

Consolidated Financial Statements of

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

(Expressed in Canadian Dollars)

Year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to
December 31, 2020



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Marwest Apartment Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of Marwest Apartment Real Estate Investment Trust (the "REIT"), which comprise the:

- consolidated statements of financial position as at December 31, 2021 and 2020;
- consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020;
- consolidated statements of changes in unitholders' equity for the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020;
- consolidated statements of cash flows for the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020; and
- notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020, in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **Auditors' Responsibilities for the Audit of the Financial Statements** section of our auditors' report.

We are independent of the REIT in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.



Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the REIT's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the REIT's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Austin Abas.

Winnipeg, Canada

March 15, 2022

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at December 31, 2021 and December 31, 2020

	Note	December 31, 2021	December 31, 2020
Assets			
Non-current assets:			
Investment properties	4	\$ 85,495,008	\$ –
Prepaid expenses and other assets	6	1,587,229	–
		87,082,237	–
Current assets:			
Prepaid expenses and other assets	6	108,094	–
Accounts and other receivables		11,927	–
Cash		4,217,618	471,975
		4,337,639	471,975
		\$ 91,419,876	\$ 471,975

Liabilities and Unitholders' Equity

Non-current liabilities:			
Mortgages payable	9	\$ 63,990,468	\$ –
Security deposits and prepaid rent		15,283	–
Unit based compensation liability	13	45,020	–
		64,050,771	–
Current liabilities:			
Accounts payable and accrued liabilities	11	395,718	15,383
Warrant liability	8	21,359	–
Security deposits and prepaid rent		396,198	–
Exchangeable Units	7	9,106,671	–
Current portion of mortgages payable	9	1,555,985	–
		11,475,931	15,383
Total liabilities		75,526,702	15,383
Unitholders' equity	12	15,893,174	456,592
		\$ 91,419,876	\$ 471,975

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Trustees:

(signed) "*Jason Pellaers*" _____ Jason Pellaers, Trustee

(signed) "*Luke Cain*" _____ Luke Cain, Trustee

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)
(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

	Note	Year ended December 31, 2021	July 2, 2020 to December 31, 2020
Revenue from investment properties	14	\$ 3,339,846	\$ –
Expenses:			
Property operating expenses	10	949,549	–
Realty taxes		367,321	–
Total operating expenses		1,316,870	–
Net property operating income		2,022,976	–
Other expenses (income):			
General and administrative		438,461	102,498
Finance costs (income)	15	774,067	(297)
Fair value gain on investment properties	4	(6,095,866)	–
Fair value gain on unit-based compensation	13	(13,935)	–
Fair value gain on warrants	8	(405,830)	–
Fair value gain on Exchangeable Units	7	(1,888,985)	–
		(7,192,088)	102,201
Net income (loss) and comprehensive income (loss)		\$ 9,215,064	\$ (102,201)

The accompanying notes form an integral part of these consolidated financial statements.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity
(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

	Note	Trust Units	Unitholders' capital	Accumulated surplus (deficit)	2021 Total
Unitholders' equity, July 2, 2020	–	\$ –	\$ –	\$ –	
Trust Units issued, net of issue costs	12	1,800,000	558,793	–	558,793
Net loss and comprehensive loss		–	–	(102,201)	(102,201)
Unitholders' equity - December 31, 2020		1,800,000	\$ 558,793	\$ (102,201)	\$ 456,592
Trust Units issued, net of issue costs	12	7,031,564	6,232,557	–	6,232,557
Distributions		–	–	(11,039)	(11,039)
Net income and comprehensive income		–	–	9,215,064	9,215,064
Unitholders' equity - December 31, 2021		8,831,564	\$ 6,791,350	\$ 9,101,824	\$ 15,893,174

The accompanying notes form an integral part of these consolidated financial statements.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

	Note	Year ended December 31, 2021	July 2, 2020 to December 31, 2020
Cash provided by (used in):			
Operating activities:			
Net income (loss) and comprehensive income (loss)		\$ 9,215,064	\$ (102,201)
Adjustments for:			
Unit-based compensation expense	13	58,955	–
Fair value gain on investment properties	4	(6,095,866)	–
Fair value gain on unit-based compensation	13	(13,935)	–
Fair value gain on warrants	8	(405,830)	–
Fair value gain on Exchangeable Units	7	(1,888,985)	–
Finance costs (income)	15	774,067	(297)
Interest paid		(835,374)	–
Interest received		8,674	297
Change in non-cash working capital	16	(126,278)	15,383
		690,492	(86,818)
Investing activities:			
Acquisition of investment properties, net of transaction costs and cash acquired	5	203,005	–
Capital expenditures	4	(96,466)	–
Direct leasing costs	4	(23,334)	–
		83,205	–
Financing activities:			
Proceeds from issuance of Trust Units	12	5,271,891	700,000
Unit issuance costs	12	(799,007)	(141,207)
Proceeds from issuance of warrants	8	427,189	–
Financing fees	9	(68,333)	–
Debt principal payments	9	(1,859,794)	–
		2,971,946	558,793
Net increase in cash		3,745,643	471,975
Cash, beginning of year		471,975	–
Cash, end of year		\$ 4,217,618	\$ 471,975

The accompanying notes form an integral part of these consolidated financial statements.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

1. Description of the entity:

Marwest Apartment Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated July 2, 2020, which was amended and restated on April 30, 2021. The REIT was a closed-ended real estate investment trust at December 31, 2020 and converted to an open-ended real estate investment trust on April 30, 2021 pursuant to a resolution passed by the Board of Trustees. The REIT owns and operates a portfolio of income-producing multi-family investment properties located in Western Canada.

