



Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019, the three months ended September 30, 2018 and the period from April 24, 2018 (date for formation) to September 30, 2018

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Interim Balance Sheet

Unaudited
(in thousands of Canadian dollars)

As at	Note	September 30, 2019	December 31, 2018
Assets			
Investment properties	4	\$ 1,698,218	\$ 1,197,811
Prepaid expenses and other assets	6	12,201	7,233
Resident and other receivables	7	1,295	989
Cash		2,480	892
		\$ 1,714,194	\$ 1,206,925
Liabilities and Unitholders' Equity			
Liabilities			
Class B LP Units	8	\$ 515,036	\$ 385,899
Class C LP Units	9	226,930	231,037
Mortgages	10	446,663	275,601
Credit facility	10	67,625	35,925
Tenant rental deposits		8,208	6,594
Due to related parties	11	1,528	4,289
Accounts payable and accrued liabilities	12	11,361	9,328
		\$ 1,277,351	\$ 948,673
Unitholders' equity			
Contingencies and commitments	17	436,843	258,252
Subsequent events	22		
		\$ 1,714,194	\$ 1,206,925

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

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Interim Statement of Net Income and Comprehensive Income

For the three and nine months ended September 30, 2019, for the three months ended September 30, 2018 and the period from April 24, 2018 (date of formation) to September 30, 2018

Unaudited

(in thousands of Canadian dollars)

	Note	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Period from April 24, 2018 to September 30, 2018 (Note 1)
Revenue from investment properties	15	\$ 27,639	\$ 21,098	\$ 74,570	\$ 21,098
Property operating expenses					
Property operating costs		5,227	4,004	13,961	4,004
Property taxes		2,864	2,279	7,911	2,279
Utilities		1,960	1,727	6,014	1,727
		10,051	8,010	27,886	8,010
Property operating income		17,588	13,088	46,684	13,088
Other expenses (income)					
General and administrative		1,463	1,055	3,890	1,055
Fair value gain on investment properties	4	(47,486)	-	(71,331)	-
Fair value loss on Class B LP Units	8,16	85,707	51,884	92,173	51,884
Fair value gain on interest rate swap	16	(150)	-	(150)	-
Fair value loss on unit-based compensation	21	210	-	254	-
Finance costs - operations	16	8,074	6,139	22,055	6,139
Fees and other income		(341)	-	(465)	-
Bargain purchase gain		-	(79,163)	-	(79,163)
		47,477	(20,085)	46,426	(20,085)
Net (loss) income and comprehensive (loss) income		\$ (29,889)	\$ 33,173	\$ 258	\$ 33,173

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

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Interim Statement of Changes in Unitholders' Equity

For the nine months ended September 30, 2019 and the period from April 24, 2018 (date of formation) to September 30, 2018

Unaudited

(in thousands of Canadian dollars)

	Note	Units	Distributions	Retained earnings	Total
Balance, January 1, 2019		\$ 212,078	\$ (3,216)	\$ 49,390	\$ 258,252
Units issued, net of issue costs	13	185,172	-	-	185,172
Net income and comprehensive income		-	-	258	258
Distributions	13	-	(6,839)	-	(6,839)
Balance, September 30, 2019		\$ 397,250	\$ (10,055)	\$ 49,648	\$ 436,843
Balance, April 24, 2018	1	\$ -	\$ -	\$ -	\$ -
Units issued, net of issue costs	13	212,078	-	-	212,078
Net income and comprehensive income		-	-	33,173	33,173
Distributions	13	-	(1,591)	-	(1,591)
Balance, September 30, 2018		\$ 212,078	\$ (1,591)	\$ 33,173	\$ 243,660

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

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Interim Statement of Cash Flows

For the nine months ended September 30, 2019 and the period from April 24, 2018 (date of formation) to September 30, 2018

Unaudited

(in thousands of Canadian dollars)

