions	14	—	(3,216)	—	(3,216)
Balance, December 31, 2018		$ 212,078	$ (3,216)	$ 49,390	$ 258,252
Units issued, net of issue costs	14	419,356	—	—	419,356
Net income and comprehensive income		—	—	19,966	19,966
Distributions	14	—	(10,799)	—	(10,799)
Balance, December 31, 2019		$ 631,434	$ (14,015)	$ 69,356	$ 686,775

See accompanying notes to the consolidated financial statements.

Minto Apartment Real Estate Investment Trust

Consolidated Statements of Cash Flows

For the year ended December 31, 2019 and the period from April 24, 2018 (date of formation) to December 31, 2018

(in thousands of Canadian dollars)

	Note	Year ended December 31, 2019	Period from April 24, 2018 to December 31, 2018 (Note 1)
Cash provided by (used in):			
Operating activities			
Net income		$ 19,966	$ 49,390
Adjustments for:			
Finance costs - operations	17	30,132	11,875
Fair value gain on investment properties	4	(93,216)	(40,048)
Fair value loss on Class B LP Units	9, 17	104,241	81,713
Fair value gain on interest rate swap	7, 17	(879)	—
Fair value loss on Unit-based compensation	22	325	76
Bargain purchase gain	3	—	(79,163)
Change in non-cash working capital	21	(6,739)	5,320
Cash provided by operating activities		53,830	29,163
Financing activities			
Proceeds from issuance of Units, net of issue costs		399,436	212,877
Net proceeds from mortgage financing	11	158,360	26,024
CMHC premiums paid		(2,971)	(1,566)
Financing costs	11	(322)	(11)
Principal repayments on mortgages	11	(6,930)	(2,206)
Loan advanced to related party	12	(19,727)	—
Net proceeds from credit facility	11	55,084	35,925
Repayment of acquisition note	3	—	(183,288)
Repayment of unsecured promissory notes	3, 12	—	(54,150)
Redemption of Class B LP Units	9	—	(28,277)
Distributions on Class B LP Units		(9,073)	(3,516)
Distributions on Class C LP Units, used to repay principal	10	(5,019)	(2,329)
Distribution on Units		(10,011)	(2,674)
Interest paid		(20,869)	(7,492)
Cash provided by (used in) financing activities		537,958	(10,683)
Investing activities			
Acquisition of investment properties	5	(571,573)	(7,465)
Capital additions to investment properties		(19,179)	(12,223)
Cash balance transferred on acquisition of Initial Portfolio	3	—	2,100
Cash used in investing activities		(590,752)	(17,588)
Change in cash during the period		1,036	892
Cash, beginning of the period		892	—
Cash, end of the period		$ 1,928	$ 892

See accompanying notes to the consolidated 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 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 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.

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"). The Initial Portfolio is held by Minto Apartment Limited Partnership (the "Partnership"), which is consolidated by the REIT. The REIT had no operations for the period from April 24, 2018 (date of formation) to July 1, 2018, and as such the comparative results presented for the period from April 24, 2018 (date of formation) to December 31, 2018 consist of the results for the 183-day period from July 2, 2018 to December 31, 2018.

At December 31, 2019, the REIT's portfolio consists of interests in 29 (December 31, 2018 - 23) multi-residential rental properties, including three mixed-use residential apartment and commercial buildings, all of which are held by the Partnership.

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, Unit-based compensation and interest rate swap, 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 10, 2020.

(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 statements 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 statements 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 statements of net income and comprehensive income.

(e) Joint arrangements

The REIT has joint arrangements in and joint control of certain investment properties which it manages. The REIT has assessed the nature of its joint arrangements and determined them to be joint operations. The REIT accounts for joint operations by recognizing in relation to its interest its share of revenues, expenses, assets and liabilities, which are included in their respective captions on the consolidated balance sheets and consolidated statements of net income and comprehensive income. All balances and effects of transactions between joint operations and the REIT have been eliminated to the extent of its interest in the joint operations.

(f) 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 and land held for future development to earn rental income. 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 statements 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 statements 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.

Fair value for land held for development is determined by reference to comparable market prices for similar assets.

(g) 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 statements 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 statements of net income and comprehensive 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 recognized in other comprehensive income, and the remaining amount of change in fair value recognized in the consolidated statements of net income and comprehensive income.

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

Account	Measurement
Loan receivable from related party	Amortized cost
Restricted cash	Amortized cost
Interest rate swap	FVTPL
Resident and other receivables	Amortized cost
Cash	Amortized cost
Class B LP Units	FVTPL
Class C LP Units	Amortized cost
Mortgages	Amortized cost
Credit facility	Amortized cost
Tenant rental deposits	Amortized cost
Due to related parties	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, canceled 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 statements 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.

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.

The REIT has elected to not report an earnings per unit calculation, as per IAS 33, *Earnings Per Share*, as the Units meet the definition of a financial liability under IAS 32.