The REIT was established under the laws of the Province of Manitoba. The principal and registered office of the REIT is Suite 500-220 Portage Avenue, Winnipeg, Manitoba.

At December 31, 2021, the REIT's portfolio consisted of 3 multi-family investment properties, all of which are held by its subsidiary, MAR REIT L.P. (the "Partnership"), through Marwest Apartments I L.P. ("Kenwood Court"), Marwest Apartments VII L.P. ("Brio Brownstones") and Marwest (Element) Apartments L.P. ("Element") which are owned 100 percent by the Partnership.

2. Basis of presentation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and using the accounting policies described in Note 3.

These consolidated financial statements were approved by the Board of Trustees of the REIT and authorized for issuance on March 15, 2022.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties, Exchangeable Units, warrants and unit-based compensation, which have been measured at fair value. The consolidated financial statements have been presented in Canadian dollars which is the REIT's functional currency.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the financial statements of the REIT and its subsidiaries, including the Partnership. Subsidiaries are consolidated from the date of acquisition, being the date that the REIT achieves control and continues to be consolidated until the date that control ceases.

Control is achieved when the REIT is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability of use its power to affect those returns.

All intercompany assets and liabilities, revenue, expenses and cash flows relating to transactions between entities within the REIT are eliminated in full on consolidation.

(b) Investment properties:

Investment properties includes properties held to earn rental income. Investment properties are measured at fair value with any changes therein recognized in profit or loss for the year.

The acquisition of investment properties is initially measured at cost including directly attributable acquisition costs, except when acquired through a business combination, where such costs are expensed as incurred. Directly attributable acquisition costs include professional fees, land transfer taxes and other transaction costs.

After initial recognition, investment properties are measured at fair value, which is determined based on available market evidence at each reporting date. Fair value is determined using the direct capitalization approach. Estimated stabilized net operating income is based on the properties forecasted results.

Capitalization rates reflect the characteristics, location and market of the properties. Fair value is determined based on internal valuation models incorporating market data and valuations performed by external appraisals. Gain or losses arising from changes in fair value are included in the consolidated statements of net income and comprehensive income during the period in which they arise.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

3. Significant accounting policies (continued):

(b) Investment properties (continued):

Tenant incentives and leasing commissions are included in the carrying amount of investment properties.

(c) Trust Units:

Trust Units are redeemable at the holder's option and are therefore considered to be a puttable instrument in accordance with International Accounting Standard (IAS) 32: *Financial Instruments: presentation* (IAS 32). Puttable instruments are required to be accounted for as a financial liability, except where certain conditions are met; in which case the puttable instruments are classified as equity. The REIT has determined that it has met the conditions set out in IAS 32 that permit instruments that otherwise meet the definition of a financial liability to be classified as equity. Accordingly, the REIT's Trust Units are classified and accounted for as equity instruments.

Distributions on Trust Units are recorded in Unitholders' equity in the period they are approved.

(d) Exchangeable Units:

Exchangeable limited partnership units (Exchangeable Units) of Marwest REIT L.P. are economically equivalent to Trust Units, receive distributions equal to the distributions paid on Units and are exchangeable at the holder's option into Trust Units. One Special Voting Unit is issued to the holder of every Exchangeable Unit held, which entitles the holder to one vote per Special Voting Unit at any meeting of Unitholders. The limited IAS 32 exception for presentation as equity does not extend to the Exchangeable Units. The Exchangeable Units are designated as measured at fair value through profit or loss. The fair value of the Exchangeable Units are measured every period by reference to the traded value of the Trust Units, with changes in measurement recorded in the consolidated statements of net income and comprehensive income. Distributions on the Exchangeable Units are recorded as a finance cost in the consolidated statements of net income and comprehensive income in the period which the distributions become payable.

Upon exchange into Trust Units of the Trust, the carrying amount of the liability representing the fair value of the Exchangeable Units on exchange date is reclassified to unitholders' equity.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

3. Significant accounting policies (continued):

(e) Warrants:

Each whole warrant entitles the holder to purchase one Trust Unit of the REIT for \$1.20 upon exercise within 12 months of issuance.

As the Trust Units of the REIT are puttable instruments, the warrants meet the definition of a financial liability under IAS 32. The warrants are derivatives and therefore classified as fair value through profit or loss. The fair value of the warrants is measured at the end of each reporting period with changes in fair value recorded in profit or loss. Upon exercise, the carrying amount of the liability representing the fair value of the warrants on exercise date is reclassified to unitholders' equity.

(f) Expenses:

Property operating expenses are recognized in net income in the period in which they are incurred.

(g) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The REIT uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The REIT uses a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements and disclosures of its financial instruments and its investment properties.

The REIT determines whether transfers have occurred between levels in the hierarchy by reassessing categorization at the time of transfer. There were no transfer of assets or liabilities between hierarchy levels during the year ended December 31, 2021 or the period ended December 31, 2020.

(h) CMHC premiums:

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

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

3. Significant accounting policies (continued):

(i) Revenue recognition:

The REIT retains substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases.

Revenue from investment properties includes base rents earned from tenants related to lease agreements which is allocated to lease components based on relative stand-alone selling prices. The stand-alone selling prices of the rental component are determined using an adjusted market assessment approach and the stand-alone selling prices of the service components are determined using an expected cost plus a margin approach.

