Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited

minto Apartment REIT

Minto Apartment Real Estate Investment Trust

Condensed Consolidated Interim Balance Sheets

Unaudited

(in thousands of Canadian dollars)

	Note		September 30, 2020		December 31, 2019
Assets					
Investment properties	3	$	2,063,520	$	2,016,328
Loan receivable from related party	10		27,434		19,922
Prepaid expenses and other assets	5		15,924		10,295
Resident and other receivables	6		13,825		1,827
Cash			3,005		1,928
		$	2,123,708	$	2,050,300
Liabilities and Unitholders' Equity					
Liabilities					
Class B LP Units	7	$	416,219	$	527,104
Class C LP Units	8		221,316		225,537
Mortgages	9		603,474		489,307
Credit facility	9		16,836		91,009
Tenant rental deposits			8,694		8,712
Due to related parties	10		9,818		1,838
Accounts payable and accrued liabilities	11		16,010		20,018
		$	1,292,367	$	1,363,525
Unitholders' equity			831,341		686,775
Contingencies and commitments	10, 16				
		$	2,123,708	$	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 nine months ended September 30, 2020 and 2019

Unaudited

(in thousands of Canadian dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Note	2020	2019	2020	2019
Revenue from investment properties	14	$ 31,155	$ 27,639	$ 93,999	$ 74,570
Property operating expenses					
Property operating costs		5,582	5,227	17,079	13,961
Property taxes		3,299	2,864	10,184	7,911
Utilities		2,113	1,960	7,062	6,014
		10,994	10,051	34,325	27,886
Property operating income		20,161	17,588	59,674	46,684
Other expenses (income)					
General and administrative		1,555	1,463	5,036	3,890
Finance costs - operations	15	8,401	8,074	25,437	22,055
Fair value loss (gain) on:					
Investment properties	3	(8,831)	(47,486)	(17,470)	(71,331)
Class B LP Units	7, 15	(36,886)	85,707	(110,885)	92,173
Interest rate swap	11, 15	(57)	(150)	2,603	(150)
Unit-based compensation	20	(234)	210	(488)	254
Fees and other income		(417)	(341)	(1,187)	(465)
		(36,469)	47,477	(96,954)	46,426
Net income (loss) and comprehensive income (loss)		$ 56,630	$ (29,889)	$ 156,628	$ 258

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 nine months ended September 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		185,172	—	—	185,172
Net income and comprehensive income		—	—	258	258
Distributions	12	—	(6,839)	—	(6,839)
Balance, September 30, 2019		$ 397,250	$ (10,055)	$ 49,648	$ 436,843
Balance, December 31, 2019		$ 631,434	$ (14,015)	$ 69,356	$ 686,775
Net income and comprehensive income		—	—	156,628	156,628
Distributions	12	—	(12,062)	—	(12,062)
Balance, September 30, 2020		$ 631,434	$ (26,077)	$ 225,984	$ 831,341

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 nine months ended September 30, 2020 and 2019

Unaudited

(in thousands of Canadian dollars)

	Note	September 30, 2020	September 30, 2019
Cash provided by (used in):			
Operating activities			
Net income		$ 156,628	$ 258
Adjustments for:			
Finance costs - operations	15	25,437	22,055
Fair value (gain) loss on:			
Investment properties	3	(17,470)	(71,331)
Class B LP Units	7, 15	(110,885)	92,173
Interest rate swap	11, 15	2,603	(150)
Unit-based compensation	20	(488)	254
Change in non-cash working capital	19	(10,620)	(15,313)
Cash provided by operating activities		45,205	27,946
Financing activities			
Proceeds from issuance of Units, net of issue costs		—	165,172
Proceeds from mortgage financing	9	222,206	113,360
CMHC premiums paid		(4,755)	(2,971)
Financing costs	9	(332)	(221)
Principal repayments on mortgages	9	(119,447)	(4,741)
Net (repayments) proceeds on credit facility	9	(74,173)	31,700
Distributions on Class B LP Units		(7,543)	(6,671)
Distributions on Class C LP Units, used to repay principal	8	(3,866)	(3,747)
Distribution on Units		(12,017)	(6,443)
Interest paid		(18,995)	(15,227)
Cash (used in) provided by financing activities		(18,922)	270,211
Investing activities			
Acquisition of investment properties		—	(285,396)
Capital additions to investment properties		(18,827)	(11,173)
Loan advances to related party	10	(7,576)	—
Interest received		1,197	—
Cash used in investing activities		(25,206)	(296,569)
Change in cash during the period		1,077	1,588
Cash, beginning of the period		1,928	892
Cash, end of the period		$ 3,005	$ 2,480

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 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 September 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 November 10, 2020.