Unitholders have the right to redeem their Units at the lesser of (i) 90% of the market price of the Units and (ii) 100% of the closing market price 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, which can be waived at the discretion of the Trustees.

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, which entitles the holder to one vote per Special Voting Unit at any meeting of the Unitholders. 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 statements of net income and comprehensive income. Distributions on the Class B LP Units are recorded as a finance cost in the consolidated statements 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 statements of net income and comprehensive income in the period in which the distributions become payable.

Derivative financial instruments

The REIT uses derivative financial instruments to manage risks from fluctuations in interest rates. All derivative instruments are designated and valued at FVTPL in the consolidated financial statements.

Impairment of financial assets

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.

The REIT recognizes loss allowances for ECL on the remaining financial assets measured at amortized cost, unfunded loan commitments and financial guarantee contracts. The REIT applies a three-stage approach to measure allowance for credit losses. The REIT measures loss allowance at an amount equal to 12 months of expected losses for performing loans if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

(h) Fair value measurement

The REIT measures financial instruments, such as Class B LP Units, interest rate swap and Unit-based compensation, 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:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- 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 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 and Unit-based compensation is measured every period by reference to the traded value of Units and is considered Level 2 in the fair value hierarchy.

The fair value of the interest rate swap is determined using widely accepted valuation techniques, including discounted cash flow analysis on expected cash flows of the derivatives, using observable market-based inputs including interest rate curves and implied volatilities, and is considered level 2 in the fair value hierarchy.

The fair value of the loan receivable from related party is determined by reference to rates that could be obtained for similar instruments with similar terms and maturities 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.

(i) Prepaid CMHC premiums

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

(j) 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.

(k) Cash

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

(l) 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.

(m) 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.

Management fees are earned from asset, project and property management of jointly controlled properties. Management fees are recorded in fees and other income as the services are provided. Payments for property management fees are due at the beginning of each month, asset management fees are due at the beginning of each quarter and project management fees are due 30 days in arrears.

(n) Expenses

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

(o) 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, gain on retirement of debt, and fair value adjustments to Class B LP Units and an interest rate swap. Finance costs associated with financial liabilities presented at amortized cost are presented in the consolidated statements of net income and comprehensive income using the effective interest method. Finance costs also includes interest income which is recognized as earned.

(p) Unit-based compensation

The REIT maintains an Omnibus Equity Incentive Plan (the "Plan") for its Trustees and executives 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 statements of net income and comprehensive income.

(q) 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*. 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, are 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.

Interest in joint operations

The REIT assesses whether an arrangement should be accounted for as a joint operation or a joint venture under IFRS 11, *Joint Arrangements*. This assessment requires Management to make judgments on whether the REIT's rights and obligations arising from the arrangement constitute a joint operation or a joint venture.

(r) 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:

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.

(s) Adoption of new standards, amendments and interpretations

IFRS 16, Leases

The REIT adopted amended standard IFRS 16, *Leases,* effective January 1, 2019 using the modified retrospective approach. The REIT has determined that the adoption of this standard did not have a material impact on the REIT's consolidated financial statements and did not result in changes to opening equity as at January 1, 2019.

(t) Future changes in accounting standards

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. The REIT is assessing the potential impact of the amendments, however, does not expect them to have a material impact on the REIT's consolidated financial statements.

There are no other changes in accounting standards or interpretations under IFRS that have been adopted but are not yet effective that would have a material impact on the REIT's consolidated financial statements.

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

3. Business combination

On July 2, 2018, the REIT completed the indirect acquisition of the Initial Portfolio from Minto Properties Inc. ("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)
Tenant rental deposits		(5,234)
Due to related parties		(1,049)
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
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 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.

4. Investment properties

		December 31, 2019		December 31, 2018
Opening balance	$	1,197,811	$	—
Additions				
Acquisition of the Initial Portfolio (Note 3)		—		1,123,000
Acquisitions of investment properties (Note 5)		702,393		20,376
Capital expenditures		22,908		14,387
Fair value gain		93,216		40,048
Closing balance	$	2,016,328	$	1,197,811

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

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

	December 31, 2019	December 31, 2018
Residential properties	$ 1,979,657	$ 1,175,915
Commercial properties	22,840	21,896
Land held for development	13,831	—
	$ 2,016,328	$ 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, 2019, 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, in order to ensure that every REIT property is externally appraised at least once every three years. 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 model. For the year ended December 31, 2019, the REIT obtained external property appraisals representing approximately 42.0% (December 31, 2018 - 100.0%) of the REIT's investment properties.

The following table summarizes the key unobservable inputs in determining fair value:

	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 rates, the lower the estimated fair value.