The REIT uses the straight-line method of rental revenue recognition whereby any contractual free-rent periods or rent increases over the term of a lease are recognized as earning evenly over the lease term. Lease incentives provided to tenants are recognized over the lease term, on a straight-line basis, as a reduction of revenue.

Revenue from services represents the service component of the REIT's leases. These services consist primarily of the recovery of utility, property maintenance and amenity costs where the REIT has determined it is acting as a principal and is recognized over time when the services are provided.

(j) Income taxes:

The REIT is a mutual fund trust and a real estate investment trust as defined in the Income Tax Act (Canada) (the "Act"). Under current tax legislation, a real estate investment trust and a mutual fund trust are entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to Unitholders. The REIT expects to qualify as a real estate investment trust and mutual fund trust and intends on making distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

(k) Unit-based compensation:

The REIT may issue unit-based awards to trustees, officers and employees of the REIT according to the REIT's Equity Incentive Plan (the "Plan"). Pursuant to the Plan, trustees, officers and employees may receive Deferred Units, Restricted Units or unit options to purchase Trust Units.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

3. Significant accounting policies (continued):

(k) Unit-based compensation (continued):

Deferred Units and Restricted Units awarded under the Plan may be settled by Trust Units issued from treasury or cash payable on settlement as elected by the participant. Deferred Units vest on the date of grant unless otherwise determined by the Board of Trustees. Restricted Units will vest as determined by the Board of Trustees at the time of grant. Each Deferred Unit and Restricted Unit is equivalent in value to a Trust Unit and accumulate additional Deferred or Restricted Units at the same rate that distributions are paid on Trust Units.

Deferred Units and Restricted Units have been classified as liabilities and measured at fair value. Changes in fair value is recorded as a gain or loss in net income and comprehensive income in the period of the change. The grant date fair value is calculated using the greater of the market price of the Trust Units on the TSX Venture Exchange for the 20 trading days immediately preceding such date or the price per Trust Unit pursuant to the last public offering or private placement of Trust Units.

Unit options granted under the equity incentive plan will include an option exercise price determined by the Board of Trustees and will not be less than the fair value of a trust unit on the date of the grant. The term of each unit option will be fixed by the Board of Trustees, provided that no unit option will be exercisable more than five years after the date the unit option is granted.

The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied.

The grant date fair value of unit-based payment awards granted to employees is recognized as an expense, with a corresponding increase or decrease in liabilities, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

(l) Finance costs:

Finance costs are comprised of interest expense, amortization of mark-to-market adjustments and financing charges, distributions on Exchangeable Units and amortization of CMHC fees.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

3. Significant accounting policies (continued):

(l) Finance costs (continued):

Finance costs associated with financial liabilities presented at amortized cost are presented in the consolidated statements of net income and comprehensive income using the effective interest method. Finance costs also includes interest income which is recognized when earned.

(m) Use of estimates and judgments:

The preparation of the consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses during the period. Actual results may vary from these estimates.

Information about assumptions and estimation uncertainties that are critical to the determination of the amounts reported in the financial statements are as follows:

- Valuation of investment properties:

The fair value of the investment properties is determined by management using recognized valuation techniques. The determination of the fair value of the investment properties requires the use of estimates such as capitalization rates and stabilized net operating income applicable to the properties. These estimates are based on local market conditions existing at the reporting date.

Information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements are as follows:

- Business combinations:

The Trust acquires real estate properties. At the time of the acquisition, the Trust considers whether or not the acquisition represents the acquisition of a business. The Trust accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property.

Consideration is made to the extent to which significant processes are acquired and the extent of ancillary services provided by the property, for example, maintenance, cleaning, security, bookkeeping and other services.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

3. Significant accounting policies (continued):

(m) Use of estimates and judgments (continued):

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill is recognized. The purchase of Marwest Apartments I L.P., Marwest Apartments VII L.P. and Marwest (Element) Apartments L.P. are considered asset purchases and not business combinations (note 5).

- Income taxes:

The REIT is a mutual fund trust and a real estate investment trust as defined in the Act. Under current tax legislation, the REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to Unitholders each year. The REIT is a real estate investment trust if it meets the prescribed conditions under the Act relating to the nature of its assets and revenue. The REIT uses judgment in reviewing the real estate investment trust conditions and assessing their interpretation and application to the REIT's assets and revenue, and it has determined that it qualifies as a real estate investment trust for the current period.

Impact of 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 business activities and financial results that could potential 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 estimates that could be most significantly impacted by COVID-19 include those underlying the valuation of investment properties. Actual results could differ from those estimates.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

3. Significant accounting policies (continued):

(n) Future changes in accounting standards:

On January 23, 2020, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* (IAS 1), 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.

4. Investment properties:

The following table presents the change in investment properties for the year ended December 31, 2021 and the period ended December 31, 2020:

	December 31, 2021	December 31, 2020
Balance, beginning of year	\$ –	\$ –
Additions:		
Acquisitions of investment property (note 5)	79,279,342	–
Capital expenditures	96,466	–
Direct leasing costs	23,334	–
Fair value gain	6,095,866	–
Balance, end of year	\$ 85,495,008	\$ –

The fair value methodology for the REIT's investment properties is considered level 3, as significant unobservable inputs are required to determine fair value.