	Note	Nine months ended September 30, 2019	Period from April 24, 2018 to September 30, 2018 (Note 1)
Cash provided by (used in):			
Operating activities			
Net income		\$ 258	\$ 33,173
Adjustments for:			
Finance costs - operations	16	22,055	6,139
Fair value gain on investment properties	4	(71,331)	-
Fair value loss on Class B LP Units	8,16	92,173	51,884
Fair value gain on interest rate swap	16	(150)	-
Fair value loss on unit-based compensation	21	254	-
Straight line receivables	4	2	14
Bargain purchase gain		-	(79,163)
Change in non-cash working capital	20	(15,315)	3,269
Cash provided by operating activities		27,946	15,316
Financing activities			
Proceeds from issuance of Units, net of issue costs	13	165,172	213,054
Proceeds from mortgage financing	10	113,360	-
CMHC premiums paid		(2,971)	-
Financing costs	10	(221)	-
Principal repayments on mortgages	10	(4,741)	(1,067)
Net proceeds from credit facility	10	31,700	23,103
Repayment of unsecured promissory notes		-	(28,458)
Redemption of Class B LP Units		-	(28,277)
Distributions on Class B LP Units		(6,671)	(1,379)
Distributions on Class C LP Units, used to repay principal	9	(3,747)	(1,097)
Distributions on Units		(6,443)	(1,049)
Interest paid		(15,227)	(2,999)
Cash provided by financing activities		270,211	171,831
Investing activities			
Acquisition of investment properties	5	(285,396)	-
Capital additions to investment properties		(11,173)	(4,421)
Acquisition of Initial Portfolio	3	-	(183,288)
Cash balance transferred in acquisition of Initial Portfolio		-	2,100
Cash used in investing activities		(296,569)	(185,609)
Change in cash during the period		1,588	1,538
Cash, beginning of the period		892	-
Cash, end of the period		\$ 2,480	\$ 1,538

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

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Notes to the Condensed Consolidated Interim Financial Statements

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

1. Description of the entity

Minto Apartment Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a Declaration of Trust dated April 24, 2018, which was amended and restated on June 27, 2018, and further amended by the First Amendment to the Amended and Restated Declaration of Trust on July 10, 2018. The REIT was formed to own and operate a portfolio of income-producing multi-residential rental properties located in Canada.

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

The REIT's operations commenced on July 2, 2018 when the REIT indirectly acquired a portfolio of 22 multi-residential rental properties (the "Initial Portfolio"). The Initial Portfolio is held by Minto Apartment Limited Partnership (the "Partnership"), which is consolidated by the REIT. The REIT had no operations for the period from April 24, 2018 (date of formation) to July 1, 2018, and as such the comparative results presented for the three and nine months ended September 30, 2018 consist of the results for the 91-day period from July 2, 2018 to September 30, 2018.

At September 30, 2019, the REIT's portfolio consists of interests in 27 multi-residential rental properties, all of which are held by the Partnership.

2. Significant accounting policies

Statement of compliance

These 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 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 consolidated financial statements for the period from April 24, 2018 (date of formation) to December 31, 2018 (the "Annual 2018 Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

These condensed consolidated interim financial statements were approved by the Board of Trustees of the REIT and authorized for issuance on November 12, 2019.

The operating results for the nine months ended September 30, 2019 are not necessarily indicative of results that may be expected for the year ending December 31, 2019 due to seasonal variations in property expenses, new acquisitions and other factors.

The REIT's significant accounting policies were presented in Note 2 of the Annual 2018 Financial Statements and have been consistently applied in the preparation of these condensed consolidated interim financial statements, with the exception of the items described below:

(a) Leases

The REIT adopted amended standard IFRS 16, *Leases*, effective January 1, 2019 using the modified retrospective approach. The REIT has determined that the adoption of this standard did not result in changes to opening equity as at January 1, 2019.

(b) Joint Arrangements

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

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(c) Investment properties

Investment properties include land acquired for future development to earn rental income. Fair value for land held for development is determined by reference to comparable market prices for similar assets.

(d) Revenue recognition

Management fees are earned from asset, project and property management. Management fees are recorded in fees and other income as the services are provided.

(e) Derivative financial instruments

The REIT uses derivative financial instruments to manage risks from fluctuations in interest rates. All derivative instruments are designated and valued at fair value through profit and loss ("FVTPL") in the consolidated financial statements.

3. Business combination

On July 2, 2018, the REIT completed the indirect acquisition of the Initial Portfolio from Minto Properties Inc. ("MPI"). The acquisition of the Initial Portfolio was accounted for as a business combination using the purchase method of accounting.