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

	December 31, 2019			December 31, 2018		
	Min	Max	Weighted average	Min	Max	Weighted average
Capitalization rate	3.25%	4.75%	3.92%	3.38%	5.00%	4.20%

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

The following table summarizes the sensitivity of the fair value of residential properties to changes in capitalization rates as at December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
Rate sensitivity	Fair value	Change in fair value	Fair value	Change in fair value
+75 basis points	$ 1,645,299	$ (334,358)	$ 989,758	$ (186,157)
+50 basis points	1,743,749	(235,908)	1,045,000	(130,915)
+25 basis points	1,854,384	(125,273)	1,106,651	(69,264)
Base rate	1,979,657	—	1,175,915	—
-25 basis points	2,122,739	143,082	1,254,324	78,409
-50 basis points	2,287,814	308,157	1,343,864	167,949
-75 basis points	2,480,513	500,856	1,447,155	271,240

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

	December 31, 2019			December 31, 2018		
	Min	Max	Weighted average	Min	Max	Weighted average
Discount rate	5.75%	6.75%	6.00%	5.75%	6.75%	6.07%
Terminal capitalization rate	5.25%	6.25%	5.50%	5.25%	6.25%	5.54%
Number of discount years			10.00			10.00

The following table summarizes the sensitivity of the fair value of commercial properties to changes in capitalization and discount rates at December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
Rate sensitivity	Fair value	Change in fair value	Fair value	Change in fair value
+75 basis points	$ 19,650	$ (3,190)	$ 18,738	$ (3,158)
+50 basis points	20,650	(2,190)	19,703	(2,193)
+25 basis points	21,690	(1,150)	20,755	(1,141)
Base rate	22,840	—	21,896	—
-25 basis points	24,130	1,290	23,166	1,270
-50 basis points	25,540	2,700	24,558	2,662
-75 basis points	27,020	4,180	26,099	4,203

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

5. Acquisitions of investment properties

The REIT completed the following investment property acquisitions, which were accounted for as asset acquisitions and have contributed to the operating results effective from the acquisition date.

For the year ended December 31, 2019:

Property	Date of acquisition	Total acquisition cost	Assumed mortgage financing	Subsequent mortgage financing	Interest rate and maturity	Ownership interest
370 & 380 Quarry Way SE, Calgary, AB ("The Quarters")	January 7, 2019	$ 63,954	$ —	$ 44,316	3.04% September 1, 2029	100%
740 & 750 York Mills Road and 17 Farmstead Road, Toronto, ON ("Leslie York Mills")	May 1, 2019	76,804	23,392	—	2.82% February 1, 2021	50%
4850-4874 Côte-des-Neiges Road, Montreal, QC ("Rockhill")	May 7, 2019	137,532	—	67,500	3.42% July 25, 2029	50%
66 Oakmount Road, 111 Pacific Avenue and 255 Glenlake Avenue, Toronto, ON ("High Park Village")	August 1, 2019	136,733	39,480	—	One month bankers' acceptance plus 185 bps[1] April 1, 2026	40%
4300 de Maisonneuve Boulevard West, Montreal, QC ("Le 4300")	November 20, 2019	196,343	—	—	—	100%
2150-2174 Sherbrooke Street West, 2211-2255 Lambert Closse Street, 2151-2177 Lincoln Avenue and 2260 Chomedey Street, Montreal, QC ("Haddon Hall")	November 20, 2019	91,027	—	45,000	3.16% December 1, 2030	100%
		$ 702,393	$ 62,872	$ 156,816		

[1] In connection with this acquisition, the REIT assumed an interest rate swap to receive variable interest based on one month bankers' acceptance plus 185 bps and pay fixed interest at 3.38%.

For the period from April 24, 2018 to December 31, 2018:

Property	Date of acquisition	Total acquisition cost	Assumed mortgage financing	Subsequent mortgage financing	Interest rate and maturity	Ownership interest
2505 24 Street NW, Calgary, AB ("Kaleidoscope")	December 18, 2018	$ 20,376	$ 12,744	$ —	3.59% June 1, 2020	100%

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

Cash used in acquisitions of investment properties is as follows:

	December 31, 2019	December 31, 2018
Total acquisition cost	$ (702,393)	$ (20,376)
Mortgages assumed	62,872	12,744
Interest rate swap acquired	(232)	—
Issuance of Class B LP Units (Note 9)	56,964	—
Deposits applied on acquisition	3,000	—
Transaction costs payable	6,052	—
Working capital assumed	2,164	167
Cash consideration paid on close	$ (571,573)	$ (7,465)

6. Joint operations

The REIT jointly owns and operates three investment properties. The REIT has determined them to be joint operations. Accordingly, the consolidated financial statements of the REIT include its share of revenues, expenses, assets and liabilities. The REIT's ownership interests in the joint operations as at December 31, 2019 are as follows:

Property	Date of acquisition	Ownership interest
Leslie York Mills	May 1, 2019	50%
Rockhill	May 7, 2019	50%
High Park Village	August 1, 2019	40%

7. Prepaid expenses and other assets

	December 31, 2019	December 31, 2018
Prepaid expenses	$ 1,314	$ 1,145
Prepaid CMHC premiums	4,506	1,618
Restricted cash	1,012	792
Deposits	2,352	3,678
Interest rate swap	1,111	—
	$ 10,295	$ 7,233
Current	4,641	5,408
Non-current	5,654	1,825
	$ 10,295	$ 7,233

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

In connection with the acquisition of High Park Village on August 1, 2019, the REIT assumed an interest rate swap to receive variable interest based on one month bankers' acceptance plus 185 bps and pay fixed interest at 3.38%.

