

Condensed Consolidated Interim Financial Statements of

**MARWEST APARTMENT
REAL ESTATE
INVESTMENT TRUST**

(Expressed in Canadian Dollars)

Three months ended March 31, 2022 and 2021
(Unaudited)

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Financial Position
(Expressed in Canadian Dollars)

As at March 31, 2022 and December 31, 2021
(Unaudited)

	Note	March 31, 2022	December 31, 2021
Assets			
Non-current assets:			
Investment properties	4	\$ 88,670,000	\$ 85,495,008
Prepaid expenses and other assets	5	1,575,726	1,587,229
		90,245,726	87,082,237
Current assets:			
Prepaid expenses and other assets	5	130,451	108,094
Accounts and other receivables		74,803	11,927
Cash		4,059,598	4,217,618
		4,264,852	4,337,639
		\$ 94,510,578	\$ 91,419,876

Liabilities and Unitholders' Equity

Non-current liabilities:			
Mortgages payable	8	\$ 63,595,810	\$ 63,990,468
Security deposits and prepaid rent		63,152	15,283
Unit based compensation liability	12	66,093	45,020
		63,725,055	64,050,771
Current liabilities:			
Accounts payable and accrued liabilities	10	465,472	395,718
Warrant liability	7	34,174	21,359
Security deposits and prepaid rent		357,641	396,198
Exchangeable Units	6	10,624,449	9,106,671
Current portion of mortgages payable	8	1,565,007	1,555,985
		13,046,743	11,475,931
Total liabilities		76,771,798	75,526,702
Unitholders' equity		17,738,780	15,893,174
		\$ 94,510,578	\$ 91,419,876

The accompanying notes form an integral part of these condensed consolidated interim 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

Condensed Consolidated Interim Statement of Net Income (Loss) and Comprehensive Income (Loss)
(Expressed in Canadian Dollars)

For the three months ended March 31, 2022 and 2021
(Unaudited)

	Note	March 31, 2022	March 31, 2021
Revenue from investment properties	13	\$ 1,618,740	\$ –
Expenses:			
Property operating expenses	9	580,269	–
Realty taxes		127,870	–
Total operating expenses		708,139	–
Net property operating income		910,601	–
Other expenses (income):			
General and administrative	9	170,112	14,1547
Finance costs (income)	14	452,630	(348)
Fair value gain on investment properties	4	(3,127,296)	–
Fair value loss on unit-based compensation	12	5,839	–
Fair value loss on warrants	7	12,815	–
Fair value loss on Exchangeable Units	6	1,517,778	–
		(968,122)	14,199
Net income (loss) and comprehensive income (loss)		\$ 1,878,723	\$ (14,199)

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

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Changes in Unitholders' Equity
(Expressed in Canadian Dollars)

For the three months ended March 31, 2022 and 2021
(Unaudited)

	Trust Units	Unitholders' capital	Accumulated surplus (deficit)	2021 Total
Unitholders' equity, December 31, 2020	1,800,000	\$ 558,793	\$ (102,201)	\$ 456,592
Net loss and comprehensive loss	–	–	(14,199)	(14,199)
Unitholders' equity, March 31, 2021	1,800,000	\$ 558,793	\$ (116,400)	\$ 442,393
Unitholders' equity, December 31, 2021	8,831,564	6,791,350	9,101,824	15,893,174
Distributions	–	–	(33,117)	(33,117)
Net income and comprehensive income	–	–	1,878,723	1,878,723
Unitholders' equity, March 31, 2022	8,831,564	\$ 6,791,350	\$ 10,947,430	\$ 17,738,780

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

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statement of Cash Flows
(Expressed in Canadian Dollars)

For the three months ended March 31, 2022 and 2021
(Unaudited)

	Note	March 31, 2022	March 31, 2021
Cash provided by (used in):			
Operating activities:			
Net income (loss) and comprehensive income (loss)		\$ 1,878,723	\$ (14,199)
Adjustments for:			
Unit-based compensation expense	12	15,234	–
Fair value gain on investment properties	4	(3,127,296)	–
Fair value loss on unit-based compensation	12	5,839	–
Fair value loss on warrants	7	12,815	–
Fair value loss on Exchangeable Units	6	1,517,778	–
Finance costs (income)	14	452,630	(348)
Interest paid		(456,391)	–
Interest received		3,434	348
Distributions paid		(73,788)	–
Change in non-cash working capital	15	(5,417)	(167,997)
		223,561	(182,196)
Investing activities:			
Capital expenditures	4	(43,285)	–
Direct leasing costs	4	(4,411)	–
		(47,696)	–
Financing activities:			
Debt principal payments	8	(333,885)	–
		(333,885)	–
Decrease in cash		(158,020)	(182,196)
Cash, beginning of period		4,217,618	471,975
Cash, end of period		\$ 4,059,598	\$ 289,779

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

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements
(Expressed in Canadian Dollars)

For the three months ended March 31, 2022 and 2021
(Unaudited)

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 March 31, 2022 and 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:

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

The unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the REIT's audited consolidated financial statements for the years ended December 31, 2021 and 2020 (the "Annual 2021 Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

These unaudited condensed consolidated interim financial statements were approved by the Board of Trustees of the REIT and authorized for issuance on May 11, 2022.

