



Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Interim Balance Sheets

Unaudited

(in thousands of Canadian dollars)

	Note	June 30, 2020	December 31, 2019
Assets			
Investment properties	3	\$ 2,036,213	\$ 2,016,328
Loan receivable from related party	10	26,135	19,922
Prepaid expenses and other assets	5	13,964	10,295
Resident and other receivables	6	2,070	1,827
Cash		6,889	1,928
		\$ 2,085,271	\$ 2,050,300
Liabilities and Unitholders' Equity			
Liabilities			
Class B LP Units	7	\$ 453,105	\$ 527,104
Class C LP Units	8	222,729	225,537
Mortgages	9	587,562	489,307
Credit facility	9	13,500	91,009
Tenant rental deposits		8,911	8,712
Due to related parties	10	1,704	1,838
Accounts payable and accrued liabilities	11	18,968	20,018
		\$ 1,306,479	\$ 1,363,525
Unitholders' equity			
		778,792	686,775
Contingencies and commitments	10, 16		
Subsequent events	22		
		\$ 2,085,271	\$ 2,050,300

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

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Interim Statements of Net Income and Comprehensive Income

For the three and six months ended June 30, 2020 and 2019

Unaudited

(in thousands of Canadian dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Revenue from investment properties	14	\$ 31,319	\$ 24,796	\$ 62,844	\$ 46,931
Property operating expenses					
Property operating costs		5,714	4,504	11,497	8,734
Property taxes		3,465	2,649	6,885	5,047
Utilities		2,116	1,857	4,949	4,054
		11,295	9,010	23,331	17,835
Property operating income		20,024	15,786	39,513	29,096
Other expenses (income)					
General and administrative		1,789	1,277	3,481	2,427
Finance costs - operations	15	8,454	7,001	17,036	13,981
Fair value loss (gain) on investment properties	3	(11,402)	(10,276)	(8,639)	(23,845)
Fair value loss (gain) on Class B LP Units	7, 15	9,108	(30,872)	(73,999)	6,466
Fair value loss (gain) on interest rate swap	11, 15	361	—	2,660	—
Fair value loss (gain) on Unit-based compensation	20	33	(36)	(254)	44
Fees and other income		(373)	(124)	(770)	(124)
		7,970	(33,030)	(60,485)	(1,051)
Net income and comprehensive income		\$ 12,054	\$ 48,816	\$ 99,998	\$ 30,147

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

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity

For the six months ended June 30, 2020 and 2019

Unaudited

(in thousands of Canadian dollars)

	Note	Units	Distributions	Retained earnings	Total
Balance, December 31, 2018	\$	212,078	\$ (3,216)	\$ 49,390	\$ 258,252
Units issued, net of issue costs		165,172	—	—	165,172
Net income and comprehensive income		—	—	30,147	30,147
Distributions	12	—	(4,154)	—	(4,154)
Balance, June 30, 2019	\$	377,250	\$ (7,370)	\$ 79,537	\$ 449,417
Balance, December 31, 2019	\$	631,434	\$ (14,015)	\$ 69,356	\$ 686,775
Net income and comprehensive income		—	—	99,998	99,998
Distributions	12	—	(7,981)	—	(7,981)
Balance, June 30, 2020	\$	631,434	\$ (21,996)	\$ 169,354	\$ 778,792

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

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Interim Statements of Cash Flows

For the six months ended June 30, 2020 and 2019

Unaudited

(in thousands of Canadian dollars)