The operating results for the nine months ended September 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.

(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:

	September 30, 2020	December 31, 2019
Residential properties	$ 2,024,387	$ 1,979,657
Commercial properties	22,590	22,840
Land held for development	16,543	13,831
	$ 2,063,520	$ 2,016,328

The following table presents the change in investment properties:

	$
Balance, December 31, 2019	$ 2,016,328
Additions	
Capital expenditures	28,117
Fair value gain	17,470
Other	1,605
Balance, September 30, 2020	$ 2,063,520

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, 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.

(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 September 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:

	September 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 September 30, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
Rate sensitivity	Fair value	Change in fair value	Fair value	Change in fair value
+75 basis points	$ 1,682,885	$ (341,502)	$ 1,645,299	$ (334,358)
+50 basis points	1,783,478	(240,909)	1,743,749	(235,908)
+25 basis points	1,896,482	(127,905)	1,854,384	(125,273)
Base rate	2,024,387	—	1,979,657	—
-25 basis points	2,170,408	146,021	2,122,739	143,082
-50 basis points	2,338,779	314,392	2,287,814	308,157
-75 basis points	2,535,196	510,809	2,480,513	500,856

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

	September 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

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

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

	September 30, 2020		December 31, 2019	
Rate sensitivity	Fair value	Change in fair value	Fair value	Change in fair value
+75 basis points	$ 19,620	$ (2,970)	$ 19,650	$ (3,190)
+50 basis points	20,490	(2,100)	20,650	(2,190)
+25 basis points	21,510	(1,080)	21,690	(1,150)
Base rate	22,590	—	22,840	—
-25 basis points	23,780	1,190	24,130	1,290
-50 basis points	25,080	2,490	25,540	2,700
-75 basis points	26,540	3,950	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%

5. Prepaid expenses and other assets

	September 30, 2020	December 31, 2019
Prepaid expenses	$ 5,206	$ 1,314
Prepaid CMHC premiums	9,202	4,506
Restricted cash	1,123	1,012
Deposits and other prepayments	393	2,352
Interest rate swap	—	1,111
	$ 15,924	$ 10,295
Current	6,625	4,641
Non-current	9,299	5,654
	$ 15,924	$ 10,295

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

6. Resident and other receivables

	September 30, 2020	December 31, 2019
Current		
Resident receivables	$ 1,144	$ 384
Other receivables	1,122	1,526
Funds held in escrow (Note 9)	11,928	—
Less: Allowance for credit losses	(369)	(83)
	$ 13,825	$ 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
Non-cash movement		
Fair value gain	—	(110,885)
Balance, September 30, 2020	22,769,073	$ 416,219

For the three and nine months ended September 30, 2020, distributions of $2,561 and $7,571 (September 30, 2019 - $2,416 and $6,691) 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

	September 30, 2020	December 31, 2019
Class C LP Units	$ 218,836	$ 222,702
Unamortized mark-to-market adjustments	2,480	2,835
	$ 221,316	$ 225,537
Current	5,776	5,653
Non-current	215,540	219,884
	$ 221,316	$ 225,537

(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:

	Units	$
Balance, December 31, 2019	22,978,700	225,537
Cash flows		
Distributions used to repay principal	—	(3,866)
Non-cash movement		
Amortization of mark-to-market adjustments	—	(355)
	—	(4,221)
Balance, September 30, 2020	22,978,700	$ 221,316

For the three and nine months ended September 30, 2020, the REIT made distributions of $1,728 and $5,188 (September 30, 2019 - $1,769 and $5,307) 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 September 30, 2020, excluding unamortized mark-to-market adjustments, are due as follows:

2020	$ 1,312
2021	5,341
2022	5,510
2023	50,234
2024 and thereafter	156,439

Fair value for the Class C LP Units is calculated based on current market rates plus risk-adjusted spreads on discounted cash flows. As at September 30, 2020, the current market rates plus risk-adjusted spreads ranged from 1.70% to 2.58% (December 31, 2019 - 2.60% to 3.40%) and the fair value of the Class C LP Units was $230,576 (December 31, 2019 - $227,507) and is considered level 2 within the fair value hierarchy.