4. Investment properties

	September 30, 2019
Balance, December 31, 2018	\$ 1,197,811
Additions	
Acquisitions of investment properties (Note 5)	415,023
Capital expenditures	14,055
Fair value gain	71,331
Other	(2)
Balance, September 30, 2019	\$ 1,698,218

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

	September 30, 2019	December 31, 2018
Residential properties	\$ 1,661,447	\$ 1,175,915
Commercial properties	22,940	21,896
Land held for development	13,831	-
	\$ 1,698,218	\$ 1,197,811

The fair value methodology for the REIT's investment properties is considered level 3, as significant unobservable inputs are required to determine fair value. The fair value of investment properties is based on internal valuations and as at September 30, 2019, the entire portfolio was internally valued. The REIT's internal valuation team consists of qualified individuals who hold recognized relevant professional qualifications and have recent experience in the location and category of the respective properties.

The REIT conducts external appraisals of a third of its portfolio annually to ensure that every property is externally appraised at least once every three years.

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The table below summarizes the key unobservable inputs 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:

	September 30, 2019			December 31, 2018		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	3.25%	5.00%	4.03%	3.38%	5.00%	4.20%

The following table summarizes the sensitivity of the fair value of residential investment properties to changes in capitalization rates as at September 30, 2019 and December 31, 2018:

Rate sensitivity	September 30, 2019		December 31, 2018	
	Fair value	Change in fair value	Fair value	Change in fair value
+ 75 basis points	\$ 1,388,434	\$ (273,013)	\$ 989,758	\$ (186,157)
+ 50 basis points	1,469,064	(192,383)	1,045,000	(130,915)
+ 25 basis points	1,559,431	(102,016)	1,106,651	(69,264)
Base rate	1,661,447	-	1,175,915	-
- 25 basis points	1,777,571	116,124	1,254,324	78,409
- 50 basis points	1,911,023	249,576	1,343,864	167,949
- 75 basis points	2,066,110	404,663	1,447,155	271,240

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

	September 30, 2019			December 31, 2018		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Discount rate	5.75%	6.75%	6.00%	5.75%	6.75%	6.07%
Terminal capitalization rate	5.25%	6.25%	5.50%	5.25%	6.25%	5.54%
Number of discount years			10.00			10.00

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The table below summarizes the sensitivity of the fair value of commercial properties to changes in the capitalization and discount rates as at September 30, 2019 and December 31, 2018:

Rate sensitivity	September 30, 2019		December 31, 2018	
	Fair value	Change in fair value	Fair value	Change in fair value
+ 75 basis points	\$ 19,740	\$ (3,200)	\$ 18,738	\$ (3,158)
+ 50 basis points	20,740	(2,200)	19,703	(2,193)
+ 25 basis points	21,780	(1,160)	20,755	(1,141)
Base rate	22,940	-	21,896	-
- 25 basis points	24,220	1,280	23,166	1,270
- 50 basis points	25,540	2,600	24,558	2,662
- 75 basis points	27,120	4,180	26,099	4,203

5. Acquisitions of investment property

The REIT completed the following investment property acquisitions for the nine months ended September 30, 2019, which were accounted for as asset acquisitions and have contributed to the operating results effective from the acquisition date:

Property	Date of acquisition	Total acquisition cost	Mortgage financing	Interest rate and maturity	Ownership interest
370 & 380 Quarry Way SE, Calgary, AB ("The Quarters")	January 7, 2019	\$ 63,954	\$ 44,316	3.04% September 1, 2029	100%
740 & 750 York Mills Road and 17 Farmstead Road, Toronto, ON ("Leslie York Mills")	May 1, 2019	76,804	23,392	2.82% February 1, 2021	50%
4850-4874 Côte-des-Neiges Road, Montreal, QC ("Rockhill")	May 7, 2019	137,532	67,500	3.42% July 25, 2029	50%
66 Oakmount Road, 111 Pacific Avenue and 255 Glenlake Avenue, Toronto, ON ("High Park Village")	August 1, 2019	136,733	39,480	One month bankers' acceptance plus 185 bps ⁽¹⁾ April 1, 2026	40%
		\$ 415,023	\$ 174,688		