The following table is a summary of the REIT's interest rate swap and its respective fair value as at December 31, 2019:

Instrument	Maturity	Fixed rate	Original notional amount	Notional amount	Fair value
Interest rate swap[1]	April 2026	3.38%	$42,360	$39,173	$1,111

[1] The REIT has a 40% ownership interest in this contract through the ownership of a joint operation.

The fair value of the interest rate swap is determined using widely accepted valuation techniques, including discounted cash flow analysis on expected cash flows of the derivatives, using observable market-based inputs including interest rate curves and implied volatilities, and is considered level 2 in the fair value hierarchy.

The following table summarizes the beginning and ending fair value of the swap for the period presented:

		December 31, 2019
Balance, January 1, 2019	$	—
Non-cash movement		
Acquired, August 1, 2019		232
Fair value gain		879
Balance, December 31, 2019	$	1,111

8. Resident and other receivables

		December 31, 2019		December 31, 2018
Current				
Resident receivables	$	384	$	478
Other receivables		1,526		589
Less: Allowance for credit losses		(83)		(78)
	$	1,827	$	989

There is no significant concentration of credit risk with respect to resident receivables as the REIT has a high volume of tenants with individually small monthly rent amounts.

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

9. Class B LP Units

The following table reconciles the changes in cash flows and outstanding units for the Class B LP Units:

	Units	$
Balance, April 24, 2018	—	$ —
Cash flows		
Redeemed, July 10, 2018	(2,069,100)	(28,277)
Non-cash movement		
Issued, July 3, 2018	22,928,510	332,463
Fair value loss	—	81,713
	22,928,510	414,176
Balance, December 31, 2018	20,859,410	$ 385,899
Non-cash movement		
Issued, August 1, 2019 (Note 5)	2,806,122	56,964
Exchanged for Units, September 17, 2019 (Note 14)	(896,459)	(20,000)
Fair value loss	—	104,241
	1,909,663	141,205
Balance, December 31, 2019	22,769,073	$ 527,104

For the year ended December 31, 2019, distributions of $9,195 (December 31, 2018 - $4,229) to Class B LP Unitholders were declared.

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

10. Class C LP Units

	December 31, 2019	December 31, 2018
Class C LP Units	$ 222,702	$ 227,721
Unamortized mark-to-market adjustments	2,835	3,316
	$ 225,537	$ 231,037
Current	5,653	5,499
Non-current	219,884	225,538
	$ 225,537	$ 231,037

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

The following table reconciles the changes in cash flows and outstanding units for the Class C LP Units:

	Units		$
Balance, April 24, 2018	—	$	—
Cash flows			
Distributions used to repay principal	—		(2,329)
Non-cash movement			
Class C LP Units issued	22,978,700		230,050
Mark-to-market adjustment	—		3,558
Amortization of mark-to-market adjustments	—		(242)
	22,978,700		233,366
Balance, December 31, 2018	22,978,700	$	231,037
Cash flows			
Distributions used to repay principal	—		(5,019)
Non-cash movement			
Amortization of mark-to-market adjustments	—		(481)
Balance, December 31, 2019	22,978,700	$	225,537

For the year ended December 31, 2019, the REIT made distributions of $7,066 (December 31, 2018 - $3,606) to the Class C LP Unitholder that were accounted for as finance costs.

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% (December 31, 2018 - 3.16%) and mature at various dates between 2023 and 2030 (December 31, 2018 - 2023 and 2030).

Distributions on Class C LP Units as at December 31, 2019, excluding unamortized mark-to-market adjustments, are due as follows:

2020	$	5,178
2021		5,341
2022		5,510
2023		50,234
2024 and thereafter		156,439

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, 2019, the current market rates plus risk-adjusted spreads ranged from 2.60% to 3.40% (December 31, 2018 - 2.81% to 3.64%) and the fair value of the Class C LP Units was $227,507 (December 31, 2018 - $230,210) and is considered level 2 within the fair value hierarchy.

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

11. Secured Debt

	December 31, 2019	December 31, 2018
Mortgages - fixed rate[1]	$ 487,876	$ 273,574
Unamortized mark-to-market adjustment	1,741	2,038
Unamortized deferred financing costs	(310)	(11)
Total mortgages	489,307	275,601
Credit facility[2]	91,009	35,925
	$ 580,316	$ 311,526
Current	21,490	5,822
Non-current	558,826	305,704
	$ 580,316	$ 311,526

[1] Fixed rate mortgages are secured by investment properties, bear interest at a weighted average contractual interest rate of 3.14% (December 31, 2018 - 3.20%) and mature at various dates from 2020 through 2030 (December 31, 2018 - 2020 through 2030). The fixed rate mortgages include a $39,174 (December 31, 2018 - $nil) variable interest mortgage fixed through an interest rate swap.

