Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2021 and 2020

minto
Apartment REIT

Minto Apartment Real Estate Investment Trust
Condensed Consolidated Interim Balance Sheets

Unaudited

(in thousands of Canadian dollars)

	Note		March 31, 2021		December 31, 2020
Assets					
Investment properties	3	$	2,145,174	$	2,138,101
Loans receivable from related parties	10		42,196		41,988
Prepaid expenses and other assets	5		19,859		18,538
Resident and other receivables	6		2,052		2,050
Cash			1,910		2,607
		$	2,211,191	$	2,203,284
Liabilities and Unitholders' Equity					
Liabilities					
Class B LP Units	7	$	494,317	$	463,806
Class C LP Units	8		218,435		219,885
Mortgages	9		594,860		598,079
Credit facility	9		43,000		31,948
Tenant rental deposits			9,074		8,965
Due to related parties	10		9,694		10,039
Accounts payable and accrued liabilities	11		16,140		20,338
		$	1,385,520	$	1,353,060
Unitholders' equity			825,671		850,224
Contingencies and commitments	16				
Subsequent events	10, 17, 21				
		$	2,211,191	$	2,203,284

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 months ended March 31, 2021 and 2020

Unaudited

(in thousands of Canadian dollars)

	Note		March 31, 2021		March 31, 2020
Revenue from investment properties	14	$	29,999	$	31,525
Property operating expenses					
Property operating costs			5,771		5,783
Property taxes			3,508		3,420
Utilities			2,836		2,833
			12,115		12,036
Property operating income			17,884		19,489
Other expenses (income)					
General and administrative			1,902		1,692
Finance costs - operations	15		8,077		8,582
Fair value loss (gain) on:					
Investment properties	3		(914)		2,763
Class B LP Units	7, 15		30,511		(83,107)
Interest rate swap	11, 15		(1,062)		2,299
Unit-based compensation	20		193		(287)
Fees and other income			(396)		(397)
			38,311		(68,455)
Net (loss) income and comprehensive (loss) income		$	(20,427)	$	87,944

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 three months ended March 31, 2021 and 2020

Unaudited

(in thousands of Canadian dollars)

	Note	Units	Distributions	Retained earnings	Total
Balance, December 31, 2019		$ 631,434	$ (14,015)	$ 69,356	$ 686,775
Net income and comprehensive income		—	—	87,944	87,944
Distributions	12	—	(3,990)	—	(3,990)
Balance, March 31, 2020		$ 631,434	$ (18,005)	$ 157,300	$ 770,729
Balance, December 31, 2020		$ 631,434	$ (30,204)	$ 248,994	$ 850,224
Net loss and comprehensive loss		—	—	(20,427)	(20,427)
Distributions	12	—	(4,126)	—	(4,126)
Balance, March 31, 2021		$ 631,434	$ (34,330)	$ 228,567	$ 825,671

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 three months ended March 31, 2021 and 2020

Unaudited

(in thousands of Canadian dollars)

	Note	March 31, 2021	March 31, 2020
Cash provided by (used in):			
Operating activities			
Net (loss) income		$ (20,427)	$ 87,944
Adjustments for:			
Finance costs - operations	15	8,077	8,582
Fair value loss (gain) on:			
Investment properties	3	(914)	2,763
Class B LP Units	7, 15	30,511	(83,107)
Interest rate swap	11, 15	(1,062)	2,299
Unit-based compensation	20	193	(287)
Change in non-cash working capital	19	(805)	(7,037)
Cash provided by operating activities		15,573	11,157
Financing activities			
Proceeds from mortgage financing	9	—	100,000
Financing costs	9	(23)	(185)
Principal repayments on mortgages	9	(3,211)	(2,326)
Net proceeds from credit facility	9	11,052	21,491
Distributions on Class B LP Units	7, 15	(2,590)	(2,505)
Distributions on Class C LP Units, used to repay principal	8	(1,331)	(1,292)
Distribution on Units		(4,126)	(3,990)
Interest paid		(6,229)	(5,984)
Cash (used in) provided by financing activities		(6,458)	105,209
Investing activities			
Capital additions to investment properties		(10,259)	(3,262)
Loans advanced to related parties	10	—	(3,956)
Interest received		447	—
Cash used in investing activities		(9,812)	(7,218)
Change in cash during the period		(697)	109,148
Cash, beginning of the period		2,607	1,928
Cash, end of the period		$ 1,910	$ 111,076

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

1. Description of the entity

Minto Apartment Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a Declaration of Trust dated April 24, 2018, which was amended and restated on June 27, 2018, and is amended from time to time. The REIT owns and operates 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 March 31, 2021, 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 (the "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 years ended December 31, 2020 and 2019 (the "Annual 2020 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 May 6, 2021.