	Note	June 30, 2020	June 30, 2019
Cash provided by (used in):			
Operating activities			
Net income		\$ 99,998	\$ 30,147
Adjustments for:			
Finance costs - operations	15	17,036	13,981
Fair value loss (gain) on investment properties	3	(8,639)	(23,845)
Fair value loss (gain) on Class B LP Units	7, 15	(73,999)	6,466
Fair value loss (gain) on interest rate swap	11, 15	2,660	—
Fair value loss (gain) on Unit-based compensation	20	(254)	44
Change in non-cash working capital	19	(6,058)	(11,198)
Cash provided by operating activities		30,744	15,595
Financing activities			
Proceeds from issuance of Units, net of issue costs		—	165,193
Proceeds from mortgage financing	9	115,409	111,816
CMHC premiums paid		(1,774)	(1,315)
Financing costs	9	(242)	(195)
Principal repayments on mortgages	9	(16,784)	(2,926)
Net repayments on credit facility	9	(77,509)	(11,577)
Distributions on Class B LP Units	7, 15	(5,010)	(4,275)
Distributions on Class C LP Units, used to repay principal	8	(2,573)	(2,495)
Distribution on Units	12	(7,981)	(3,853)
Interest paid		(12,077)	(9,619)
Cash (used in) provided by financing activities		(8,541)	240,754
Investing activities			
Acquisition of investment properties		—	(245,220)
Capital additions to investment properties		(11,732)	(6,330)
Loan advances to related party	10	(5,510)	—
Cash used in investing activities		(17,242)	(251,550)
Change in cash during the period		4,961	4,799
Cash, beginning of the period		1,928	892
Cash, end of the period		\$ 6,889	\$ 5,691

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

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

(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 is amended from time to time. 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.

At June 30, 2020, the REIT's portfolio consists of interests in 29 multi-residential rental properties, including three mixed-use residential apartment and commercial buildings, all of which are held by Minto Apartment Limited Partnership, which is consolidated by the REIT.

2. Significant accounting policies

Statement of compliance

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

The unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the REIT's audited consolidated financial statements for the year ended December 31, 2019 and the period from April 24, 2018 (date of formation) to December 31, 2018 (the "Annual 2019 Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

These unaudited condensed consolidated interim financial statements were approved by the Board of Trustees of the REIT and authorized for issuance on August 11, 2020.

The operating results for the six months ended June 30, 2020 are not necessarily indicative of results that may be expected for the year ending December 31, 2020 due to seasonal variations in property expenses and other factors, including the impacts of COVID-19.

The REIT's significant accounting policies were presented in Note 2 of the Annual 2019 Financial Statements and have been consistently applied in the preparation of these unaudited condensed consolidated interim financial statements, with the exception of the item described below:

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

The amendments to IFRS 3 clarify whether a transaction results in an asset acquisition or a business combination. 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 adopted the amendments in its unaudited condensed consolidated interim financial statements beginning on January 1, 2020. The adoption of these amendments did not have any impact on the REIT's unaudited condensed consolidated interim financial statements.

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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

Future changes in accounting standards

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1, Presentation of Financial Statements)

On January 23, 2020, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, providing a more general approach to the classification of liabilities based on the contractual agreements in place at the reporting date. The amendments apply to annual reporting periods beginning on or after January 1, 2023. Earlier adoption is permitted.

The amendments to IAS 1 affect only the presentation of liabilities in the balance sheet and seek to clarify that the classification of liabilities as current or non-current should be based on the rights that are in existence at the end of the reporting period. Further, the amendments make clear that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and that the settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The REIT intends to adopt the amendments in its consolidated financial statements beginning on January 1, 2023, when the amendments become 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.

3. Investment properties

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

	June 30, 2020	December 31, 2019
Residential properties	\$ 1,997,527	\$ 1,979,657
Commercial properties	22,760	22,840
Land held for development	15,926	13,831
	\$ 2,036,213	\$ 2,016,328

The following table presents the change in investment properties:

	\$
Balance, December 31, 2019	\$ 2,016,328
Additions	
Capital expenditures	9,641
Fair value gain	8,639
Other	1,605
Balance, June 30, 2020	\$ 2,036,213

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 June 30, 2020, 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 conducts external appraisals of a third of its portfolio annually to ensure that every property is externally appraised at least once every three years. These external appraisals are used by Management to assist in the validation of the market assumptions and data used as part of the internal valuation model.