[2] The REIT has a committed credit facility of $200,000 (December 31, 2018 - $150,000) that is secured by several investment properties, matures on July 3, 2021 and is used to fund working capital requirements, acquisitions and for general corporate purposes. At December 31, 2019, $108,991 (December 31, 2018 - $114,075) of this facility was available in accordance with its terms and conditions and $91,009 (December 31, 2018 - $35,925) was utilized. The credit facility bears interest at one month bankers' acceptance plus 175 bps or prime plus 75 bps and as at December 31, 2019, the weighted average variable interest rate was 3.72% (December 31, 2018 - 3.94%).

The secured debt balances at December 31, 2019, excluding unamortized mark-to-market adjustments and unamortized deferred financing costs, are due as follows:

2020	$ 21,227
2021	122,280
2022	95,750
2023	54,908
2024 and thereafter	284,720

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

The following tables reconcile the changes in cash flows for secured debt:

	Mortgages	Unamortized mark-to-market adjustments	Unamortized deferred financing costs	Credit facility	Total
Balance, April 24, 2018	$ —	$ —	$ —	$ —	$ —
Cash flows					
Issued	26,024	—	(11)	41,383	67,396
Repayments	(2,206)	—	—	(5,458)	(7,664)
	23,818	—	(11)	35,925	59,732
Non-cash movement					
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
Cash flows					
Issued	158,360	—	(322)	257,084	415,122
Repayments	(6,930)	—	—	(202,000)	(208,930)
	151,430	—	(322)	55,084	206,192
Non-cash movement					
Assumed on asset acquisition	62,872	—	—	—	62,872
Deferred financing amortization	—	—	23	—	23
Amortization of mark-to-market adjustment	—	(297)	—	—	(297)
	62,872	(297)	23	—	62,598
Balance, December 31, 2019	$ 487,876	$ 1,741	$ (310)	$ 91,009	$ 580,316

The following table summarizes new financings for the year ended December 31, 2019:

Issue date	Mortgage financing	Secured by	Interest rate	Maturity date
March 6, 2019	$44,316	The Quarters	3.04%	September 1, 2029
May 1, 2019	23,392	Leslie York Mills	2.82%	February 1, 2021
August 1, 2019	39,480	High Park Village	One month bankers' acceptance plus 185 bps[1]	April 1, 2026
August 19, 2019[2]	69,044	Rockhill	2.91%	October 1, 2029
November 20, 2019	45,000	Haddon Hall	3.16%	December 1, 2030

[1] In connection with this mortgage assumption, the REIT also assumed an interest rate swap to receive variable interest based on one month bankers' acceptance plus 185 bps and pay fixed interest at 3.38%.

[2] On May 7, 2019, in connection with the acquisition of Rockhill, the REIT acquired a $67,500 conventional mortgage, with an interest rate of 3.42% and maturing on July 25, 2029. On August 19, 2019, CMHC insurance was obtained for this mortgage, with an additional $1,544 borrowed to finance the CMHC premiums. The CMHC insured mortgage bears interest at 2.91% and matures on October 1, 2029.

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

The following table summarizes new financings for the period from April 24, 2018 to December 31, 2018:

Issue date	Mortgage financing	Secured by	Interest rate	Maturity date
November 23, 2018[1]	$49,831	Richgrove	3.25%	December 1, 2022
December 18, 2018	$12,744	Kaleidoscope	3.59%	June 1, 2020

[1] The REIT used a portion of this financing to repay an existing mortgage of $23,807 associated with the property located at 7 & 21 Richgrove Drive, Toronto, ON ("Richgrove") and the outstanding balance of an unsecured promissory note of $25,587 due to MPI.

As at December 31, 2019, 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, 2019, the current market rates plus risk-adjusted spreads ranged from 2.60% to 3.90% (December 31, 2018 - 2.81% to 3.38%) and the fair value of the mortgages was $494,589 (December 31, 2018 - $276,954) and is considered level 2 within the fair value hierarchy. Given the variable nature of the credit facility, its carrying value approximates its fair value.

12. Related-party transactions

In the normal course of operations, the REIT enters into various transactions with related parties. 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"). The ASA 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. These services are 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.

For the year ended December 31, 2019, the REIT incurred $848 (December 31, 2018 - $282) for services rendered under the ASA.

(b) Unsecured promissory notes

On closing of the Initial Public Offering ("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 amounts 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.