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

Cash used in acquisitions of investment properties is as follows:

	September 30, 2019
Total acquisition cost	\$ (415,023)
Mortgages assumed	62,872
Interest rate swap acquired	(232)
Issuance of Class B LP Units (Note 8)	56,964
Deposits applied on acquisition	3,000
Working capital assumed	7,023
Cash consideration paid on close	\$ (285,396)

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6. Prepaid expenses and other assets

	September 30, 2019		December 31, 2018	
Prepaid expenses	\$	4,340	\$	1,145
Prepaid CMHC premiums		4,539		1,618
Restricted cash		1,096		792
Deposits		1,844		3,678
Interest rate swap		382		-
	\$	12,201	\$	7,233
Current	\$	7,273	\$	5,408
Non-current		4,928		1,825
	\$	12,201	\$	7,233

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

The following table is a summary of the REIT's interest rate swap and its respective fair value as at September 30, 2019:

Instrument	Maturity date	Fixed rate	Original notional amount	Notional amount	Fair value
Interest rate swap ⁽¹⁾	April 2026	3.38%	\$ 42,360	\$ 39,403	\$ 382

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

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

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

Interest rate swap, August 1, 2019	\$	-
<i>Non-cash movement</i>		
Acquired		232
Fair value gain		150
Interest rate swap, September 30, 2019	\$	382

For the three and nine months ended September 30, 2019, the REIT recorded a fair value gain of \$150 on the interest rate swap.

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7. Resident and other receivables

	September 30, 2019		December 31, 2018	
Current				
Resident receivables	\$	293	\$	478
Other receivables		1,074		589
Less: Allowance for credit losses		(72)		(78)
	\$	1,295	\$	989

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

8. Class B LP Units

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

	Units		\$	
Class B LP Units, December 31, 2018	20,859,410	\$	385,899	
<i>Non-cash movement</i>				
Issued, August 1, 2019	2,806,122		56,964	
Exchanged for Units, September 17, 2019	(896,459)		(20,000)	
Fair value loss	-		92,173	
	1,909,663		129,137	
Class B LP Units, September 30, 2019	22,769,073	\$	515,036	

For the three and nine months ended September 30, 2019, distributions of \$2,416 and \$6,691 (September 30, 2018 - \$2,092) 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.

9. Class C LP Units

	September 30, 2019		December 31, 2018	
Class C LP Units	\$	223,974	\$	227,721
Unamortized mark-to-market adjustments		2,956		3,316
	\$	226,930	\$	231,037
Current	\$	5,613	\$	5,499
Non-current		221,317		225,538
	\$	226,930	\$	231,037

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

	Units		\$	
Class C LP Units, December 31, 2018	22,978,700	\$	231,037	
<i>Cash flows</i>				
Distributions used to repay principal	-		(3,747)	
<i>Non-cash movement</i>				
Amortization of mark-to-market adjustment	-		(360)	
Class C LP Units, September 30, 2019	22,978,700	\$	226,930	

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For the three and nine months ended September 30, 2019, the REIT made distributions of \$1,769 and \$5,307 (September 30, 2018 - \$1,808) to Class C LP Unitholders that were accounted for as finance costs.

The mortgages of investment properties to which the distributions on the Class C LP Units relate bear a weighted average contractual interest rate of 3.16% (December 31, 2018 - 3.16%) and mature at various dates between 2023 and 2030.

Distributions on Class C LP Units as at September 30, 2019, excluding unamortized mark-to-market adjustments, are due as follows:

2019	\$	1,272
2020		5,178
2021		5,341
2022		5,510
2023 and thereafter		206,673

Fair value for the Class C LP Units is calculated based on current market rates plus risk-adjusted spreads on discounted cash flows. As at September 30, 2019, the current market rates plus risk-adjusted spreads ranged from 2.33% to 3.13% (December 31, 2018 - 2.81% to 3.64%) and the fair value of the Class C LP Units was \$231,977 (December 31, 2018 - \$230,210) and is considered level 2 within the fair value hierarchy.