Basis of presentation and measurement

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

The COVID-19 outbreak has resulted in the federal and provincial governments enacting emergency measures to combat the spread of the virus. These measures include the implementation of travel bans, self-imposed quarantine periods and social distancing, and has caused material disruption to businesses globally, resulting in an economic slowdown. With the limited supply of vaccines, Health Canada has adopted a phased approach to vaccine delivery. Until extensive immunization is achieved, public health measures will continue to be essential to minimize the outbreak. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the REIT are unknown. The REIT continues to monitor and assess the impact that COVID-19 will have on its business activities and financial results, including: rental income, occupancy, turnover, cash collections from tenants, future demand and market rents, all of which impact the valuation of investment properties.

The REIT has used all information available as at March 31, 2021 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 year and risks disclosed in the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021 and 2020. The estimates and judgements 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 the fair value of investment properties and liquidity risk.

The operating results for the three months ended March 31, 2021 are not necessarily indicative of results that may be expected for the year ending December 31, 2021 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 2020 Financial Statements and have been consistently applied in the preparation of these unaudited condensed consolidated interim financial statements.

Future changes in accounting standards

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

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.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

On February 12, 2021, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, to assist entities in determining which accounting policies to disclose in the financial statements. The amendments apply to annual reporting periods beginning on or after January 1, 2023. Earlier adoption is permitted.

The amendments to IAS 1 require that an entity disclose its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy.

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.

Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021, the IASB issued amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, to assist entities to distinguish between accounting policies and accounting estimates. The amendments apply to annual periods beginning on or after January 1, 2023. Earlier adoption is permitted.

The amendments to IAS 8 replace the definition of a "change in accounting estimates" with a definition of "accounting estimates". Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in an accounting estimate that results from new information or new developments is not the correction of an error.

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.

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

3. Investment properties

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

		March 31, 2021		December 31, 2020
Residential properties	$	2,104,759	$	2,098,052
Commercial properties		22,370		22,490
Land held for development		18,045		17,559
	$	2,145,174	$	2,138,101

The following table presents the change in investment properties:

		$
Balance, December 31, 2020	$	2,138,101
Additions		
Capital expenditures		6,159
Fair value gain		914
Balance, March 31, 2021	$	2,145,174

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 March 31, 2021, 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.

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 2). 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 March 31, 2021. 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 significant unobservable inputs in determining fair value of residential properties:

Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
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.
Estimated 12 month stabilized forecasted net operating income (NOI)	There is a direct relationship between the estimated 12 month stabilized forecasted NOI and the fair value; in other words, the higher the estimated 12 month stabilized forecasted NOI, the higher the estimated fair value.

The following table summarizes the capitalization rates used in determining the fair value of the REIT's residential properties:

	March 31, 2021			December 31, 2020		
	Min	Max	Weighted average	Min	Max	Weighted average
Capitalization rate	3.25%	4.25%	3.81%	3.25%	4.25%	3.81%

(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 and estimated 12 month stabilized forecasted NOI as at March 31, 2021:

March 31, 2021	-3%	-1%	NOI	+1%	+3%
Capitalization rate					
-50 basis points	2,358,658	2,408,855	2,433,953	2,459,052	2,509,248
-25 basis points	2,187,793	2,234,467	2,257,804	2,281,141	2,327,815
Base rate	2,039,339	2,082,952	2,104,759	2,126,565	2,170,178
+25 basis points	1,909,159	1,950,087	1,970,552	1,991,016	2,031,945
+50 basis points	1,794,073	1,832,629	1,851,906	1,871,184	1,909,740

The following table summarizes the sensitivity of the fair value of residential properties to changes in capitalization rates and estimated 12 month stabilized forecasted NOI as at December 31, 2020:

December 31, 2020	-3%	-1%	NOI	+1%	+3%
Capitalization rate					
-50 basis points	2,350,915	2,400,916	2,425,917	2,450,918	2,500,920
-25 basis points	2,180,741	2,227,234	2,250,481	2,273,727	2,320,221
Base rate	2,032,885	2,076,329	2,098,052	2,119,774	2,163,218
+25 basis points	1,903,225	1,943,997	1,964,382	1,984,768	2,025,539
+50 basis points	1,788,598	1,827,006	1,846,210	1,865,414	1,903,821

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 from the joint operations. 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%

5. Prepaid expenses and other assets

	March 31, 2021	December 31, 2020
Prepaid expenses	$ 2,776	$ 1,467
Prepaid CMHC premiums	6,940	6,940
Restricted cash	1,168	1,180
Funds held in escrow (Note 9)	8,558	8,558
Deposits and other prepayments	417	393
	$ 19,859	$ 18,538
Current	12,520	11,197
Non-current	7,339	7,341
	$ 19,859	$ 18,538

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

6. Resident and other receivables

		March 31, 2021		December 31, 2020
Current				
Resident receivables	$	1,233	$	1,240
Other receivables		1,484		1,422
Less: Allowance for credit losses		(665)		(612)
	$	2,052	$	2,050

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 of the Partnership:

	Units		$
Balance, December 31, 2020	22,769,073	$	463,806
Non-cash movement			
Fair value loss	—		30,511
Balance, March 31, 2021	22,769,073	$	494,317

For the three months ended March 31, 2021, distributions of $2,590 (March 31, 2020 - $2,505) 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.

8. Class C LP Units

		March 31, 2021		December 31, 2020
Class C LP Units	$	216,193	$	217,524
Unamortized mark-to-market adjustments		2,242		2,361
	$	218,435	$	219,885
Current		5,858		5,816
Non-current		212,577		214,069
	$	218,435	$	219,885

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

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

	Units	$
Balance, December 31, 2020	22,978,700	$ 219,885
Cash flows		
Distributions used to repay principal	—	(1,331)
Non-cash movement		
Amortization of mark-to-market adjustments	—	(119)
	—	(1,450)
Balance, March 31, 2021	22,978,700	$ 218,435

For the three months ended March 31, 2021, the REIT made distributions of $1,690 (March 31, 2020 - $1,730) 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, 2020 - 3.16%) and mature at various dates between 2023 and 2030 (December 31, 2020 - 2023 and 2030).

Distributions on Class C LP Units as at March 31, 2021, excluding unamortized mark-to-market adjustments, are due as follows:

2021	$ 4,010
2022	5,510
2023	50,234
2024	50,499
2025	63,541
2026 and thereafter	42,399

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 March 31, 2021, the current market rates plus risk-adjusted spreads ranged from 1.13% to 2.95% (December 31, 2020 - 1.06% to 2.49%) and the fair value of the Class C LP Units was $225,781 (December 31, 2020 - $232,188) and is considered level 2 within the fair value hierarchy.

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

9. Secured Debt

	March 31, 2021	December 31, 2020
Mortgages - fixed rate[1]	$ 596,202	$ 599,413
Unamortized mark-to-market adjustment	1,372	1,446
Unamortized deferred financing costs	(2,714)	(2,780)
Total mortgages	594,860	598,079
Credit facility[2]	43,000	31,948
	$ 637,860	$ 630,027
Current	72,125	66,105
Non-current	565,735	563,922
	$ 637,860	$ 630,027

[1] Fixed rate mortgages are secured by investment properties, bear interest at a weighted average contractual interest rate of 2.81% (December 31, 2020 - 2.85%) and mature at various dates from 2022 through 2030 (December 31, 2020 - 2021 through 2030). The fixed rate mortgages include a $37,994 (December 31, 2020 - $38,234) variable interest mortgage fixed through an interest rate swap. At March 31, 2021, proceeds of $8,558 (December 31, 2020 - $8,558) from a fixed rate mortgage were held in escrow subject to certain conditions.

[2] The REIT has a committed revolving credit facility of $200,000 (December 31, 2020 - $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 March 31, 2021, $43,000 (December 31, 2020 - $31,948) was utilized and the remaining amount of $157,000 (December 31, 2020 - $168,052) of this facility was available in accordance with its terms and conditions. The credit facility bears interest at one month bankers' acceptance plus 175 bps or prime plus 75 bps and as at March 31, 2021, the weighted average variable interest rate was 2.17% (December 31, 2020 - 2.25%).