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

(c) Loan receivable from related party

The REIT committed to advance up to $30,000 to an affiliate of MPI to support its redevelopment of a commercial property located at 99 Fifth Avenue, Ottawa, Ontario ("Fifth and Bank"). The loan bears interest at 6% per annum and matures on March 31, 2022. The loan is secured by a second priority charge in favor of the lender and a guarantee by MPI. Both the principal and interest are due on maturity. In connection with this financing, the REIT will have the exclusive option to purchase the property upon stabilization at 95% of the fair market value as determined by independent and qualified third-party appraisers.

The following table summarizes the activity of the loan receivable:

		$
Balance, January 1, 2019	$	—
Cash flows		
Advances		19,727
Non-cash movement		
Accrued interest		195
Balance, December 31, 2019	$	19,922

The fair value of the loan receivable from related party is determined by reference to current market rates that could be obtained for similar instruments with similar terms and maturities. As at December 31, 2019, the carrying value of the loan approximates its fair value and is considered level 2 within the fair value hierarchy.

(d) Due to related parties

Amounts due to related parties at December 31, 2019 include $732 and $588 (December 31, 2018 - $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 due to MPI include $288 (December 31, 2018 - $1,643) for working capital, $103 (December 31, 2018 - $nil) for distributions on Class B LP Units, $33 (December 31, 2018 - $nil) for distributions on Units, $nil (December 31, 2018 - $1,049) to reimburse transaction costs and $94 (December 31, 2018 - $282) in connection with the ASA.

(e) Revenue and expenses

- Included in rental revenue for the year ended December 31, 2019 is $842 (December 31, 2018 - $229) of revenue from MPI and its affiliates as rent for office space, furnished suites, parking and other revenue at certain REIT properties.
- Included in property operating expenses for the year ended December 31, 2019 is $954 (December 31, 2018 - $nil) paid to MPI and its affiliates.
- For the year ended December 31, 2019, compensation to key management personnel includes $768 (December 31, 2018 - $296) paid to executives, Unit-based compensation expense of $291 (December 31, 2018 - $139) for executives and Unit-based compensation expense for the grant of Deferred Units to Trustees in lieu of annual retainer and meeting fees of $474 (December 31, 2018 - $306), respectively. Additional compensation to key management personnel for services provided to the REIT was paid by MPI and its affiliate.
- Included in finance costs for the year ended December 31, 2019 are distributions on Class B LP Units of $9,195 (December 31, 2018 - $4,229), paid or payable to MPI and a limited partnership wholly-owned by MPI.
- Included in finance costs for the year ended December 31, 2019 are distributions on Class C LP Units of $7,066 (December 31, 2018 - $3,606), paid or payable to a limited partnership wholly-owned by MPI.
- For the year ended December 31, 2019 the REIT reimbursed $312 (December 31, 2018 - $nil) to MPI for costs paid on behalf of the REIT.

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

(f) Distributions

- For the year ended December 31, 2019, distributions of $5,019 (December 31, 2018 - $2,329) were made to a limited partnership wholly-owned by MPI in order to repay principal on Class C LP Units.
- For the year ended December 31, 2019, distributions on Units to MPI of $131 (December 31, 2018 - $nil) were declared and recorded as a reduction to Unitholders' equity.

(g) Property acquisitions

- On May 1, 2019, the REIT acquired MPI's 50% ownership interest in Leslie York Mills in Toronto, Ontario for a purchase price of $75,050. In connection with the acquisition, the REIT assumed a mortgage of $23,392.
- On August 1, 2019, the REIT acquired MPI's 40% ownership interest in High Park Village in Toronto, Ontario for a purchase price of $131,214. In connection with the acquisition, the REIT assumed a mortgage of $39,480 which bears interest at one month bankers' acceptance plus 185 bps and matures on April 1, 2026. In addition, the REIT assumed an interest rate swap to receive variable interest based on one month bankers' acceptance plus 185 bps and pay fixed interest at 3.38%. The purchase price was partially satisfied by the issuance of 2,806,122 Class B LP Units to MPI for $55,000.

13. Accounts payable and accrued liabilities

	December 31, 2019	December 31, 2018
Accounts payable	$ 5,571	$ 4,843
Accrued liabilities	11,539	3,422
Distributions payable	1,297	542
Unit-based compensation (Note 22)	1,611	521
	$ 20,018	$ 9,328
Current	19,744	9,152
Non-current	274	176
	$ 20,018	$ 9,328

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

14. Units

The following table presents the change in and outstanding amount of Units:

	Units		$
Authorized	Unlimited		
Units issued and outstanding:			
Balance, April 24, 2018	—	$	—
On date of formation, April 24, 2018	2		—
Issued on IPO closing, July 3, 2018, net	13,794,000		183,813
Redeemed, July 3, 2018	(2)		—
Issued, July 10, 2018, net	2,069,100		28,265
	15,863,100		212,078
Balance, December 31, 2018	15,863,100	$	212,078
Issued, April 15, 2019, net	8,809,000		165,172
Issued on exchange for Class B LP Units, September 17, 2019 (Note 9)	896,459		20,000
Issued, October 22, 2019, net	9,850,000		215,401
Issued, November 25, 2019, net	856,280		18,783
	20,411,739		419,356
Balance, December 31, 2019	36,274,839	$	631,434

On July 3, 2018, the REIT completed the IPO of 13,794,000 Units from treasury at a price of $14.50 per Unit for net proceeds of $183,813. Underwriters' fees and expenses relating to the IPO were $16,200.