10. Secured debt

	September 30, 2019		December 31, 2018	
Mortgages - fixed rate ⁽¹⁾	\$	445,065	\$	273,574
Unamortized mark-to-market adjustment		1,814		2,038
Unamortized deferred financing costs		(216)		(11)
Total mortgages		446,663		275,601
Credit facility ⁽²⁾		67,625		35,925
	\$	514,288	\$	311,526
Current		21,368		5,822
Non-current		492,920		305,704
	\$	514,288	\$	311,526

⁽¹⁾ Fixed rate mortgages are secured by investment properties, bear interest at a weighted average contractual interest rate of 3.14% (December 31, 2018 - 3.20%) and mature at various dates from 2020 through 2030. The fixed rate mortgages includes a \$39,403 variable interest mortgage fixed through an interest rate swap.

⁽²⁾ The REIT has a committed credit facility of \$150,000 that is secured by several investment properties, matures on July 3, 2021 and will be used to fund working capital requirements, acquisitions and for general corporate purposes. At September 30, 2019, \$82,375 (December 31, 2018 - \$114,075) of this facility was available in accordance with its terms and conditions and \$67,625 (December 31, 2018 - \$35,925) was utilized. The credit facility bears interest at one month bankers' acceptance plus 175 bps or prime plus 75 bps and as at September 30, 2019, the weighted average variable interest rate was 3.71% (December 31, 2018 - 3.94%).

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Secured debt balances at September 30, 2019, excluding unamortized mark-to-market adjustments and unamortized deferred financing costs, are due as follows:

2019	\$	2,189
2020		21,172
2021		98,185
2022		95,016
2023 and thereafter		296,128

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

	Mortgages	Unamortized mark-to- market adjustment	Unamortized deferred financing costs	Credit facility	Total
Balance, December 31, 2018	\$ 273,574	\$ 2,038	\$ (11)	\$ 35,925	\$ 311,526
<i>Cash flows</i>					
Issued	113,360	-	(221)	134,700	247,839
Repayments	(4,741)	-	-	(103,000)	(107,741)
	108,619	-	(221)	31,700	140,098
<i>Non-cash movements</i>					
Assumed on asset acquisition	62,872	-	-	-	62,872
Deferred financing amortization	-	-	16	-	16
Amortization of mark-to-market adjustment	-	(224)	-	-	(224)
	62,872	(224)	16	-	62,664
Balance, September 30, 2019	\$ 445,065	\$ 1,814	\$ (216)	\$ 67,625	\$ 514,288

The following table summarizes new financings for the nine months ended September 30, 2019:

Issue date	Mortgage financing	Secured by	Interest rate	Maturity date
January 7, 2019	\$ 44,316	The Quarters	3.04%	September 1, 2029
May 1, 2019	23,392	Leslie York Mills	2.82%	February 1, 2021
August 19, 2019 ⁽¹⁾	69,044	Rockhill	2.91%	October 1, 2029
			One month bankers' acceptance plus 185 bps ⁽²⁾	
August 1, 2019	39,480	High Park Village		April 1, 2026

⁽¹⁾ On May 7, 2019, the REIT acquired a \$67,500 conventional mortgage in connection with the acquisition of Rockhill. On April 19, 2019, CMHC insurance was acquired for this mortgage, with an additional \$1,544 borrowed to finance the CMHC premiums.

⁽²⁾ In connection with this mortgage assumption, the REIT also assumed an interest rate swap to receive variable interest based on one month bankers' acceptance plus 185 bps and pay fixed interest at 3.38%.

As at September 30, 2019, the REIT was in compliance with all financial covenants relating to its debt obligations.

Fair value for mortgages is calculated based on current market rates plus risk-adjusted spreads on discounted cash flows. As at September 30, 2019, the current market rates plus risk-adjusted spreads ranged from 2.37% to 3.54% (December 31, 2018 - 2.81% to 3.38%) and the fair value of the mortgages was \$457,823 (December 31, 2018 - \$276,954) and is considered level 2 within the fair value hierarchy. Given the variable nature of the credit facility, its carrying value approximates its fair value and is considered level 2 within the fair value hierarchy.

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

(a) Administrative Support Agreement

On July 3, 2018, the REIT and MPI entered into a five year renewable Administrative Support Agreement ("ASA"). The ASA provides the REIT with certain advisory, transaction and support services, including clerical and administrative support, operational support for the administration of day-to-day activities of the REIT and office space. These services are provided on a cost recovery basis, subject to a maximum for all general and administrative expenses, excluding public company costs, of 32 bps of the gross book value of the REIT's assets.