The secured debt balances at March 31, 2021, excluding unamortized mark-to-market adjustments and unamortized deferred financing costs, are due as follows:

2021	$ 52,668
2022	99,647
2023	58,882
2024	57,871
2025	49,684
2026 and thereafter	320,450

(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, December 31, 2020	$ 599,413	$ 1,446	$ (2,780)	$ 31,948	$ 630,027
Cash flows					
Issued	—	—	(23)	11,052	11,029
Repayments	(3,211)	—	—	—	(3,211)
	(3,211)	—	(23)	11,052	7,818
Non-cash movement					
Deferred financing amortization	—	—	89	—	89
Amortization of mark-to-market adjustment	—	(74)	—	—	(74)
	—	(74)	89	—	15
Balance, March 31, 2021	$ 596,202	$ 1,372	$ (2,714)	$ 43,000	$ 637,860

As at March 31, 2021 and December 31, 2020, 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 March 31, 2021, the current market rates plus risk-adjusted spreads ranged from 0.93% to 3.62% (December 31, 2020 - 0.95% to 2.81%) and the fair value of fixed rate mortgages was $603,541 (December 31, 2020 - $629,898) 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.

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 months ended March 31, 2021, the REIT incurred $565 (March 31, 2020 - $424) for services rendered by Minto Properties Inc. ("MPI") and its affiliates under the Administrative Support Agreement ("ASA").

(b) Loans receivable from related parties

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. The loan bears interest at 6% per annum and matures on March 31, 2022. In connection with this financing, the REIT will have the exclusive option to purchase the property upon stabilization at 95% of its then fair market value as determined by independent and qualified third-party appraisers. For the three months ended March 31, 2021, the REIT advanced $nil (March 31, 2020 - $3,956), earned interest income of $444 (March 31, 2020 - $328) and received interest of $444 (March 31, 2020 - $nil). As at March 31, 2021, the amount receivable under the loan was $30,000 (December 31, 2020 - $30,000).

The REIT committed to advance $11,915 to a limited partnership jointly owned by MPI and a subsidiary of Darwin Properties Limited ("DPL") to develop Phase I of Lonsdale Square ("Lonsdale Square") in North Vancouver, British Columbia and an additional $2,085 to fund interest costs. The loan bears interest at 7% per annum and matures on May 30, 2024. In connection with this financing, the REIT will have the exclusive option to purchase the property upon stabilization at 95% of its then fair market value as determined by independent and qualified third-party appraisers. For the three months ended March 31, 2021, the REIT earned interest income of $208 (March 31, 2020 - $nil). As at March 31, 2021, the amount receivable under the loan was $12,196 (December 31, 2020 - $11,988).

The fair value of the loans receivable from related parties is determined by reference to current market rates that could be obtained for similar instruments with similar terms and maturities. As at March 31, 2021 and December 31, 2020, the carrying value of the loans approximates their fair value and is considered level 2 within the fair value hierarchy.

(c) Due to related parties

Amounts due to related parties at March 31, 2021 include $863 and $571 (December 31, 2020 - $863 and $575) 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 a payable of $34 (December 31, 2020 - $34) for distributions on Units and a receivable of $130 (December 31, 2020 - payable of $211) for working capital.

At March 31, 2021, amounts due to related parties include $8,356 (December 31, 2020 - $8,356) payable to MPI for the reconstructed Skyline Maisonettes. The investment property has stabilized and the payable was settled on April 22, 2021.

(d) Revenue and expenses

- Included in rental revenue for the three months ended March 31, 2021 is $87 (March 31, 2020 - $181) 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 months ended March 31, 2021 is $197 (March 31, 2020 - $160) paid to MPI and its affiliates for repairs and maintenance and other expenses at certain REIT properties.
- For the three months ended March 31, 2021, compensation to key management personnel includes $289 (March 31, 2020 - $225) paid to executives, Unit-based compensation expense of $338 (March 31, 2020 - $249) for executives and Unit-based compensation expense for the grant of Deferred Units to Trustees in lieu of annual retainer and meeting fees of $144 (March 31, 2020 - $125), 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 months ended March 31, 2021 are distributions on Class B LP Units of $2,590 paid or payable to a limited partnership wholly-owned by MPI. For the three months ended March 31, 2020, distributions on Class B LP Units of $2,505 were paid or payable to MPI and a limited partnership wholly-owned by MPI.
- Included in finance costs for the three months ended March 31, 2021 are distributions on Class C LP Units of $1,690 (March 31, 2020 - $1,730), paid or payable to a limited partnership wholly-owned by MPI.
- Included in finance costs for the three months ended March 31, 2021 is interest income of $652 (March 31, 2020 - $328) earned from the loans advanced to related parties.