9. Secured Debt

	September 30, 2020	December 31, 2019
Mortgages - fixed rate[1]	602,563	487,876
Unamortized mark-to-market adjustment	1,520	1,741
Unamortized deferred financing costs	(609)	(310)
Total mortgages	603,474	489,307
Credit facility[2]	16,836	91,009
	$ 620,310	$ 580,316
Current	51,375	21,490
Non-current	568,935	558,826
	$ 620,310	$ 580,316

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

[1] Fixed rate mortgages are secured by investment properties, bear interest at a weighted average contractual interest rate of 2.85% (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 $38,472 (December 31, 2019 - $39,174) variable interest mortgage fixed through an interest rate swap.

[2] 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 September 30, 2020, $183,110 (December 31, 2019 - $108,991) of this facility was available in accordance with its terms and conditions and $16,836 (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 September 30, 2020, the weighted average variable interest rate was 3.03% (December 31, 2019 - 3.72%).

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

2020	$	3,148
2021		51,047
2022		98,748
2023		57,964
2024 and thereafter		408,492

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
Cash flows					
Issued	222,206	—	(332)	39,827	261,701
Repayments	(119,447)	—	—	(114,000)	(233,447)
	102,759	—	(332)	(74,173)	28,254
Non-cash movement					
Funds held in escrow	11,928	—	—	—	11,928
Deferred financing amortization	—	—	33	—	33
Amortization of mark-to-market adjustment	—	(221)	—	—	(221)
	11,928	(221)	33	—	11,740
Balance, September 30, 2020	$ 602,563	$ 1,520	$ (609)	$ 16,836	$ 620,310

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

The following table summarizes new financings for the nine months ended September 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
July 21, 2020	$94,797[1]	Minto one80five	2.00%	August 1, 2030
July 21, 2020	$23,928[1]	Minto one80five	2.55%	August 1, 2030

[1] On March 31, 2020, the REIT obtained a $100,000 variable interest mortgage secured by Minto one80five, with an interest rate of prime plus 25 bps, maturing on September 30, 2020. On July 21, 2020, this mortgage was fully repaid with proceeds from a CMHC insured mortgage of $94,797 with an interest rate of 2.00% maturing on August 1, 2030, and a conventional mortgage of $23,928 with an interest rate of 2.55% and maturing on August 1, 2030. Proceeds of $11,928 from the conventional mortgage are held in escrow until certain conditions are satisfied.

[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 rate of 1.56% and maturity date of July 15, 2030.

As at September 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 September 30, 2020, the current market rates plus risk-adjusted spreads ranged from 1.64% to 2.81% (December 31, 2019 - 2.60% to 3.90%) and the fair value of fixed rate mortgages was $623,670 (December 31, 2019 - $494,589) 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 and nine months ended September 30, 2020, the REIT incurred $424 and $1,272 (September 30, 2019 - $282 and $564) 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"). At the option of the borrower, the interest is payable monthly or deemed an advance.

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

The following table summarizes the activity of the loan receivable:

		$
Balance, December 31, 2019	$	19,922
Cash flows		
Advances		7,576
Interest received		(1,171)
Non-cash movement		
Accrued interest		1,107
Balance, September 30, 2020	$	27,434

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 September 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 September 30, 2020 include $757 and $569 (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 $106 (December 31, 2019 - $103) for distributions on Class B LP Units, $34 (December 31, 2019 - $33) for distributions on Units, $nil (December 31, 2019 - $94) in connection with the ASA and a receivable of $4 (December 31, 2019 - payable of $288) for working capital.

Amounts due to related parties also include $8,356 payable to MPI for an investment property which was reconstructed following a fire. The payable will settle once the investment property is stabilized.