On July 10, 2018, the REIT completed the issuance of an additional 2,069,100 Units from treasury at a price of $14.50 per Unit for net proceeds of $28,265 pursuant to the over-allotment option granted to the underwriters in connection with the issuance of Units on July 3, 2018. Underwriters' fees and expenses relating to the over-allotment were $1,737.

On April 15, 2019 the REIT completed the issuance of 8,809,000 Units from treasury at a price of $19.60 per Unit for net proceeds of $165,172. The issuance included 1,149,000 Units sold pursuant to the full exercise of an over-allotment option granted to the underwriters. Underwriters' fees and expenses relating to the issuance were $7,484.

On September 17, 2019, the REIT issued 896,459 Units from treasury in exchange for Class B LP Units at a price of $22.31 per Unit and valued at $20,000.

On October 22, 2019, the REIT completed the issuance of 9,850,000 Units from treasury at a price of $22.85 per Unit for net proceeds of $215,401. Underwriters' fees and expenses relating to the issuance were $9,672.

On November 25, 2019, the REIT completed the issuance of an additional 856,280 Units from treasury at a price of $22.85 for net proceeds of $18,783 pursuant to the over-allotment option granted to the underwriters in connection with the issuance of Units on October 22, 2019. Underwriters' fees and expenses relating to the issuance were $783.

For the year ended December 31, 2019, distributions to Unitholders of $10,799 (December 31, 2018 - $3,216) were declared. This represents monthly distributions of $0.03416 per Unit for the months of January to July 2019 and $0.03667 per Unit for the months of August to December 2019 (December 31, 2018 - monthly distribution of $0.03196 per Unit for the months of July 2018 and $0.03416 per Unit for August to December 2018).

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

15. 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.

16. Revenue from investment properties

The components of revenue from investment properties are as follows:

		Year ended December 31, 2019		Period from April 24, 2018 to December 31, 2018
Rental revenue	$	85,588	$	34,072
Revenue from services		18,850		8,403
	$	104,438	$	42,475

17. Finance costs

Finance costs are comprised of the following:

		Year ended December 31, 2019		Period from April 24, 2018 to December 31, 2018
Interest expense on mortgages	$	12,255	$	3,881
Interest expense & standby fees on credit facility		2,619		809
Interest expense on unsecured debt		—		298
Amortization of financing charges		233		92
Amortization of CMHC premiums		83		4
Amortization of mark-to-market adjustments		(778)		(463)
Interest income		(541)		(8)
Gain on retirement of debt		—		(573)
Interest expense & other financing charges		13,871		4,040
Distributions on Class B LP Units		9,195		4,229
Distributions on Class C LP Units		7,066		3,606
Finance costs - operations	$	30,132	$	11,875
Fair value loss on Class B LP Units		104,241		81,713
Fair value gain on interest rate swap		(879)		—
Finance costs	$	133,494	$	93,588

18. 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 this arrangement. As of December 31, 2019, the remaining unforgiven balance of the loan which has not been recorded by the REIT is $17,136 (December 31, 2018 - $18,360). 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 the arrangement. As of December 31, 2019, the remaining unforgiven balance of the loan which has not been recorded by the REIT is $4,368 (December 31, 2018 - $4,704). To date, the REIT has met all conditions related to this forgivable loan and management intends to continue to meet these requirements.

As at December 31, 2019, the REIT has committed to advance up to an additional $10,078 to an affiliate of MPI to support its redevelopment of Fifth and Bank.

The REIT is a guarantor on a joint and several basis for mortgage debt held through one of its joint operations. As at December 31, 2019, the maximum potential obligation resulting from these guarantees is $13,711 (December 31, 2018 - $nil).

19. 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.

(a) Interest rate risk

As the REIT’s interest-bearing assets mainly comprise of fixed rate instruments, 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 is 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, 2019, the REIT has a variable rate credit facility of $200,000 (December 31, 2018 - $150,000) with an outstanding balance of $91,009 (December 31, 2018 - $35,925). A 1% change in prevailing interest rates would change annualized interest charges incurred by $910 (December 31, 2018 - $359).

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

(b) Currency risk

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

(c) 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 Units as at December 31, 2019 would have a $5,271 (December 31, 2018 - $3,859) change in 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 fulfill their lease commitments or loan repayments. An allowance for impairment is taken for all expected credit losses.

The REIT's risk of credit loss from tenants experiencing financial difficulties is mitigated through diversification. The REIT's residential rental business is carried on in the Toronto, Montreal, Ottawa, 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.