External valuations were obtained for two of the properties at December 31, 2021 and an internal valuation was performed on one property. Internal valuations are prepared by management.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

4. Investment properties (continued):

The internal valuations team consists of qualified individuals who hold recognized relevant professional qualifications and have recent experience in the location and category of the respective properties.

Management determined the fair value of investment properties based on the direct income capitalization approach using stabilized net operating income and capitalized at a rate that reflects the characteristics, location and market of the investment properties. The capitalization rate was estimated using market surveys, available appraisals and market comparables.

The carrying value of the investment properties reflects management's best estimate of fair value in terms of the assessed highest and best use at December 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 investment properties, both in the short and long-term. Any long-term effects on market rents, occupancy, turnover and other factors could impact the underlying valuation of the investment properties and such impact could be material.

A change in the capitalization rate used could have a material impact on the fair value of the investment properties. When capitalization rates compress, the estimated fair value of the investment properties increase. When capitalization rates expand, the estimated fair value of the investment properties decrease. The weighted-average capitalization rate utilized at December 31, 2021 was 5 percent.

At December 31, 2021, a 25-basis point increase in the capitalization rate would decrease the estimated fair value of investment properties by approximately \$4,152,380. A 25-basis point decrease in the capitalization rate would increase the estimated fair value of investment properties by approximately \$4,589,473.

At December 31, 2021, the investment properties were pledged as security under mortgage and loan agreements.

5. Acquisition of investment properties:

On April 30, 2021, the REIT completed the acquisition of the partnership units of Marwest Apartments I L.P. (operating as Kenwood Court) and Marwest Apartments VII L.P. (operating as Brio Brownstones). On November 15, 2021, the REIT completed the acquisition of the partnership units of Marwest (Element) Apartments L.P. (operating as Element). These acquisitions included land, buildings, existing tenant leases and all working capital balances of these limited partnerships and assumption of the mortgages payable.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

5. Acquisition of investment properties (continued):

The acquisition of Kenwood Court and Brio Brownstones served as the REIT's Qualifying Transaction pursuant to Policy 2.4 of the TSX Venture Exchange.

The purchase price of the partnership units of Marwest Apartments I L.P. and Marwest Apartments VII L.P. is \$8,192,147 and \$3,379,588 respectively, whereby some of the previous unitholders of Marwest Apartments I L.P. and Marwest Apartments VII L.P. elected to receive Exchangeable Units in MAR REIT L.P. at a price of \$1 per Exchangeable Unit. Marwest Apartments I L.P. partnership units were purchased for 6,601,441 Exchangeable Units and 1,590,708 Trust Units as satisfaction of the purchase price. Marwest Apartments VII L.P. partnership units were purchased for 3,210,622 Exchangeable Units and 168,965 Trust Units as satisfaction of the purchase price. The mortgage principal balances of \$12,455,279 and \$29,997,473 of Marwest Apartments I L.P. and Marwest Apartments VII L.P. respectively, were assumed by the REIT, with a mark to market adjustment of (\$466,900) and \$903,438 respectively, aggregating \$436,538.

The purchase price of the partnership units of Marwest (Element) Apartments L.P. was \$2,367,194 whereby some of the previous unitholders of Marwest (Element) Apartments I L.P. elected to receive Exchangeable Units in MAR REIT L.P. at a price of \$1.15 per Exchangeable Unit. Marwest (Element) Apartments I L.P. partnership units were purchased for 1,029,211 Exchangeable Units and cash of \$1,183,602 as satisfaction of the purchase price. The debt balances of \$24,604,747 of Marwest (Element) Apartments I L.P. were assumed by the REIT, with a mark to market adjustment of \$95,309 respectively. Included within the debt balances assumed are mortgages payable in the amount of \$23,404,747 and promissory notes payable to certain previous unitholders of Marwest (Element) Apartments I L.P. in the amount of \$1,200,000. The promissory notes payable were repaid by the REIT subsequent to the acquisition.

The allocation of the purchase price to each of the limited partnerships acquired is as follows:

	Kenwood Court	Brio Brownstones	Element	Total
Cash	\$ 178,510	\$ 397,043	\$ 1,553,526	\$ 2,129,079
Investment properties	19,936,064	33,495,586	25,105,220	78,536,870
Working capital	65,952	387,870	408,504	862,326
Debt	(11,988,379)	(30,900,911)	(24,700,056)	(67,589,346)
Total consideration	\$ 8,192,147	\$ 3,379,588	\$ 2,367,194	\$ 13,938,929

The REIT incurred transaction costs related to the acquisitions of Kenwood Court and Brio Brownstones of \$467,145 and \$275,327 for the acquisition of Element which are included in investment properties resulting in a total of \$79,279,342 recognized on acquisition.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

6. Prepaid expenses and other assets:

	December 31, 2021	December 31, 2020
Prepaid expenses	\$ 47,088	\$ –
Prepaid CMHC premiums	1,633,235	–
Deposits and other prepayments	15,000	–
	<u>\$ 1,695,323</u>	<u>\$ –</u>
Current	\$ 108,094	\$ –
Non-current	1,587,229	–
	<u>\$ 1,695,323</u>	<u>\$ –</u>

7. Exchangeable Units:

The following table reconciles the changes in cash flows and outstanding units for the Exchangeable Units:

	Units	Amount
Balance, beginning of year	–	\$ –
Issued - April 30, 2021 (note 5)	9,812,063	9,812,063
Issued - November 15, 2021 (note 5)	1,029,211	1,183,593
Fair value change	–	(1,888,985)
<u>Balance, December 31, 2021</u>	<u>10,841,274</u>	<u>\$ 9,106,671</u>

For the year ended December 31, 2021, distributions of \$13,557 were declared on the Exchangeable Units and are included in finance costs.