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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

The REIT continues to review market capitalization, discount and terminal capitalization rates, as well as its future cash flow projections and their impact on the valuation of its properties in light of the COVID-19 pandemic (Note 21). The carrying value of the REIT's investment properties reflects Management's best estimate of fair value in terms of the assessed highest and best use as at June 30, 2020. It is not possible to forecast with certainty the duration or full scope of the economic impact COVID-19 will have on the REIT's business and operations, both in the short and long term. Any long-term effects on market rents, occupancy, turnover and future demand would ultimately impact the underlying valuation of investment properties and such impact may be material.

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:

	June 30, 2020			December 31, 2019		
	Min	Max	Weighted average	Min	Max	Weighted average
Capitalization rate	3.25%	4.75%	3.92%	3.25%	4.75%	3.92%

The following table summarizes the sensitivity of the fair value of residential properties to changes in capitalization rates as at June 30, 2020 and December 31, 2019:

	June 30, 2020		December 31, 2019	
Rate sensitivity	Fair value	Change in fair value	Fair value	Change in fair value
+75 basis points	\$ 1,660,000	\$ (337,527)	\$ 1,645,299	\$ (334,358)
+50 basis points	1,759,412	(238,115)	1,743,749	(235,908)
+25 basis points	1,871,099	(126,428)	1,854,384	(125,273)
Base rate	1,997,527	—	1,979,657	—
-25 basis points	2,141,879	144,352	2,122,739	143,082
-50 basis points	2,308,346	310,819	2,287,814	308,157
-75 basis points	2,502,570	505,043	2,480,513	500,856

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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

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

	June 30, 2020			December 31, 2019		
	Min	Max	Weighted average	Min	Max	Weighted average
Discount rate	5.75%	6.75%	6.00%	5.75%	6.75%	6.00%
Terminal capitalization rate	5.25%	6.25%	5.50%	5.25%	6.25%	5.50%
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 June 30, 2020 and December 31, 2019:

	June 30, 2020		December 31, 2019	
Rate sensitivity	Fair value	Change in fair value	Fair value	Change in fair value
+75 basis points	\$ 19,670	\$ (3,090)	\$ 19,650	\$ (3,190)
+50 basis points	20,580	(2,180)	20,650	(2,190)
+25 basis points	21,640	(1,120)	21,690	(1,150)
Base rate	22,760	—	22,840	—
-25 basis points	23,990	1,230	24,130	1,290
-50 basis points	25,350	2,590	25,540	2,700
-75 basis points	26,840	4,080	27,020	4,180

4. Joint operations

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

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

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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5. Prepaid expenses and other assets

	June 30, 2020	December 31, 2019
Prepaid expenses	\$ 6,244	\$ 1,314
Prepaid CMHC premiums	6,245	4,506
Restricted cash	1,079	1,012
Deposits and other prepayments	396	2,352
Interest rate swap	—	1,111
	\$ 13,964	\$ 10,295
Current	7,520	4,641
Non-current	6,444	5,654
	\$ 13,964	\$ 10,295

6. Resident and other receivables

	June 30, 2020	December 31, 2019
Current		
Resident receivables	\$ 1,023	\$ 384
Other receivables	1,291	1,526
Less: Allowance for credit losses	(244)	(83)
	\$ 2,070	\$ 1,827

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.

7. Class B LP Units

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

	Units	\$
Balance, December 31, 2019	22,769,073	527,104
<i>Non-cash movement</i>		
Fair value gain	—	(73,999)
Balance, June 30, 2020	22,769,073	\$ 453,105

For the three and six months ended June 30, 2020, distributions of \$2,505 and \$5,010 (June 30, 2019 - \$2,137 and \$4,275) 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.