(b) Basis of measurement:

These unaudited condensed consolidated interim 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.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

2. Basis of presentation (continued):

The consolidated financial statements have been presented in Canadian dollars which is the REIT's functional currency.

The operating results for the three months ended March 31, 2022 are not necessarily indicative of results that may be expected for the year ending December 31, 2022 due to seasonal variations in property expenses and other factors, including the impacts of world events and future COVID-19 restrictions, if any.

The REIT's significant accounting policies were presented in Note 3 of the Annual 2021 Financial Statements and have been consistently applied in the preparation of these unaudited condensed consolidated interim financial statements.

3. Significant accounting policies:

(a) 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.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

4. Investment properties:

The following table presents the change in investment properties for the period ended March 31, 2022 and the year ended December 31, 2021:

	March 31, 2022	December 31, 2021
Balance, beginning of period	\$ 85,495,008	\$ –
Additions:		
Acquisitions of investment property	–	79,279,342
Capital expenditures	43,285	96,466
Direct leasing costs	4,411	23,334
Fair value gain	3,127,296	6,095,866
Balance, end of period	\$ 88,670,000	\$ 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.

Internal valuations were prepared at March 31, 2022 for the properties in the REIT's portfolio by management. (December 31, 2021 - external valuations were obtained for two properties and an internal valuation was performed for one property).

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 March 31, 2022. 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. As at March 31, 2022, the impact has not been significant to the REIT. 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.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
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4. Investment properties (continued):

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 March 31, 2022 was 5 percent (December 31, 2021 - 5 percent).

At March 31, 2022, a 25-basis point expansion in the capitalization rate would decrease the estimated fair value of investment properties by approximately \$4,222,500 (December 31, 2021 - \$4,152,380). A 25-basis point compression in the capitalization rate would increase the estimated fair value of investment properties by approximately \$4,666,975 (December 31, 2021 - \$4,589,473).

At March 31, 2022 and December 31, 2021, the investment properties were pledged as security under mortgage and loan agreements.

5. Prepaid expenses and other assets:

	March 31, 2022	December 31, 2021
Prepaid expenses	\$ 69,444	\$ 47,088
Prepaid CMHC premiums	1,621,733	1,633,235
Deposits and other prepayments	15,000	15,000
	<u>\$ 1,706,177</u>	<u>\$ 1,695,323</u>
Current	\$ 130,451	\$ 108,094
Non-current	1,575,726	1,587,229
	<u>\$ 1,706,177</u>	<u>\$ 1,695,323</u>

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

6. Exchangeable Units:

Exchangeable limited partnership units (Exchangeable Units) of MAR 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 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 (loss) and comprehensive income (loss). The following table reconciles the changes in cash flows and outstanding units for the Exchangeable Units:

	Units	Amount
Balance, December 31, 2020	–	\$ –
Issued - April 30, 2021	9,812,063	9,812,063
Issued - November 15, 2021	1,029,211	1,183,593
Fair value change	–	(1,888,985)
Balance, December 31, 2021	10,841,274	\$ 9,106,671
Fair value change	–	1,517,778
Balance, March 31, 2022	10,841,274	\$ 10,624,449

For the three months ended March 31, 2022, distributions of \$40,671 (March 31, 2021 - nil) were declared on the Exchangeable Units and are included in finance costs.

7. Warrants:

	Warrants	Amount
Balance, beginning of year	–	\$ –
Issued - August 10, 2021	4,271,891	427,189
Fair value change	–	(405,830)
Balance, December 31, 2021	4,271,891	\$ 21,359
Fair value change	–	12,815
Balance, March 31, 2022	4,271,891	\$ 34,174

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

7. Warrants (continued):

On August 10, 2021, 4,271,891 warrants were issued in connection with a short-form prospectus dated August 3, 2021. Each warrant is exercisable for 12 months from the date of initial issuance. The fair value of the warrants at the date of issuance and at the end of each period is determined using the Black-Scholes model. The key inputs at March 31, 2022 are as follows: unit price of \$0.98, discount rate of 0.75 percent, expected term of 0.36 year and volatility of 26 percent (December 31, 2021: unit price of \$0.84, discount rate of 0.75 percent, expected term of 0.608 year and volatility of 27 percent).