The REIT is also exposed to credit risk, relating to the loan advanced to an affiliate of MPI for the development of Fifth and Bank, in the event that the borrower defaults on the repayment of amounts owing to the REIT. Management mitigates this risk by ensuring adequate security has been provided.

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 credit facility.

As of December 31, 2019, current liabilities of $57,401 (December 31, 2018 - $31,532) exceeded current assets of $8,396 (December 31, 2018 - $7,289), resulting in a net working capital deficit of $49,005 (December 31, 2018 - $24,243). The REIT's immediate liquidity needs are met though cash-on-hand, cash flow from operations, property-level debt and availability on its credit facility. As of December 31, 2019, liquidity was $110,919 (December 31, 2018 - $114,967) consisting of cash of $1,928 (December 31, 2018 - $892) and $108,991 (December 31, 2018 - $114,075) of available borrowing capacity under the credit facility. Management believes that there is sufficient liquidity to meet the REIT's financial obligations for the foreseeable future.

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

	December 31, 2019	December 31, 2018
Committed	$ 200,000	$ 150,000
Available	108,991	114,075
Utilized	91,009	35,925

(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:

	2020	2021	2022	2023	2024 and thereafter	Total
Mortgages	$ 21,227	$ 31,271	$ 95,750	$ 54,908	$ 284,720	$ 487,876
Credit facility	—	91,009	—	—	—	91,009
	21,227	122,280	95,750	54,908	284,720	578,885
Class C LP Units	5,178	5,341	5,510	50,234	156,439	222,702
Interest obligation	25,193	22,324	19,261	15,831	46,879	129,488
Tenant rental deposits	8,676	—	—	—	36	8,712
Due to related parties	1,838	—	—	—	—	1,838
Accounts payable and accrued liabilities	19,744	184	82	8	—	20,018
	$ 81,856	$ 150,129	$ 120,603	$ 120,981	$ 488,074	$ 961,643

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

20. Capital risk management

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

The components of the REIT's capital are set out in the table below:

As at	December 31, 2019	December 31, 2018
Liabilities (principal amounts outstanding):		
Class B LP Units	$ 527,104	$ 385,899
Class C LP Units	222,702	227,721
Mortgages	487,876	273,574
Credit facility	91,009	35,925
	1,328,691	923,119
Unitholders' equity	686,775	258,252
	$ 2,015,466	$ 1,181,371

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

21. Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

		Year ended December 31, 2019		Period from April 24, 2018 to December 31, 2018
Prepaid expenses and other assets	$	(1,461)	$	(462)
Resident and other receivables		(838)		(902)
Tenant rental deposits		758		1,270
Due to related parties		(2,696)		1,241
Accounts payable and accrued liabilities		(2,502)		4,173
	$	(6,739)	$	5,320

22. Unit-based compensation

Executives

Deferred Units granted to executives generally vest on the second, third or fourth anniversaries of the grant date and are 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 Plan Administrator, cash payable upon the participant's separation from service with the REIT. The Board of Trustees has the discretion to vary the manner in which the Deferred Units vest for any participant.

A summary of the deferred unit plan activity and the value of Unit-based compensation expense for the executives is presented below:

		$
Balance, April 24, 2018	$	—
Unit-based compensation expense		139
Fair value loss		37
Balance, December 31, 2018	$	176
Unit-based compensation expense		291
Fair value loss		188
Balance, December 31, 2019	$	655

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

The details of movement in Deferred Units for the executives is as follows:

	Units
Balance, April 24, 2018	—
Granted	48,274
Distribution equivalents	468
Balance, December 31, 2018	48,742
Granted	64,000
Forfeited	(5,288)
Distribution equivalents	967
Balance, December 31, 2019	108,421

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. Effective November 12, 2019, the REIT matched 45% of the total value of annual board retainer fees and board and committee meeting fees that a trustee elected to receive in the form of Deferred Units. Prior to November 12, 2019, the REIT matched up to 50% of the total value of the annual board retainer fee that a Trustee elected 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 vest immediately upon grant. Deferred Units granted further to any match by the REIT also vest immediately. The Board of Trustees has the discretion to vary the manner in which the Deferred Units vest for any participant. The Deferred Units are 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 Plan Administrator, 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 for the Trustees is presented below.

	Units	$
Balance, April 24, 2018	—	$ —
Granted and vested	18,545	304
Distribution equivalents	107	2
Fair value loss	—	39
Balance, December 31, 2018	18,652	$ 345
Granted and vested	22,111	462
Distribution equivalents	559	12
Fair value loss	—	137
Balance, December 31, 2019	41,322	$ 956

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

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 year ended December 31, 2019 and the period from April 24, 2018 to 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, 2019	December 31, 2018
Less than 1 year	$ 30,855	$ 17,714
Between 1 to 5 years	3,156	3,559
5 years and thereafter	405	109
	$ 34,416	$ 21,382