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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8. Class C LP Units

	June 30, 2020	December 31, 2019
Class C LP Units	\$ 220,129	\$ 222,702
Unamortized mark-to-market adjustments	2,600	2,835
	\$ 222,729	\$ 225,537
Current	5,736	5,653
Non-current	216,993	219,884
	\$ 222,729	\$ 225,537

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

	Units	\$
Balance, December 31, 2019	22,978,700	225,537
<i>Cash flows</i>		
Distributions used to repay principal	—	(2,573)
<i>Non-cash movement</i>		
Amortization of mark-to-market adjustments	—	(235)
Balance, June 30, 2020	22,978,700	\$ 222,729

For the three and six months ended June 30, 2020, the REIT made distributions of \$1,730 and \$3,460 (June 30, 2019 - \$1,769 and \$3,538) 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, 2019 - 3.16%) and mature at various dates between 2023 and 2030 (December 31, 2019 - 2023 and 2030).

Distributions on Class C LP Units as at June 30, 2020, excluding unamortized mark-to-market adjustments, are due as follows:

2020	\$ 2,604
2021	5,341
2022	5,510
2023	50,234
2024 and thereafter	156,440

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 June 30, 2020, the current market rates plus risk-adjusted spreads ranged from 1.77% to 2.63% (December 31, 2019 - 2.60% to 3.40%) and the fair value of the Class C LP Units was \$231,998 (December 31, 2019 - \$227,507) and is considered level 2 within the fair value hierarchy.

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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9. Secured Debt

	June 30, 2020	December 31, 2019
Mortgages - fixed rate ¹	\$ 486,501	\$ 487,876
Mortgage - variable rate ²	100,000	—
Unamortized mark-to-market adjustment	1,594	1,741
Unamortized deferred financing costs	(533)	(310)
Total mortgages	587,562	489,307
Credit facility ³	13,500	91,009
	\$ 601,062	\$ 580,316
Current	132,222	21,490
Non-current	468,840	558,826
	\$ 601,062	\$ 580,316

¹ Fixed rate mortgages are secured by investment properties, bear interest at a weighted average contractual interest rate of 3.08% (December 31, 2019 - 3.14%) and mature at various dates from 2021 through 2030 (December 31, 2019 - 2020 through 2030). The fixed rate mortgages include a \$38,708 (December 31, 2019 - \$39,174) variable interest mortgage fixed through an interest rate swap.

² The REIT has a variable rate mortgage that is secured by an investment property, bears interest at prime plus 25 bps and matures on September 30, 2020. As at June 30, 2020, the weighted average variable interest rate was 2.70%.

³ The REIT has a committed credit facility of \$200,000 (December 31, 2019 - \$200,000) 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 June 30, 2020, \$186,500 (December 31, 2019 - \$108,991) of this facility was available in accordance with its terms and conditions and \$13,500 (December 31, 2019 - \$91,009) was utilized. The credit facility bears interest at one month bankers' acceptance plus 175 bps or prime plus 75 bps and as at June 30, 2020, the weighted average variable interest rate was 3.20% (December 31, 2019 - 3.72%).

The secured debt balances at June 30, 2020, excluding unamortized mark-to-market adjustments and unamortized deferred financing costs, are due as follows:

2020	\$ 105,009
2021	45,262
2022	96,246
2023	55,410
2024 and thereafter	298,074

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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The following table reconciles the changes in cash flows for secured debt:

	Mortgages	Unamortized mark-to-market adjustments	Unamortized deferred financing costs	Credit facility	Total
Balance, December 31, 2019	\$ 487,876	\$ 1,741	\$ (310)	\$ 91,009	\$ 580,316
<i>Cash flows</i>					
Issued	115,409	—	(242)	29,991	145,158
Repayments	(16,784)	—	—	(107,500)	(124,284)
	98,625	—	(242)	(77,509)	20,874
<i>Non-cash movement</i>					
Deferred financing amortization	—	—	19	—	19
Amortization of mark-to-market adjustment	—	(147)	—	—	(147)
	—	(147)	19	—	(128)
Balance, June 30, 2020	\$ 586,501	\$ 1,594	\$ (533)	\$ 13,500	\$ 601,062

The following table summarizes new financings for the six months ended June 30, 2020:

Issue date	Mortgage financing	Secured by	Interest rate	Maturity date
March 31, 2020	\$100,000 ¹	Minto one80five	Prime plus 25 bps	September 30, 2020
April 24, 2020	\$1,151 ²	Haddon Hall	2.67%	December 1, 2030
June 29, 2020	\$14,258 ³	Kaleidoscope	1.56%	July 15, 2030

¹ This mortgage is interest-only. As at June 30, 2020, the REIT has entered into rate lock agreements to replace the existing financing with two new mortgage financings that have long term maturity profiles (Note 16).