8. Warrants:

	Warrants	Amount
Balance, beginning of year	–	\$ –
Issued - August 10, 2021 (note 12)	4,271,891	427,189
Fair value change	–	(405,830)
<u>Balance, December 31, 2021</u>	<u>4,271,891</u>	<u>\$ 21,359</u>

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

8. Warrants (continued):

On August 10, 2021, 4,271,891 warrants were issued in connection with a short-form prospectus dated August 3, 2021 (note 12). Each warrant is exercisable for 12 months from the date of initial issuance. The value attributable to the warrants at the date of issuance was \$427,189. Transaction costs of \$65,692 were incurred on issuance of the warrants and are included in general and administrative expense. The fair value of the warrants at the date of issuance and at August 10, 2021 was determined using the Black-Scholes model. The key inputs at the date of grant were as follows: unit price of \$1.10, discount rate of 0.26 percent, expected term of 1 year and volatility of 31 percent. The key inputs at December 31, 2021 are as follows: unit price of \$0.84, discount rate of 0.75 percent, expected term of 0.608 year and volatility of 27 percent.

9. Mortgages payable:

	December 31, 2021	December 31, 2020
Mortgages	\$ 65,197,705	\$ –
Unamortized mark-to-market adjustment	402,176	–
Unamortized deferred financing costs	(53,428)	–
Total mortgages	\$ 65,546,453	\$ –

	December 31, 2021	December 31, 2020
Current	\$ 1,555,985	\$ –
Non-current	63,990,468	–
	\$ 65,546,453	\$ –

Mortgages are secured by investment properties, bear interest at a weighted average contractual interest rate of 2.82 percent and mature at various dates from 2023-2031. The mortgages are guaranteed, on a joint and several basis, MAR REIT GP Ltd. , MAR REIT L.P., the REIT and by certain unitholders, as well as personal guarantees by individuals who control certain unitholders.

The fair value of the REIT's mortgages payable is calculated based on current market rates plus risk-adjusted spreads on discounted cash flows and therefore is a level 2 fair value measurement. At December 31, 2021, the fair value of mortgages was \$66,543,191.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

9. Mortgages payable (continued):

The mortgages payable balances at December 31, 2021, excluding unamortized mark-to-market adjustments and unamortized deferred financing costs, are due as follows:

2022	\$ 1,349,133
2023	13,544,958
2024	6,997,855
2025	999,860
2026	1,022,230
2027 and thereafter	41,283,669
	\$ 65,197,705

The following table reconciles the changes in cash flows for the mortgages payable:

	Promissory notes	Mortgages	Unamortized mark-to-market adjustments	Unamortized deferred financing costs	2021 Total
Balance, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -
Assumed on acquisition (note 5)	1,200,000	65,857,499	531,847	-	67,589,346
Deferred financing costs	-	-	-	(68,333)	(68,333)
Repayments	(1,200,000)	(659,794)	-	-	(1,859,794)
Deferred financing amortization	-	-	-	14,905	14,905
Amortization of mark-to market adjustment	-	-	(129,671)	-	(129,671)
Balance, end of year	\$ -	\$ 65,197,705	\$ 402,176	\$ (53,428)	\$ 65,546,453

10. Related party transactions:

In the normal course of operations, the REIT enters into various transactions with related parties.

On April 30, 2021, the REIT and Marwest Asset Management Inc. ("MAM" or the "Manager") entered into an Asset Management and Property Management Agreement (the "Agreement") with a term of ten years, with automatic renewal periods for further five-year terms unless terminated in accordance with the Agreement. Under the terms of the Agreement, MAM as the REIT's manager provides the REIT with the strategic, administrative, property management, leasing, acquisition, financing, development and construction management services necessary to manage the strategy, day-to-day operations and assets of the REIT.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

10. Related party transactions (continued):

On April 30, 2021, the Manager entered into a sub management agreement with Marwest Management Canada Ltd., a company under common control, to perform the property management functions of the Agreement.

The Agreement provides for the following fees:

Type	Basis
Base asset management ¹	0.25 percent of gross book value
Property management	4 percent of gross receipts
Acquisition ²	variable
Construction management ³	variable

¹ Gross book value is defined as the greater of (a) the value of the assets of the REIT as shown on its then most recent consolidated statement of financial position; and (b) the historical cost of the investment properties, plus (i) the carrying value of cash and cash equivalents; (ii) the carrying value of mortgages receivable; and (iii) the historical cost of other assets and investments used in operations.

² Acquisition fees are 1 percent on the first \$100 million of acquisitions; 0.75 percent on the next \$100 million of acquisition and 0.50 percent for acquisitions in excess of \$200 million in a fiscal year.

³ Construction management fees are 5 percent on the first \$1 million of all hard construction costs incurred on each capital project and 4 percent on the all hard construction costs above \$1 million on each capital project.

The asset management fee is payable in cash or, at the election of the Manager, up to 50 percent of each payment in Trust Units based upon the 20-day period ending on the trading day prior to the payment date (the "Management Fee Units" [note 13]). The Manager has waived the asset management fee until January 1, 2022.