8. Mortgages payable:

	March 31, 2022	December 31, 2021
Mortgages	\$ 64,863,820	\$ 65,197,705
Unamortized mark-to-market adjustment	344,437	402,176
Unamortized deferred financing costs	(47,440)	(53,428)
Total mortgages	\$ 65,160,817	\$ 65,546,453

	March 31, 2022	December 31, 2021
Current	\$ 1,565,007	\$ 1,555,985
Non-current	63,595,810	63,990,468
	\$ 65,160,817	\$ 65,546,453

At March 31, 2022, Mortgages are secured by investment properties, bear interest at a weighted average contractual interest rate of 2.82 percent (December 31, 2021 - 2.82 percent) and mature at various dates from 2023 - 2031 (December 31, 2021 - 2023 - 2031). The mortgages are guaranteed, on a joint and several basis by 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 March 31, 2022, the fair value of mortgages was \$67,898,397 (December 31, 2021 - \$66,543,191).

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

8. Mortgages payable (continued):

The mortgages payable balances at March 31, 2022, excluding unamortized mark-to-market adjustments and unamortized deferred financing costs, are due as follows:

2022 (remainder of year)	\$	1,015,248
2023		13,544,958
2024		6,997,855
2025		999,860
2026		1,022,230
2027 and thereafter		41,283,669
	\$	64,863,820

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

	Mortgages	Unamortized mark-to-market adjustments	Unamortized deferred financing costs	2022 Total
Balance, December 31, 2021	\$ 65,197,705	\$ 402,176	\$ (53,428)	\$ 65,546,453
Repayments	(333,885)	–	–	(333,885)
Deferred financing amortization	–	–	5,988	5,988
Amortization of mark-to market adjustment	–	(57,739)	–	(57,739)
Balance, end of period	\$ 64,863,820	\$ 344,437	\$ (47,440)	\$ 65,160,817

9. 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.

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 as required under the Agreement.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

9. Related party transactions (continued):

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 Manager waived the asset management fee until January 1, 2022 and waived 50 percent of the fee for the three months ended March 31, 2022.

In addition to the related party transactions disclosed elsewhere in these unaudited condensed consolidated interim financial statements, related party transactions for the three months ended March 31, 2022 and 2021 include:

	March 31, 2022	March 31, 2021
Property management fees	\$ 67,176	\$ –
Salary reimbursement	32,363	–
Asset management fees	28,053	–
	\$ 127,592	\$ –

The board of trustees were issued \$15,234 (March 31, 2021 - nil) in deferred units, representing 50 percent of their quarterly compensation rounded down to the nearest unit and distributions on units outstanding, during the three months ended March 31, 2022 at a price of \$1.10 per unit (note 12). The Trustees were also remunerated \$1,500 per board meeting (March 31, 2021 - nil) and paid the balance of their quarterly compensation, \$15,760, in cash.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

10. Accounts payable and accrued liabilities:

	March 31, 2022	December 31, 2021
Accounts payable	\$ 92,105	\$ 64,754
Accrued liabilities	373,367	330,964
	<u>\$ 465,472</u>	<u>\$ 395,718</u>
Current	\$ 465,472	\$ 395,718
Non-current	—	—
	<u>\$ 465,472</u>	<u>\$ 395,718</u>

11. Unitholders' equity:

The Declaration of Trust authorizes the issue of an unlimited number the Trust Units and Special Voting Units. As of March 31, 2022, there were 8,831,564 Trust Units and 10,894,987 Special Voting Units (December 31, 2021 - 8,831,564 Trust Units and 10,894,869 Special Voting Units).

For the three months ended March 31, 2022, distributions to Unitholders of \$33,117 (March 31, 2021 - nil) were declared. This represents monthly distributions of \$0.00125 per Unit for the months of January to March 2022 (January to March 2021 - nil).