² On November 20, 2019, in connection with the acquisition of Haddon Hall, the REIT obtained a \$45,000 conventional mortgage, with an interest rate of 3.16% maturing on December 1, 2030. On April 24, 2020, CMHC insurance was obtained for this mortgage, with an additional \$1,151 borrowed to finance the CMHC premiums. The CMHC insured mortgage bears interest at 2.67% and matures on December 1, 2030.

³ The conventional mortgage assumed on the acquisition of Kaleidoscope was fully repaid on June 1, 2020 and subsequently replaced on June 29, 2020 with a CMHC insured mortgage of \$14,258 with an interest of 1.56% and maturity date of July 15, 2030.

As at June 30, 2020 and December 31, 2019, the REIT was in compliance with all financial covenants relating to its debt obligations.

Fair value of fixed rate mortgages is calculated based on current market rates plus risk-adjusted spreads on discounted cash flows. As at June 30, 2020, the current market rates plus risk-adjusted spreads ranged from 1.70% to 2.63% (December 31, 2019 - 2.60% to 3.90%) and the fair value of fixed rate mortgages was \$509,145 (December 31, 2019 - \$494,589) and is considered level 2 within the fair value hierarchy.

Given the variable nature of the credit facility and the variable rate mortgage, their carrying value approximates their fair value.

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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10. 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 unaudited condensed consolidated interim financial statements, related party transactions include:

(a) Administrative Support Agreement

For the three and six months ended June 30, 2020, the REIT incurred \$424 and \$848 (June 30, 2019 - \$141 and \$282) for services rendered by Minto Properties Inc. ("MPI") and its affiliates under the Administrative Support Agreement ("ASA").

(b) 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 following table summarizes the activity of the loan receivable:

		\$
Balance, December 31, 2019	\$	19,922
<i>Cash flows</i>		
Advances		5,510
<i>Non-cash movement</i>		
Accrued interest		703
Balance, June 30, 2020	\$	26,135

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 June 30, 2020 and December 31, 2019, the carrying value of the loan approximates its fair value and is considered level 2 within the fair value hierarchy.

(c) Due to related parties

Amounts due to related parties at June 30, 2020 include \$732 and \$572 (December 31, 2019 - \$732 and \$588) 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 \$123 (December 31, 2019 - \$288) for working capital, \$103 (December 31, 2019 - \$103) for distributions on Class B LP Units, \$33 (December 31, 2019 - \$33) for distributions on Units and \$141 (December 31, 2019 - \$94) in connection with the ASA.

(d) Revenue and expenses

- Included in rental revenue for the three and six months ended June 30, 2020 is \$99 and \$280 (June 30, 2019 - \$144 and \$480) 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 three and six months ended June 30, 2020 is \$205 and \$365 (June 30, 2019 - \$278 and \$418) paid to MPI and its affiliates for computer maintenance, repairs and maintenance and other expenses at certain REIT properties.

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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