Commencing for the Fiscal Year ended December 31, 2023, the Manager can earn an Incentive Fee equal to 15 percent of the REIT's adjusted funds from operations as defined in the Agreement per unit ("AFFO Per Unit") in excess of the AFFO Per Unit determined as at December 31 of the prior fiscal year, provided that the maximum Incentive Fee that may be paid in any fiscal year is 100 percent of the base asset management described above. The Incentive Fee is payable in cash or, at the election of the Manager, up to 50 percent of each payment in Trust Units based upon the 20-day period ending on the trading day prior to the payment date (the "Management Fee Units" [note 13]).

The Agreement also provides for the Manager to be reimbursed by the REIT for actual out of pocket costs and expenses incurred by the Manager in connection with performance of the services described in the Agreement including caretakers, janitors and other personnel devoted to specific investment properties.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

10. Related party transactions (continued):

In addition to the related party transactions disclosed elsewhere in these consolidated financial statements, related party transactions include:

	Year ended, December 31, 2021	Period ended, December 31, 2020
Property management fees	\$ 141,386	\$ –
Salary reimbursement	91,588	–
	<u>\$ 232,974</u>	<u>\$ –</u>

As at July 2, 2020, the REIT issued 800,000 Trust Units to certain seed unitholders, including Trustees, Officers and related parties of the REIT, at \$0.25 per Trust Unit for gross proceeds of \$200,000.

On April 30, 2021, in conjunction with the qualifying transaction acquisition, described in note 5, the REIT issued 4,006,308 Exchangeable Units and 168,965 Trust Units to related parties of the Manager. On November 15, 2021, in conjunction with the Element acquisition, described in note 5, the REIT issued 1,029,211 Exchangeable Units to related parties of the Manager.

The board of trustees were issued \$58,955 in deferred units during the year ended December 31, 2021 at a price of \$1.10 per unit (note 13). The Trustees were also remunerated \$1,000 per board meeting subsequent to the completion of the qualifying transaction on April 30, 2021, for a total of \$10,047 to date.

11. Accounts payable and accrued liabilities:

	December 31, 2021	December 31, 2020
Accounts payable	\$ 64,754	\$ 15,383
Accrued liabilities	330,964	–
	<u>\$ 395,718</u>	<u>\$ 15,383</u>
Current	\$ 395,718	\$ 15,383
Non-current	–	–
	<u>\$ 395,718</u>	<u>\$ 15,383</u>

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

12. Unitholders' equity:

(i) Authorized:

In accordance with the declaration of trust, the REIT may issue an unlimited number of Trust Units and Special Voting Units.

Each Trust Unit represents an equal undivided beneficial interest and voting right in the REIT and an equal interest in any distributions of the REIT. All Trust Units are of the same class with equal rights and restrictions.

Each Special Voting Unit has no economic entitlement in the Trust or in the distributions or assets of the Trust, but shall entitle the holder to one vote at any meeting of the Unitholders. Special Voting Units shall attach to exchangeable securities (if any) or deferred Trust Units (if any) and are not transferrable from the exchangeable securities to which they are attached. Upon exchange or surrender of an exchangeable security for a Trust Unit, the Special Voting Unit attached to such exchangeable security will automatically be redeemed and cancelled for no consideration.

(ii) Issued:

Trust units	Number of units	Amount
Issued and outstanding units, at July 2, 2020	–	\$ –
July 2, 2020 - issuance of Trust Units on formation	800,000	200,000
September 22, 2020 - issuance of Trust Units on initial public offering, net of issue costs	1,000,000	358,793
Issued and outstanding units, at December 31, 2020	1,800,000	\$ 558,793
April 30, 2021 - issuance of Trust Units from private placement, net of issue costs	1,000,000	\$ 813,297
April 30, 2021 - issuance of Trust Units on qualifying transaction (note 5)	1,759,673	1,759,673
August 10, 2021 - issuance of Trust Units from public offering, net of issue costs	4,271,891	3,659,587
Issued and outstanding units, at December 31, 2021	8,831,564	\$ 6,791,350

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

12. Unitholders' equity (continued):

(ii) Issued (continued):

Special voting units	Number of units	Amount
Issued and outstanding units, at December 31, 2020	–	\$ –
Issued on April 30, 2021 (note 5)	9,812,063	–
Issued on September 30, 2021 (note 13)	31,371	–
Issued on November 15, 2021 (note 5)	1,029,211	–
Issued on December 31, 2021 (note 13)	22,224	–
Issued and outstanding units, at December 31, 2021	10,894,869	\$ –

On July 2, 2020 (date of formation) the REIT issued 800,000 Trust Units at a price of \$0.25 per Trust Unit for gross proceeds of \$200,000 in cash.

On September 22, 2020, the Trust issued 1,000,000 Trust Units at a price of \$0.50 per Trust Unit, for gross proceeds of \$500,000, by way of an initial public offering pursuant to the policies of the TSX-V. The REIT paid the offering agent, Canaccord Genuity Corp. a commission of 10 percent of the gross proceeds of the offering. The Agent was reimbursed for certain Agent's expenses, including legal fees.

The REIT incurred unit issue costs of \$141,207 for the period ended December 31, 2020, which are included in Unitholders' equity.

On April 30, 2021, the REIT issued 1,000,000 Trust Units at a price of \$1.00 per Trust Unit, for gross proceeds of \$1,000,000, by way of brokered private placement. The REIT paid the offering agent, Canaccord Genuity Corp. a commission of 7 percent of the gross proceeds of the offering. The Agent was reimbursed for certain Agent's expenses including legal fees.