On March 31, 2022 the REIT commenced a normal course issuer bid ("NCIB") which allows the REIT to purchase up to 787,956 Trust Units for cancellation, representing approximately 10 percent of the REIT's public float of issued and outstanding Trust Units. The Trust Units may be repurchased up to a maximum not to exceed 2 percent of the total issued and outstanding Trust Units when aggregated with the total of all other purchases in the preceding 30 days. The price which the REIT will pay for Trust Units repurchased under the plan will be the market price at the time of acquisition. The NCIB is in effect until March 30, 2023. The REIT did not repurchase any units in the three months ended March 31, 2022.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

12. Unit-based compensation:

As at and for the three months ended March 31, 2022 and 2021, no Restricted Units have been granted under the Plan. During the three months ended March 31, 2022 and year ended December 31, 2021, the following Deferred Units were issued:

	Units	Amount
Balance, December 31, 2020	–	\$ –
Issued	53,595	58,955
Fair value change	–	(13,935)
Balance, December 31, 2021	53,595	\$ 45,020
Issued	13,849	15,234
Fair value change	–	5,839
Balance, March 31, 2022	67,444	\$ 66,093

13. Revenue from investment properties:

The components of revenue from investment properties for the three months ended March 31, 2022 and 2021 are as follows:

	March 31, 2022	March 31, 2021
Basic rent	\$ 1,209,153	\$ –
Property operating expense recoveries	409,587	–
	\$ 1,618,740	\$ –

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

14. Finance costs:

Finance costs for the three months ended March 31, 2022 and 2021 are comprised of the following:

	March 31, 2022	March 31, 2021
Interest expense on mortgages	\$ 455,643	\$ –
Amortization of financing charges	5,988	–
Amortization of CMHC fees	11,501	–
Amortization of mark-to-market adjustments	(57,739)	–
Distribution on Exchangeable Class B Units	40,671	–
Interest income	(3,434)	(348)
Finance costs	\$ 452,630	\$ (348)

15. Changes in non-cash working capital:

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

	March 31, 2022	March 31, 2021
Accounts receivable	\$ (62,876)	\$ –
Prepaid expenses and other assets	(22,355)	(500,233)
Accounts payable and accrued liabilities	70,502	332,236
Security deposits and prepaid rent	9,312	–
	\$ (5,417)	\$ (167,997)

16. 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.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

16. Capital management (continued):

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.

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

	March 31, 2022	December 31, 2021
Exchangeable Units	\$ 10,624,449	\$ 9,106,671
Warrants liability	34,174	21,359
Unit based compensation liability	66,093	45,020
Mortgages payable	65,160,817	65,546,453
Unitholders' equity	17,738,780	15,893,174
	<u>\$ 93,624,313</u>	<u>\$ 90,612,677</u>

17. 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 7.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
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17. Fair values (continued):

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.

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:

March 31, 2022	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Assets:					
Investment properties	4	\$ 88,670,000	\$ –	\$ –	\$ 88,670,000
Liabilities:					
Exchangeable Units	6	10,624,449	10,624,449	–	–
Warrants liability	7	34,174	–	34,174	–
Unit-based compensation liability	12	66,093	66,093	–	–
Mortgages payable	8	65,160,817	–	67,898,397	–
Total liabilities		\$ 75,885,533	\$ 10,690,542	\$ 67,932,571	\$ –

18. 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 March 31, 2022 and 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.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

18. Financial risk management (continued):

(i) Market risk (continued):

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.

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 March 31, 2022 would have a \$106,244 (December 31, 2021 - \$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 March 31, 2022 and 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 Condensed Consolidated Interim Financial Statements (continued)
(Expressed in Canadian Dollars)

For the three months ended March 31, 2022 and 2021
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18. 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 March 31, 2022 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	\$ 1,358,254	\$ 19,464,287	\$ 983,418	\$ 1,005,404	\$ 42,052,457	\$ 64,863,820
Interest obligation	1,801,595	1,527,982	1,044,818	1,022,832	4,625,703	10,022,930
Accounts payable and accrued liabilities	465,472	–	–	–	–	465,472
Security deposits and prepaid rent	357,641	63,152	–	–	–	420,793
	\$ 3,982,962	\$ 21,055,421	\$ 2,028,236	\$ 2,028,236	\$ 46,678,160	\$ 75,773,015

19. Income taxes:

The Income Tax Act (Canada) (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 three months ended March 31, 2022, and accordingly is not subject to current income taxes. Accordingly, no provision for current income taxes payable is required.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months ended March 31, 2022 and 2021
(Unaudited)

20. Subsequent Events:

The following events occurred subsequent to March 31, 2022

- (i) On April 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 April 15, 2022, the REIT declared a distribution of \$0.00125 per Trust Unit, payable on May 15, 2022 to Unitholders of record as of the close of business on April 30, 2022. Holders of the Exchangeable Units will also be paid a distribution of \$0.00125 per Unit.
- (iii) The REIT purchased through the NCIB 140,500 Trust Units at a weighted-average price of \$0.9313 per Trust Unit.