- For the three and six months ended June 30, 2020, compensation to key management personnel includes \$146 and \$371 (June 30, 2019 - \$160 and \$325) paid to executives, Unit-based compensation expense of \$327 and \$576 (June 30, 2019 - \$72 and \$143) for executives and Unit-based compensation expense for the grant of Deferred Units to Trustees in lieu of annual retainer and meeting fees of \$130 and \$255 (June 30, 2019 - \$116 and \$235), 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 three and six months ended June 30, 2020 are distributions on Class B LP Units of \$2,505 and \$5,010 (June 30, 2019 - \$2,137 and \$4,275), paid or payable to MPI and a limited partnership wholly-owned by MPI.
- Included in finance costs for the three and six months ended June 30, 2020 are distributions on Class C LP Units of \$1,730 and \$3,460 (June 30, 2019 - \$1,769 and \$3,538), paid or payable to a limited partnership wholly-owned by MPI.
- Included in finance costs for the three and six months ended June 30, 2020 is interest income of \$375 and \$703 (June 30, 2019 - \$nil and \$nil) earned on the loan advanced to an affiliate of MPI for the redevelopment of Fifth and Bank in Ottawa.
- For the three and six months ended June 30, 2020, the REIT reimbursed \$nil (June 30, 2019 - \$315) to MPI for costs paid on behalf of the REIT.

(e) Distributions

- For the three and six months ended June 30, 2020, distributions of \$1,281 and \$2,573 (June 30, 2019 - \$1,243 and \$2,495) were made to a limited partnership wholly-owned by MPI in order to repay principal on Class C LP Units.
- For the three and six months ended June 30, 2020, distributions on Units to MPI of \$99 and \$198 (June 30, 2019 - \$nil and \$nil) were declared and recorded as a reduction to Unitholders' equity.

11. Accounts payable and accrued liabilities

	June 30, 2020		December 31, 2019	
Accounts payable	\$	3,712	\$	5,571
Accrued liabilities		10,222		11,539
Distributions payable		1,297		1,297
Unit-based compensation (Note 20)		2,188		1,611
Interest rate swap		1,549		—
	\$	18,968	\$	20,018
Current		16,750		19,744
Non-current		2,218		274
	\$	18,968	\$	20,018

The following table is a summary of the REIT's interest rate swap and the respective fair value of the liability (asset):

Instrument	Maturity	Fixed rate	Original notional amount	Notional amount	June 30, 2020	December 31, 2019
Interest rate swap ¹	April 2026	3.38%	\$42,360	\$38,708	\$ 1,549	\$ (1,111)

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

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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

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 periods presented:

		\$
Balance, December 31, 2019	\$	(1,111)
<i>Non-cash movement</i>		
Fair value loss		2,660
Balance, June 30, 2020	\$	1,549

12. Units

The Declaration of Trust authorizes the issue of an unlimited number of Units. As of June 30, 2020, there were 36,274,839 (December 31, 2019 - 36,274,839) Units issued and outstanding, with a value of \$631,434 (December 31, 2019 - \$631,434).

For the three and six months ended June 30, 2020, distributions to Unitholders of \$3,991 and \$7,981 (June 30, 2019 - \$2,528 and \$4,154) were declared. This represents monthly distributions of \$0.03667 per Unit for the months of January to June 2020 (2019 - monthly distributions of \$0.03416 per Unit for the months of January to June 2019).

13. Segment reporting

The REIT owns, manages and operates 29 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.

14. Revenue from investment properties

The components of revenue from investment properties are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Rental revenue	\$ 26,271	\$ 20,734	\$ 51,772	\$ 38,289
Revenue from services	5,048	4,062	11,072	8,642
	\$ 31,319	\$ 24,796	\$ 62,844	\$ 46,931

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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

15. Finance costs

Finance costs are comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Interest expense on mortgages	4,378	2,951	\$ 8,140	\$ 5,197
Interest expense and standby fees on credit facility	294	350	1,300	1,320
Amortization of financing charges	87	51	165	102
Amortization of CMHC premiums	39	18	72	29
Amortization of mark-to-market adjustments	(193)	(194)	(382)	(388)
Interest income	(386)	(81)	(729)	(92)
Interest expense & other financing charges	4,219	3,095	8,566	6,168
Distributions on Class B LP Units	2,505	2,137	5,010	4,275
Distributions on Class C LP Units	1,730	1,769	3,460	3,538
Finance costs - operations	\$ 8,454	\$ 7,001	\$ 17,036	\$ 13,981
Fair value loss (gain) on Class B LP Units	9,108	(30,872)	(73,999)	6,466
Fair value loss (gain) on interest rate swap	361	—	2,660	—
Finance costs	\$ 17,923	\$ (23,871)	\$ (54,303)	\$ 20,447