(d) Revenue and expenses

- Included in rental revenue for the three and nine months ended September 30, 2020 is $171 and $451 (September 30, 2019 - $183 and $663) 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 nine months ended September 30, 2020 is $165 and $530 (September 30, 2019 - $265 and $683) paid to MPI and its affiliates for computer maintenance, repairs and maintenance and other expenses at certain REIT properties.
- For the three and nine months ended September 30, 2020, compensation to key management personnel includes $125 and $496 (September 30, 2019 - $171 and $496) paid to executives, Unit-based compensation expense of $291 and $867 (September 30, 2019 - $34 and $177) for executives and Unit-based compensation expense for the grant of Deferred Units to Trustees in lieu of annual retainer and meeting fees of $120 and $375 (September 30, 2019 - $108 and $343), 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, 2020 are distributions on Class B LP Units of $2,561 and $7,571 (September 30, 2019 - $2,416 and $6,691), paid or payable to MPI and a limited partnership wholly-owned by MPI.
- Included in finance costs for the three and nine months ended September 30, 2020 are distributions on Class C LP Units of $1,728 and $5,188 (September 30, 2019 - $1,769 and $5,307), paid or payable to a limited partnership wholly-owned by MPI.

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

- Included in finance costs for the three and nine months ended September 30, 2020 is interest income of $404 and $1,107 (September 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 nine months ended September 30, 2020, the REIT reimbursed $nil (September 30, 2019 - $nil and $315) to MPI for costs paid on behalf of the REIT.

(e) Distributions

- For the three and nine months ended September 30, 2020, distributions of $1,293 and $3,866 (September 30, 2019 - $1,252 and $3,747) were made to a limited partnership wholly-owned by MPI in order to repay principal on Class C LP Units.
- For the three and nine months ended September 30, 2020, distributions on Units to MPI of $101 and $299 (September 30, 2019 - $33 and $33) were declared and recorded as a reduction to Unitholders' equity.

11. Accounts payable and accrued liabilities

	September 30, 2020	December 31, 2019
Accounts payable	$ 5,473	$ 5,571
Accrued liabilities	5,338	11,539
Distributions payable	1,342	1,297
Unit-based compensation (Note 20)	2,365	1,611
Interest rate swap	1,492	—
	$ 16,010	$ 20,018
Current	13,829	19,744
Non-current	2,181	274
	$ 16,010	$ 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	September 30, 2020	December 31, 2019
Interest rate swap[1]	April 2026	3.38%	$42,360	$38,472	$ 1,492	$ (1,111)

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

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

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

	$
Balance, December 31, 2019	$ (1,111)
Non-cash movement	
Fair value loss	2,603
Balance, September 30, 2020	$ 1,492

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

12. Units

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

For the three and nine months ended September 30, 2020, distributions to Unitholders of $4,081 and $12,062 (September 30, 2019 - $2,685 and $6,839) were declared. This represents monthly distributions of $0.03667 per Unit for the months of January to July 2020 and $0.03792 per Unit for the months of August and September (2019 - monthly distributions of $0.03416 per Unit for the months of January to July and $0.03667 for the months of August and September).

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 September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Rental revenue	$ 25,764	$ 22,744	$ 77,536	$ 61,033
Revenue from services	5,391	4,895	16,463	13,537
	$ 31,155	$ 27,639	$ 93,999	$ 74,570

15. Finance costs

Finance costs are comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Interest expense on mortgages	4,314	3,421	$ 12,454	$ 8,618
Interest expense & standby fees on credit facility	250	590	1,550	1,910
Amortization of financing charges	86	63	251	165
Amortization of CMHC premiums	60	21	132	50
Amortization of mark-to-market adjustments	(194)	(195)	(576)	(583)
Interest income	(404)	(11)	(1,133)	(103)
Interest expense & other financing charges	4,112	3,889	12,678	10,057
Distributions on Class B LP Units	2,561	2,416	7,571	6,691
Distributions on Class C LP Units	1,728	1,769	5,188	5,307
Finance costs - operations	$ 8,401	$ 8,074	$ 25,437	$ 22,055
Fair value loss (gain) on Class B LP Units	(36,886)	85,707	(110,885)	92,173
Fair value loss (gain) on interest rate swap	(57)	(150)	2,603	(150)
Finance costs	$ (28,542)	$ 93,631	$ (82,845)	$ 114,078

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 September 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 September 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 September 30, 2020, the REIT has committed to advance up to an additional $2,566 (December 31, 2019 - $10,078) to an affiliate of MPI to support its redevelopment of Fifth and Bank.