Additionally, 1,590,708 and 168,965 Trust units were issued at a price of \$1.00 per Trust Unit, in exchange for the Marwest Apartments I L.P. and Marwest Apartments VII L.P. partnership units respectively (note 5).

On August 10, 2021, the REIT issued 4,271,891 Trust Units in connection with a short-form prospectus dated August 3, 2021. Each Trust Unit was issued with a warrant attached, whereby the warrant holder may purchase one Trust Unit for each warrant held at a price of \$1.20 per Trust Unit. The warrant is exercisable for 12 months from the date of initial issuance. Each Trust Unit with the warrant attached was issued at \$1.10 for gross proceeds of \$4,699,080 of which \$427,189 is attributable to the warrant and \$4,271,891 attributable to Trust Units.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

12. Unitholders' equity (continued):

(ii) Issued (continued):

The REIT incurred unit issue costs of \$799,007 for the year ended December 31, 2021, which are included in unitholders' equity.

13. Unit-based compensation:

Under the REIT's Equity Incentive Plan, there may be grants of unit options, Restricted Units and Deferred Units, which are subject to certain restrictions. Under the Plan, the maximum number of Trust Units reserved for issuance of Restricted Units and Deferred Units may not exceed 10 percent of the issued and outstanding Trust Units and Exchangeable Units as at the effective date. The maximum number of Trust Units underlying unit options may not exceed 10 percent of the issued and outstanding Trust Units and Exchangeable Units on the grant date less (i) the numbers of Trust Units reserved for issuance of Restricted Units and Deferred Units; and ii) the remaining fixed number of Management Fee Units (note 10) reserved for issuance to the Manager. No unit options may be granted if on the grant date the total number of Trust Units reserved for issuance of Restricted Units and Management Fee Units exceeds 20 percent of the issued and outstanding Trust Units on the grant date.

As at and for the year ended December 31, 2021, no Restricted Units or unit options have been granted under the Plan. During the year ended December 31, 2021, the following Deferred Units were issued:

	Units		Amount
Balance, beginning of year	–	\$	–
Issued	53,595		58,955
Fair value change	–		(13,935)
Balance, December 31, 2021	53,595	\$	45,020

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

14. Revenue from investment properties:

The components of revenue from investment properties are as follows:

	Year ended, December 31, 2021	Period ended, December 31, 2020
Basic rent	\$ 2,636,806	\$ –
Property operating expense recoveries	703,040	–
	<u>\$ 3,339,846</u>	<u>\$ –</u>

Future minimum rents receivable under non-cancellable operating leases as at December 31, 2021 are as follows:

Within 1 year	\$ 3,127,575
Year 2	275,212
	<u>\$ 3,402,787</u>

15. Finance costs:

Finance costs are comprised of the following:

	Year ended, December 31, 2021	Period ended, December 31, 2020
Interest expense on mortgages	\$ 862,002	\$ –
Amortization of financing charges	14,905	–
Amortization of CMHC fees	21,948	–
Amortization of mark-to-market adjustments	(129,671)	–
Distribution on Exchangeable Class B Units	13,557	–
Interest income	(8,674)	–
Finance costs	<u>\$ 774,067</u>	<u>\$ –</u>

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

16. Changes in non-cash working capital:

Changes in non-cash balances included in the statement of cash flows are comprised as follows:

	Year ended December 31, 2021	July 2, 2020 to December 31, 2020
Accounts receivable	\$ 41,093	\$ –
Prepaid expenses and other assets	12,571	–
Accounts payable and accrued liabilities	(163,997)	15,383
Security deposits and prepaid rent	(15,945)	–
	<u>\$ (126,278)</u>	<u>\$ 15,383</u>

17. Capital management:

The REIT's objective when managing capital is to safeguard the ability to continue as a going concern, to ensure compliance with the REIT's Declaration of Trust and to generate sufficient capital to be able to identify, evaluate and then acquire a direct or indirect interest in future properties and to provide unitholders with a stable distribution. Management monitors compliance with the Declaration of Trust as part of the overall management of the operations of the REIT and it is reviewed periodically by the Board of Trustees. The REIT's capital consists of Exchangeable Units, warrants, unit-based compensation, mortgages payable and unitholders equity. The REIT maintains or adjusts its capital structure by issuing Trust Units or debt, adjusting the amounts of distributions paid to Unitholders, returning capital to Unitholders, or reducing or increasing debt.

The REIT's declaration of trust permits the REIT to incur indebtedness of not more than 75 percent of the gross book value of the REIT once the gross book value reaches \$300,000,000. Trust Units and Exchangeable Units will not constitute indebtedness in this determination. The independent members of the Board of Trustees can elect to utilize the appraised value of assets and properties of the REIT in this determination instead of gross book value.

Gross book value as defined in the declaration of trust means, at any time, the greater of (a) the value of the assets of the REIT as shown on its then most recent statement of financial position; and (b) the historical cost of the investment properties, plus (i) the carrying value of cash and cash equivalents; (ii) the carrying value of mortgages receivable; and (iii) the historical cost of other assets and investments used in operations.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

17. Capital management (continued):

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

	December 31, 2021	December 31, 2020
Exchangeable Units	\$ 9,106,671	\$ –
Warrants liability	21,359	–
Unit based compensation liability	45,020	–
Mortgages payable	65,546,453	–
Unitholders' equity	15,893,174	456,592
	<u>\$ 90,612,677</u>	<u>\$ 456,592</u>

18. Fair values:

The fair value of the REIT's accounts and other receivables, cash, accounts payable and accrued liabilities and security deposits approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

The fair value measurement of investment properties is categorized as a Level 3 fair value based on the inputs to the valuation techniques used. The valuation methods used, and the key inputs are described in note 4. The fair value measurement of mortgages and loans payable are categorized as level 2 on the fair value hierarchy and is estimated at fair value based on the rates that could be obtained for similar debt instruments with similar terms and maturities. The fair value of the warrants is categorized as level 2 on the fair value hierarchy. The valuation method used for the warrants and the key inputs are described in note 8.