16. Contingencies and commitments

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

The REIT has committed to 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 June 30, 2020, the remaining unforgiven balance of the loan which has not been recorded by the REIT is \$15,912 (December 31, 2019 - \$17,136). 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 June 30, 2020, the remaining unforgiven balance of the loan which has not been recorded by the REIT is \$4,032 (December 31, 2019 - \$4,368). To date, the REIT has met all conditions related to this forgivable loan and Management intends to continue to meet these requirements.

As at June 30, 2020, the REIT has committed to advance up to an additional \$3,865 (December 31, 2019 - \$10,078) to an affiliate of MPI to support its redevelopment of Fifth and Bank.

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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

The REIT is a guarantor on a joint and several basis for mortgage debt held through one of its joint operations. As at June 30, 2020, the maximum potential obligation resulting from this guarantee is \$13,548 (December 31, 2019 - \$13,711).

As at June 30, 2020, the REIT has entered into rate lock agreements for a CMHC insured mortgage of \$94,797 with an interest rate of 2% and a conventional mortgage of \$23,928 with an interest rate of 2.55%, both with 10 year terms. Both mortgages will be secured by Minto one80five and will replace the existing variable rate mortgage on the same property.

17. 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 fixed rate instruments, changes in market interest rates do not have any significant direct effect on the REIT's income.

The REIT's financial liabilities comprise both fixed rate and variable 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. 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 variable 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 June 30, 2020, the REIT has variable rate instruments of \$300,000 (December 31, 2019 - \$200,000) with an outstanding balance of \$113,500 (December 31, 2019 - \$91,009). A 1% change in prevailing interest rates would change annualized interest charges incurred by \$1,135 (December 31, 2019 - \$910).

(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 June 30, 2020 would have a \$4,531 (December 31, 2019 - \$5,271) 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.

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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

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 in relation 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's liquidity is subject to macroeconomic, financial, competitive and other factors that are beyond the REIT's control including the recent coronavirus disruption.

Liquidity risk is managed through cash flow forecasting. Management monitors forecasts of the REIT's liquidity requirements to ensure it has sufficient cash to meet operational needs through maintaining sufficient cash and/or availability on the undrawn credit facility and ensuring that it meets its financial covenants related to debt agreements. Such forecasting involves a significant degree of judgment, and takes into consideration the current and projected macroeconomic conditions, the REIT's cash collection efforts, debt financing plans and covenant compliance required under the terms of debt agreements. There is a risk that such liquidity forecasts may not be achieved and that currently available debt financing may no longer be available to the REIT at terms and conditions that are favorable to the REIT, or at all.

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 June 30, 2020, current liabilities of \$165,287 (December 31, 2019 - \$57,401) exceeded current assets of \$16,479 (December 31, 2019 - \$8,396), resulting in a net working capital deficit of \$148,808 (December 31, 2019 - \$49,005). Current liabilities include a \$100,000 variable-rate mortgage. The REIT has entered into rate lock agreements to replace this financing with two new mortgage financings that have long term maturity profiles (Note 16).

The REIT's immediate liquidity needs are met through cash-on-hand, cash flow from operations, property-level debt and availability on its credit facility. As of June 30, 2020, liquidity was \$193,389 (December 31, 2019 - \$110,919) consisting of cash of \$6,889 (December 31, 2019 - \$1,928) and \$186,500 (December 31, 2019 - \$108,991) 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:

		June 30, 2020	December 31, 2019
Committed	\$	200,000	\$ 200,000
Available		186,500	108,991
Utilized		13,500	91,009