(e) Distributions

- For the three months ended March 31, 2021, distributions of $1,331 (March 31, 2020 - $1,292) were made to a limited partnership wholly-owned by MPI in order to repay principal on Class C LP Units.
- For the three months ended March 31, 2021, distributions on Units to MPI of $102 (March 31, 2020 - $99) were declared and recorded as a reduction to Unitholders' equity.

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

11. Accounts payable and accrued liabilities

	March 31, 2021	December 31, 2020
Accounts payable	$ 4,127	$ 8,348
Accrued liabilities	6,705	6,295
Distributions payable	1,342	1,342
Unit-based compensation	3,710	3,035
Interest rate swap	256	1,318
	$ 16,140	$ 20,338
Current	15,280	18,410
Non-current	860	1,928
	$ 16,140	$ 20,338

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

Instrument	Maturity	Fixed rate	Original notional amount	Notional amount	March 31, 2021	December 31, 2020
Interest rate swap[1]	April 2026	3.38%	$42,360	$37,994	$ 256	$ 1,318

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, 2020	$ 1,318
Non-cash movement	
Fair value gain	(1,062)
Balance, March 31, 2021	$ 256

12. Units

The Declaration of Trust authorizes the issue of an unlimited number of Units. As of March 31, 2021, there were 36,274,839 (December 31, 2020 - 36,274,839) Units issued and outstanding, with a carrying value of $631,434 (December 31, 2020 - $631,434).

For the three months ended March 31, 2021, distributions to Unitholders of $4,126 (March 31, 2020 - $3,990) were declared. This represents monthly distributions of $0.03792 per Unit for the months of January to March 2021 (March 31, 2020 - monthly distributions of $0.03667 per Unit for the months of January to March 2020).

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

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

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:

	March 31, 2021	March 31, 2020
Rental revenue	$ 24,181	$ 25,501
Revenue from services	5,818	6,024
	$ 29,999	$ 31,525

15. Finance costs

Finance costs are comprised of the following:

	March 31, 2021	March 31, 2020
Interest expense on mortgages	$ 4,153	$ 3,762
Interest expense & standby fees on credit facility	332	1,006
Amortization of financing charges	160	111
Amortization of mark-to-market adjustments	(193)	(189)
Interest income	(655)	(343)
Interest expense & other financing charges	3,797	4,347
Distributions on Class B LP Units (Note 7)	2,590	2,505
Distributions on Class C LP Units (Note 8)	1,690	1,730
Finance costs - operations	$ 8,077	$ 8,582
Fair value loss (gain) on Class B LP Units (Note 7)	30,511	(83,107)
Fair value loss (gain) on interest rate swap (Note 11)	(1,062)	2,299
Finance costs	$ 37,526	$ (72,226)

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 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 March 31, 2021, the remaining unforgiven balance of the loan which has not been recorded by the REIT is $15,912 (December 31, 2020 - $15,912). 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 March 31, 2021, the remaining unforgiven balance of the loan which has not been recorded by the REIT is $3,696 (December 31, 2020 - $4,032). To date, the REIT has met all conditions related to this forgivable loan and Management intends to continue to meet these requirements.

As at March 31, 2021, the REIT has committed to fund interest costs as a deemed advance up to an additional $1,804 (December 31, 2020 - $2,012) to a limited partnership 50% owned by MPI to support its development of Lonsdale Square in North Vancouver.

The REIT is a guarantor on a joint and several basis for mortgage debt held through one of its joint operations. As at March 31, 2021, the maximum potential obligation resulting from this guarantee is $13,298 (December 31, 2020 - $13,382).