The fair value of Exchangeable Units and unit-based compensation is measured every period by reference to the traded value of units and is considered Level 1 in the fair value hierarchy.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

18. Fair values (continued):

The following tables summarize the fair value measurements recognized on the consolidated statements of financial position or disclosed in the REIT's consolidated financial statements, categorized by fair value hierarchy:

December 31, 2021	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Assets:					
Investment properties	4	\$ 85,495,008	\$ –	\$ –	\$ 85,495,008
Liabilities:					
Exchangeable Units	7	9,106,671	9,106,671	–	–
Warrants liability	8	21,359	–	21,359	–
Unit-based compensation liability	13	45,020	45,020	–	–
Mortgages payable	9	65,546,453	–	66,543,191	–
Total liabilities		\$ 74,719,503	\$ 9,151,691	\$ 66,564,550	\$ 85,495,008

19. Financial risk management:

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are as follows:

(i) Market risk:

Market risk is the risk that the fair value of 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.

Interest rate risk is the risk that changes in market interest rates will affect the REIT's financial instruments. As of December 31, 2021, the REIT's mortgages bore interest at fixed rates.

Management monitors anticipated interest rate changes and mitigates the negative impact of interest rate increases by locking in interest rates early where applicable.

The REIT's financial statement presentation currency is in 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.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

19. Financial risk management (continued):

(i) Market risk (continued):

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 Exchangeable Units and warrants. A one percent change in the prevailing market price of the Trust Units as at December 31, 2021 would have a \$91,067 impact on the change in the fair value of the Exchangeable Units. A one percent change in the prevailing market price of the Trust Units as at December 31, 2021 would have a nominal impact on the fair value of the warrants.

(ii) Credit risk:

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

Management mitigates this risk by carrying out appropriate due diligence on the prospective tenant and obtaining security deposits. Management monitors the collection of residential rent receivables on a regular basis with strict procedures that fall within the provincial regulations designed to minimize credit loss in the case of non-payment. The risk of exposure to credit risk is generally limited to the carrying amount of the financial statements.

The REIT's maximum exposure to credit risk is equivalent to the carrying value of each class of financial asset as separately presented in cash and accounts and other receivables.

Management assesses the impairment of tenant receivables on an individual basis and uses the simplified approach measure expected credit losses; this will be at the lifetime expected credit losses associated with the arrangement.

Management determines that an amount receivable is credit impaired based upon previous collection history, as well as forward looking information where available regarding economic trends in the tenant's industry and the region the tenant is in. Impairment losses are recognized in the consolidated interim statement of loss and comprehensive loss within investment properties operating expenses.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)
(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

19. Financial risk management (continued):

(iii) Liquidity risk:

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they become due. The REIT manages this risk by ensuring it has sufficient cash on hand to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities.

An analysis of the contractual cash flows at December 31, 2021 associated with the REIT's material financial liabilities is set out below:

	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter	Total
Mortgages and loans payable	\$ 1,349,133	\$ 13,544,958	\$ 6,997,855	\$ 999,860	\$ 42,305,899	\$ 65,197,705
Interest obligation	1,810,715	1,692,917	1,067,677	1,028,376	4,879,322	10,479,007
Accounts payable and accrued liabilities	395,718	–	–	–	–	395,718
Security deposits	396,198	15,283	–	–	–	411,481
	\$ 3,951,764	\$ 15,253,158	\$ 8,065,532	\$ 2,028,236	\$ 47,185,221	\$ 76,483,911

20. Income taxes:

The Act contains legislation affecting the tax treatment of specified investment flow-through (SIFT) trusts which include publicly-listed income trusts (the "SIFT Rules"). Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT's taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation.

However, distributions paid by a SIFT as returns of capital are generally not subject to tax. The SIFT Rules do not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). Instead, a real estate investment trust that meets the REIT Conditions is not liable to pay Canadian Income taxes provided that its taxable income is fully distributed to unitholders during the period.

The REIT has reviewed the SIFT Rules and has assessed their application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions for the Year ended December 31, 2021, and accordingly is not subject to current income taxes in Canada. Accordingly, no provision for current income taxes payable is required.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian Dollars)

For the year ended December 31, 2021 and for the period from July 2, 2020 (date of formation) to December 31, 2020

21. Subsequent Events:

The following events occurred subsequent to December 31, 2021

- i. On each of January 17, 2022 and February 15, 2022 the REIT paid monthly distributions of \$0.00125 per Trust Unit. Holders of the Exchangeable Units were also paid a distribution of \$0.00125 per Unit.
- ii. On February 15, 2022, the REIT declared a distribution of \$0.00125 per Trust Unit, payable on March 15, 2022 to Unitholders of record as of the close of business on February 28, 2022. Holders of the Exchangeable Units will also be paid a distribution of \$0.00125 per Unit.