For the three and nine months ended September 30, 2019, the REIT incurred \$282 and \$564 (September 30, 2018 - \$141), inclusive of harmonized sales tax, for services rendered under the ASA.

(b) Due to related parties

Amounts due to related parties at September 30, 2019 includes \$732 and \$582 (December 31, 2018 - \$713 and \$602) relating to distributions payable to limited partnerships wholly owned by MPI on Class B LP Units and Class C LP Units respectively. Additionally, amounts due to MPI include \$78 (December 31, 2018 - \$1,643) for working capital, \$103 (December 31, 2018 - \$nil) for distributions on Class B LP Units, \$33 (December 31, 2018 - \$nil) for distributions on Units, \$nil (December 31, 2018 - \$1,049) to reimburse transaction costs and \$nil (December 31, 2018 - \$282) in connection with the ASA.

(c) Revenue and expenses

- Included in rental revenue for the three and nine months ended September 30, 2019 is \$183 and \$663 (September 30, 2018 - \$112) of revenue from MPI and its affiliates for rent paid for office space, furnished suites, parking and other revenue at certain REIT properties.
- Included in property operating expenses for the three and nine months ended September 30, 2019 is \$265 and \$683 (September 30, 2018 - \$nil) paid to MPI and its affiliates.
- For the three and nine months ended September 30, 2019, compensation to key management personnel includes \$171 and \$496 (September 30, 2018 - \$160) paid to executives, Unit-based compensation expense of \$34 and \$177 (September 30, 2018 - \$47) for executives and Unit-based compensation expense for the grant of deferred units to Trustees in lieu of annual retainer and meeting fees of \$108 and \$343 (September 30, 2018 - \$206), 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 nine months ended September 30, 2019 are distributions on Class B LP Units of \$2,416 and \$6,691 (September 30, 2018 - \$2,092), paid or payable to MPI and to a limited partnership wholly-owned by MPI.
- Included in finance costs for the three and nine months ended September 30, 2019 are distributions on Class C LP Units of \$1,769 and \$5,307 (September 30, 2018 - \$1,808), paid or payable to a limited partnership wholly-owned by MPI.
- For the three and nine months ended September 30, 2019, the REIT reimbursed \$nil and \$315 (September 30, 2018 - \$nil) to MPI for costs paid on behalf of the REIT.

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(d) Distributions

- For the three and nine months ended September 30, 2019, distributions of \$1,252 and \$3,747 (September 30, 2018 - \$1,097) to a limited partnership wholly-owned by MPI were made to repay principal on Class C LP Units.
- For the nine months ended September 30, 2019, distributions on Units to MPI of \$33 (September 30, 2018 - \$nil) were declared and recorded as a reduction to Unitholders' equity.

(e) Property Acquisition

On May 1, 2019, the REIT acquired MPI's 50% ownership interest in Leslie York Mills in Toronto, Ontario for acquisition costs of \$76,804. In connection with the acquisition, the REIT assumed a mortgage of \$23,392.

On August 1, 2019, the REIT acquired MPI's 40% ownership interest in High Park Village in Toronto, Ontario for acquisition costs of \$136,733. In connection with the acquisition, the REIT assumed a mortgage of \$39,480 which bears interest at one month bankers' acceptance plus 185 bps and matures on April 1, 2026. In addition, the REIT assumed an interest rate swap to receive variable interest based on one month bankers' acceptance plus 185 bps and pay fixed interest at 3.38%. In addition, the purchase price was partially satisfied by the issuance of 2,806,122 Class B LP Units to MPI for \$56,964.