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 comprise 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 March 31, 2021, the REIT has a variable rate credit facility of $200,000 (December 31, 2020 - $200,000) with an outstanding balance of $43,000 (December 31, 2020 - $31,948). A 1% change in prevailing interest rates would change annualized interest charges incurred by $430 (December 31, 2020 - $319).

(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 the prevailing market price of the Units as at March 31, 2021 would have a $4,943 (December 31, 2020 - $4,638) change in the fair value of the Class B LP Units.

Credit Risk

Credit risk is the risk that tenants and/or debtors may experience financial difficulty and be unable to fulfill their lease commitments or loan repayments. An allowance for impairment is taken for all expected credit losses.

(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 loans advanced to related parties, in the event that the borrowers default 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 ongoing COVID-19 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 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 March 31, 2021, current liabilities of $111,995 (December 31, 2020 - $109,299) exceeded current assets of $16,482 (December 31, 2020 - $15,854), resulting in a net working capital deficit of $95,513 (December 31, 2020 - $93,445). Current liabilities as of March 31, 2021 include $43,000 (December 31, 2020 - $31,948) payable for the credit facility, which was previously scheduled to mature on July 3, 2021. On May 5, 2021, the REIT renewed the revolving credit facility for a period of three years maturing on July 3, 2024. 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 March 31, 2021, liquidity was $158,910 (December 31, 2020 - $170,659) consisting of cash of $1,910 (December 31, 2020 - $2,607) and $157,000 (December 31, 2020 - $168,052) 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.

	March 31, 2021	December 31, 2020
Committed	$ 200,000	$ 200,000
Available	157,000	168,052
Utilized	43,000	31,948

(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:

	2021	2022	2023	2024	2025	2026 and thereafter	Total
Mortgages	$ 9,668	$ 99,647	$ 58,882	$ 57,871	$ 49,684	$ 320,450	$ 596,202
Credit facility	43,000	—	—	—	—	—	43,000
	52,668	99,647	58,882	57,871	49,684	320,450	639,202
Class C LP Units	4,010	5,510	50,234	50,499	63,541	42,399	216,193
Interest obligation	17,749	22,004	18,503	14,230	11,745	35,305	119,536
Tenant rental deposits	9,038	—	—	26	—	10	9,074
Due to related parties	9,694	—	—	—	—	—	9,694
Accounts payable and accrued liabilities	15,022	551	230	75	6	256	16,140
	$ 108,181	$ 127,712	$ 127,849	$ 122,701	$ 124,976	$ 398,420	$ 1,009,839

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:

	March 31, 2021	December 31, 2020
Liabilities (principal amounts outstanding):		
Class B LP Units	$ 494,317	$ 463,806
Class C LP Units	216,193	217,524
Mortgages[1]	596,202	599,413
Credit facility	43,000	31,948
	1,349,712	1,312,691
Unitholders' equity	825,671	850,224
	$ 2,175,383	$ 2,162,915

[1] Includes funds held in escrow (Note 9).

(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:

Three months ended		March 31, 2021		March 31, 2020
Prepaid expenses and other assets	$	(1,394)	$	(1,887)
Resident and other receivables		(2)		296
Tenant rental deposits		109		211
Due to related parties		(8,697)		246
Accounts payable and accrued liabilities		9,179		(5,903)
	$	(805)	$	(7,037)

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, 2020	$	1,660
Unit-based compensation expense		338
Fair value loss		102
Balance, March 31, 2021	$	2,100

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

	Units
Balance, December 31, 2020	161,091
Granted	52,000
Distribution equivalents	915
Balance, March 31, 2021	214,006

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, 2020	67,509	$	1,375
Granted and vested	6,276		136
Distribution equivalents	384		8
Fair value loss	—		91
Balance, March 31, 2021	74,169	$	1,610

21. Subsequent events

On April 29, 2021, the REIT committed to advance up to $43,700 to an affiliate of MPI for the development of a multi-residential rental property located in Ottawa, Ontario and an additional $7,700 to fund interest costs. An initial advance of $9,080 was made on the same date. The loan bears interest at 6% per annum and matures in December 2025. The loan is secured by a second priority charge in favour of the lender and a guarantee by MPI. In connection with this financing, the REIT will have the exclusive option to purchase the property upon stabilization at 95% of its then fair market value as determined by independent and qualified third-party appraisers.