The REIT is a guarantor on a joint and several basis for mortgage debt held through one of its joint operations. As at September 30, 2020, the maximum potential obligation resulting from this guarantee is $13,465 (December 31, 2019 - $13,711).

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 September 30, 2020, the REIT has a variable rate credit facility of $200,000 (December 31, 2019 - $200,000) with an outstanding balance of $16,836 (December 31, 2019 - $91,009). A 1% change in prevailing interest rates would change annualized interest charges incurred by $168 (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 the prevailing market price of the Units as at September 30, 2020 would have a $4,162 (December 31, 2019 - $5,271) 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.

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 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 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 September 30, 2020, current liabilities of $89,456 (December 31, 2019 - $57,401) exceeded current assets of $23,455 (December 31, 2019 - $8,396), resulting in a net working capital deficit of $66,001 (December 31, 2019 - $49,005). 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 September 30, 2020, liquidity was $186,115 (December 31, 2019 - $110,919) consisting of cash of $3,005 (December 31, 2019 - $1,928) and $183,110 (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.

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

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:

	September 30, 2020	December 31, 2019
Committed	$ 200,000	$ 200,000
Available	183,110	108,991
Utilized	16,836	91,009

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

	2020	2021	2022	2023	2024 & thereafter	Total
Mortgages	$ 3,148	$ 34,211	$ 98,748	$ 57,964	$ 408,492	$ 602,563
Credit facility	—	16,836	—	—	—	16,836
	3,148	51,047	98,748	57,964	408,492	619,399
Class C LP Units	1,312	5,341	5,510	50,234	156,439	218,836
Interest obligation	6,100	23,346	21,667	18,180	60,869	130,162
Tenant rental deposits	8,658	—	—	—	36	8,694
Due to related parties	1,462	8,356	—	—	—	9,818
Accounts payable and accrued liabilities	13,675	430	284	100	1,521	16,010
	$ 34,355	$ 88,520	$ 126,209	$ 126,478	$ 627,357	$ 1,002,919

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.

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

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

	September 30, 2020	December 31, 2019
Liabilities (principal amounts outstanding):		
Class B LP Units	$ 416,219	$ 527,104
Class C LP Units	218,836	222,702
Mortgages[1]	602,563	487,876
Credit facility	16,836	91,009
	1,254,454	1,328,691
Unitholders' equity	831,341	686,775
	$ 2,085,795	$ 2,015,466

[1] Includes funds held in escrow in connection with Minto one80five financing (Note 9).

19. Supplemental cash flow disclosures

Change in non-cash working capital comprises the following:

Nine months ended	September 30, 2020	September 30, 2019
Prepaid expenses and other assets	$ (2,829)	$ (4,362)
Resident and other receivables	(68)	(306)
Tenant rental deposits	(18)	270
Due to related parties	(385)	(2,917)
Accounts payable and accrued liabilities	(7,320)	(7,998)
	$ (10,620)	$ (15,313)

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	867
Fair value gain	(267)
Balance, September 30, 2020	$ 1,255

For the three and nine months ended September 30, 2020, the REIT recognized Unit-based compensation expense of $291 and $867 (September 30, 2019 - $34 and $177) and fair value gain of $148 and $267 (September 30, 2019 - loss of $93 and $137), respectively.

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

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

	Units
Balance, December 31, 2019	108,421
Granted	43,000
Distribution equivalents	2,244
Balance, September 30, 2020	153,665

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	18,626		359
Distribution equivalents	774		16
Fair value gain	—		(221)
Balance, September 30, 2020	60,722	$	1,110

For the three and nine months ended September 30, 2020, the REIT recognized Unit-based compensation expense of $120 and $375 (September 30, 2019 - $108 and $343) and fair value gain of $86 and $221 (September 30, 2019 - loss of $117 and $117).

21. COVID-19

The COVID-19 outbreak 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 September 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 nine months ended September 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.