12. Accounts payable and accrued liabilities

	September 30, 2019		December 31, 2018	
Accounts payable	\$	4,567	\$	4,843
Accrued liabilities		4,594		3,422
Distributions payable		905		542
Unit-based compensation payable		1,295		521
	\$	11,361	\$	9,328
Current	\$	11,179	\$	9,152
Non-current		182		176
	\$	11,361	\$	9,328

13. Units

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

	Units	\$
Authorized	Unlimited	
Units issued and outstanding:		
Balance, December 31, 2018	15,863,100	\$ 212,078
Issued, April 15, 2019	8,809,000	165,172
Issued on exchange for Class B LP Units, September 17, 2019	896,459	20,000
	9,705,459	185,172
Balance, September 30, 2019	25,568,559	\$ 397,250

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

For the three and nine months ended September 30, 2019, distributions to Unitholders of \$2,685 and \$6,839 (September 30, 2018 - \$1,591) were declared. This represents monthly distributions of \$0.03416 per Unit for the months of January to July 2019 and \$0.03667 per Unit for the months of August and September 2019.

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14. Segment reporting

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

15. Revenue from investment properties

The components of revenue from investment properties are as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Period from April 24, 2018 to September 30, 2018
Rental revenue	\$ 22,744	\$ 17,108	\$ 61,033	\$ 17,108
Revenue from services	4,895	3,990	13,537	3,990
	\$ 27,639	\$ 21,098	\$ 74,570	\$ 21,098

16. Finance costs

Finance costs are comprised of the following:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Period from April 24, 2018 to September 30, 2018
Interest income	\$ (11)	\$ -	\$ (103)	\$ -
Interest expense on mortgages	3,421	1,894	8,618	1,894
Interest expense & standby fees on credit facility	590	409	1,910	409
Interest expense on unsecured debt	-	136	-	136
Amortization of financing charges	63	41	165	41
Amortization of CMHC premiums	21	-	50	-
Amortization of mark-to-market adjustments	(195)	(241)	(583)	(241)
Interest expense & other financing charges	3,889	2,239	10,057	2,239
Distributions on Class B LP Units	2,416	2,092	6,691	2,092
Distributions on Class C LP Units	1,769	1,808	5,307	1,808
Finance costs - operations	\$ 8,074	\$ 6,139	\$ 22,055	\$ 6,139
Fair value loss on Class B LP Units	85,707	51,884	92,173	51,884
Fair value gain on interest rate swap	(150)	-	(150)	-
Finance costs	\$ 93,631	\$ 58,023	\$ 114,078	\$ 58,023

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17. Contingencies and commitments

The REIT is subject to claims and legal actions that arise in the ordinary course of business. It is the opinion of management that any ultimate liability that may arise from such matters would not have a significant adverse effect on the 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 the arrangement. As of September 30, 2019, the remaining unforgiven balance of the loan is \$17,136 (December 31, 2018 - \$18,360). To date the REIT has met all conditions related to this forgivable loan and management intends to continue to meet these requirements.

The REIT has an off-balance sheet arrangement at one of its properties in the Calgary area pursuant to which the Province of Alberta provided a forgivable loan to support affordable housing at this property. Provided that certain conditions are met, the REIT will not need to make repayments under this arrangement. As of September 30, 2019, the remaining unforgiven balance of the loan is \$4,368 (December 31, 2018 - \$4,704). To date, the REIT has met all conditions related to this forgivable loan and management intends to continue to meet these requirements.

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

18. Risk management

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

Market risk

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

(i) Interest rate risk

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

The majority of the REIT's financial liabilities are fixed rate instruments. The REIT faces interest rate risk on its fixed rate debt due to the expected requirement to refinance such debt as it matures. In addition, there is interest rate risk associated with the REIT's variable rate financial liabilities.

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

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

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As at September 30, 2019, the REIT has a variable rate credit facility of \$150,000 with an outstanding balance of \$67,625 (December 31, 2018 - \$35,925). A 1% change in prevailing interest rates would change annualized interest charges incurred by \$676 (December 31, 2018 - \$359).

(ii) 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.

(iii) Other price risk

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

The REIT is exposed to other price risk on its Class B LP Units. A 1% change in prevailing market price of the Units as at September 30, 2019 would have a \$5,150 (December 31, 2018 - \$3,859) change in the fair value of the Class B LP Units.

Credit risk

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

The REIT's risk of credit loss is mitigated through diversification. The REIT's residential rental business is carried on in the 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.