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

(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	\$ 105,009	\$ 31,762	\$ 96,246	\$ 55,410	\$ 298,074	\$ 586,501
Credit facility	—	13,500	—	—	—	13,500
	105,009	45,262	96,246	55,410	298,074	600,001
Class C LP Units	2,604	5,341	5,510	50,234	156,440	220,129
Interest obligation	11,657	20,853	19,265	15,831	46,665	114,271
Tenant rental deposits	8,875	—	—	—	36	8,911
Due to related parties	1,704	—	—	—	—	1,704
Accounts payable and accrued liabilities	16,750	363	217	71	1,567	18,968
	\$ 146,599	\$ 71,819	\$ 121,238	\$ 121,546	\$ 502,782	\$ 963,984

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

18. 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 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 REIT closely monitors its capital position. The REIT is also subject to certain financial covenants and is in compliance with these covenants. Management has performed stress testing on the REIT's covenants to ensure that the REIT continues to meet its covenant obligations in the long term.

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

	June 30, 2020	December 31, 2019
Liabilities (principal amounts outstanding):		
Class B LP Units	\$ 453,105	\$ 527,104
Class C LP Units	220,129	222,702
Mortgages	586,501	487,876
Credit facility	13,500	91,009
	1,273,235	1,328,691
Unitholders' equity	778,792	686,775
	\$ 2,052,027	\$ 2,015,466

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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

19. Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

Six months ended	June 30, 2020	June 30, 2019
Prepaid expenses and other assets	\$ (3,718)	\$ (5,463)
Resident and other receivables	(243)	(95)
Tenant rental deposits	199	34
Due to related parties	(122)	(1,201)
Accounts payable and accrued liabilities	(2,174)	(4,473)
	\$ (6,058)	\$ (11,198)

20. Unit-based compensation

Executives

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

	\$
Balance, December 31, 2019	\$ 655
Unit-based compensation expense	576
Fair value gain	(119)
Balance, June 30, 2020	\$ 1,112

For the three and six months ended June 30, 2020, the REIT recognized Unit-based compensation expense of \$327 and \$576 (June 30, 2019 - \$72 and \$143) and fair value loss (gain) of \$15 and \$(119) (June 30, 2019 - (gain) loss of \$(1) and \$44), respectively.

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

	Units
Balance, December 31, 2019	108,421
Granted	43,000
Distribution equivalents	1,326
Balance, June 30, 2020	152,747

Minto Apartment Real Estate Investment Trust

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

Unaudited

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

Trustees

A summary of the Deferred Units granted and the value of Unit-based compensation expense recorded for the Trustees is presented below.

	Units	\$
Balance, December 31, 2019	41,322	\$ 956
Granted and vested	12,280	245
Distribution equivalents	449	10
Fair value gain	—	(135)
Balance, June 30, 2020	54,051	\$ 1,076

For the three and six months ended June 30, 2020, the REIT recognized Unit-based compensation expense of \$130 and \$255 (June 30, 2019 - \$116 and \$235) and fair value loss (gain) of \$18 and \$(135) (June 30, 2019 - gain of \$(35) and \$nil).

21. COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the REIT is unknown. The REIT continues to monitor and assess the impact that COVID-19 will have on its business activities and financial results that could potentially be impacted, including: cash collections from tenants, rental income, occupancy, turnover, future demand and market rents, all of which impact the valuation of investment properties.

The REIT has used all information available as at June 30, 2020 that it considers relevant in determining the potential impact of the COVID-19 pandemic on the carrying amounts of assets and liabilities, earnings for the period and risks disclosed in the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2020 and 2019. The estimates that could be most significantly impacted by COVID-19 include those underlying the valuation of investment properties and the estimated credit losses on accounts receivable. Actual results could differ from those estimates. Investment properties (Note 3) and risk management (Note 17) include disclosures of the potential impacts of COVID-19 on fair value of investment properties and liquidity risk.

22. Subsequent events

On August 11, 2020, the Board of Trustees approved a 3.4% increase to the REIT's annual distribution from \$0.4400 per Unit to \$0.4550 per Unit. The monthly distribution will be \$0.03792 per Unit, up from \$0.03667 per Unit. The increase will be effective for the REIT's August 2020 cash distribution, to be paid on September 15, 2020.