Liquidity risk

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

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

As at September 30, 2019, current liabilities were \$47,860 (December 31, 2018 - \$31,532), exceeding current assets of \$11,048 (December 31, 2018 - \$7,289), resulting in a working capital deficiency of \$36,812 (December 31, 2018 - \$24,243). The REIT expects to be able to meet all of its obligations as they become due utilizing some or all of the following sources of liquidity: (i) cash flow generated from property operations, (ii) property-specific mortgages, and (iii) credit facility, under which \$82,375 (December 31, 2018 - \$114,075) was available and undrawn at September 30, 2019. In addition, subject to market conditions, the REIT may seek to raise funding through equity financing.

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

	September 30, 2019		December 31, 2018	
Committed	\$	150,000	\$	150,000
Available		82,375		114,075
Utilized		67,625		35,925

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

	2019	2020	2021	2022	2023 and thereafter	Total
Mortgages	\$ 2,189	\$ 21,172	\$ 30,560	\$ 95,016	\$ 296,128	\$ 445,065
Credit facility	-	-	67,625	-	-	67,625
	2,189	21,172	98,185	95,016	296,128	512,690
Class C LP Units	1,272	5,178	5,341	5,510	206,673	223,974
Interest obligation	5,831	22,820	20,470	17,874	52,527	119,522
Tenant rental deposits	7,992	180	-	-	36	8,208
Due to related parties	1,528	-	-	-	-	1,528
Accounts payable and accrued liabilities	10,871	308	124	58	-	11,361
	\$ 29,683	\$ 49,658	\$ 124,120	\$ 118,458	\$ 555,364	\$ 877,283

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

19. Capital risk management

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

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

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

The components of the REIT's capital as at September 30, 2019 and December 31, 2018 are set out in the table below:

	September 30, 2019	December 31, 2018
Liabilities (principal amounts outstanding):		
Class B LP Units	\$ 515,036	\$ 385,899
Class C LP Units	223,974	227,721
Mortgages	445,065	273,574
Credit facility	67,625	35,925
	1,251,700	923,119
Unitholders' equity	436,843	258,252
	\$ 1,688,543	\$ 1,181,371

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20. Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

	Nine months ended September 30, 2019	Period from April 24, 2018 to September 30, 2018
Prepaid expenses and other assets	\$ (4,362)	\$ 1,242
Resident and other receivables	(306)	(496)
Tenant rental deposits	270	(60)
Due to related parties	(2,917)	2,117
Accounts payable and accrued liabilities	(8,000)	466
	\$ (15,315)	\$ 3,269

21. Unit-based compensation

Executives

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

	\$
Balance, December 31, 2018	\$ 176
Unit-based compensation expense	177
Fair value loss	137
Balance, September 30, 2019	\$ 490

For the three and nine months ended September 30, 2019, the REIT recognized Unit-based compensation expense of \$34 and \$177 (September 30, 2018 - \$47) and fair value loss of \$93 and \$137 (September 30, 2018 - \$nil), respectively.

The details of movement in Deferred Units is as follows:

	Units
Deferred Units, December 31, 2018	48,742
Forfeited	(5,288)
Distribution equivalents	752
Balance, September 30, 2019	44,206

Trustees

A summary of the deferred units granted and the value of Unit-based compensation expense recorded is presented below.

	Units	\$
Balance, December 31, 2018	18,652	\$ 345
Granted and vested	16,912	343
Fair value loss	-	117
Balance, September 30, 2019	35,564	\$ 805

For the three and nine months ended September 30, 2019, the REIT recognized Unit-based compensation expense of \$108 and \$343 (September 30, 2018 - \$206) and fair value loss of \$117 and \$117 (September 30, 2018 - \$nil).

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22. Subsequent events

On October 10, 2019, the REIT entered into an agreement to acquire two multi-residential rental properties located in Montreal, Quebec for a purchase price of \$281,100. In connection with this acquisition, the REIT has entered into a commitment for a \$45,000 mortgage.

On October 22, 2019, the REIT completed the issuance of 9,850,000 Units from treasury at a price of \$22.85 per Unit for gross proceeds of \$225,073. Underwriters' fees and expenses relating to the issuance were approximately \$9,600.

On October 29, 2019, the REIT advanced \$17,100 in connection with its commitment to advance financing to support MPI's redevelopment of a commercial property located in Ottawa, Ontario into a mixed-use multi-residential rental and retail property. The financing has an interest rate of 6% per annum and matures in March 2022 and is subordinate to senior construction financing.