

Condensed Consolidated Interim Financial Statements of

**MARWEST APARTMENT
REAL ESTATE INVESTMENT
TRUST**

(Expressed in Canadian Dollars)

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

(Unaudited)

As at	Note	September 30, 2022	December 31, 2021
Assets			
Non-current assets:			
Investment properties	4	\$ 90,270,000	\$ 85,495,008
Prepaid expenses and other assets	6	2,356,320	1,587,229
		<u>92,626,320</u>	<u>87,082,237</u>
Current assets:			
Prepaid expenses and other assets	6	820,274	108,094
Accounts and other receivables		11,226	11,927
Cash		5,648,823	4,217,618
		<u>6,480,323</u>	<u>4,337,639</u>
		<u>\$ 99,106,643</u>	<u>\$ 91,419,876</u>

Liabilities and Unitholders' Equity

Non-current liabilities:			
Mortgages payable	8	\$ 66,388,951	\$ 63,990,468
Security deposits and prepaid rent		32,015	15,283
Unit-based compensation liability	12	75,635	45,020
		<u>66,496,601</u>	<u>64,050,771</u>
Current liabilities:			
Accounts payable and accrued liabilities	9,10	441,272	395,718
Warrants liability		-	21,359
Security deposits and prepaid rent		432,477	396,198
Exchangeable Units	7	8,564,607	9,106,671
Current portion of mortgages payable	8	1,262,265	1,555,985
		<u>10,700,621</u>	<u>11,475,931</u>
Total liabilities		<u>77,197,222</u>	<u>75,526,702</u>
Unitholders' equity		21,909,421	15,893,174
		<u>\$ 99,106,643</u>	<u>\$ 91,419,876</u>

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

	Note	Three months ended September 30, 2022	September 30, 2021	Nine months ended September 30, 2022	September 30, 2021
Revenue from investment properties	13	\$ 1,679,767	\$ 1,153,245	\$ 4,917,812	\$ 1,932,200
Expenses:					
Property operating expenses	9	463,054	314,080	1,524,036	517,622
Realty taxes		174,024	125,489	485,547	208,025
Total operating expenses		637,078	439,569	2,009,583	725,647
Net property operating income		1,042,689	713,676	2,908,229	1,206,553
Other expenses (income):					
General and administrative	9	151,366	219,932	506,843	325,041
Finance costs	14	444,889	253,024	1,357,276	428,237
Fair value gain on investment properties	4	(677,493)	(2,943,310)	(4,641,034)	(3,201,090)
Fair value gain on unit-based compensation	12	(5,233)	(5,960)	(15,745)	(5,960)
Fair value gain on warrants		-	(311,848)	(21,359)	(311,848)
Fair value gain on Exchangeable Units	7	(108,414)	(1,864,292)	(542,064)	(883,086)
		(194,885)	(4,652,454)	(3,356,083)	(3,648,706)
Net income and comprehensive income		\$ 1,237,574	\$ 5,366,130	\$ 6,264,312	\$ 4,855,259

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

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Changes in Unitholder's Equity
(Expressed in Canadian Dollars)

For the nine months ended September 30, 2022 and 2021
(Unaudited)

	Note	Trust units	Unitholders' capital	Retained earnings (deficit)	Total
Unitholders' equity, December 31, 2020		1,800,000	\$ 558,793	\$ (102,201)	\$ 456,592
Trust Units issued, net of issue costs	11	7,031,564	6,232,557	–	6,232,557
Net income and comprehensive income		–	–	4,855,259	4,855,259
Unitholders' equity - September 30, 2021		8,831,564	\$ 6,791,350	\$ 4,753,058	\$ 11,544,408
Unitholders' equity, December 31, 2021		8,831,564	\$ 6,791,350	\$ 9,101,824	\$ 15,893,174
Distributions	11	–	–	(98,176)	(98,176)
Net income and comprehensive income		–	–	6,264,312	6,264,312
Units acquired and cancelled through normal course issued bid	11	(164,000)	(126,114)	(23,775)	(149,889)
Unitholders' equity - September 30, 2022		8,667,564	\$ 6,665,236	\$ 15,244,185	\$ 21,909,421

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

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

	Note	Three months ended		Nine months ended	
		September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Cash provided by (used in):					
Operating activities:					
Net income and comprehensive income		\$ 1,237,574	\$ 5,366,130	\$ 6,264,312	\$ 4,855,259
Adjustments for:					
Unit-based compensation expense	12	15,675	34,508	46,360	34,508
Fair value gain on investment properties	4	(677,493)	(2,943,310)	(4,641,034)	(3,201,090)
Fair value gain on unit-based compensation	12	(5,233)	(5,960)	(15,745)	(5,960)
Fair value gain on warrants		–	(311,848)	(21,359)	(311,848)
Fair value gain on Exchangeable Units	7	(108,414)	(1,864,292)	(542,064)	(883,086)
Finance costs	14	444,889	253,024	1,357,276	428,237
Interest paid		(478,871)	(291,258)	(1,403,687)	(391,935)
Interest received		18,869	3,198	30,661	4,398
Distributions paid on Exchangeable Units	7	(40,670)	–	(122,010)	–
Change in non-cash working capital	15	97,510	(10,271)	101,663	(235,814)
		503,836	229,921	1,054,373	292,669
Investing activities:					
Acquisition of properties, net of transaction costs and cash acquired	5	–	–	–	161,204
Deposits on acquisition of properties	6,20	(650,000)	–	(650,000)	–
Capital expenditures	4	(30,222)	(52,911)	(102,143)	(81,192)
Direct leasing costs	4	(12,285)	(3,779)	(31,815)	(18,923)
		(692,507)	(56,690)	(783,958)	61,089
Financing activities:					
Proceeds from issuance of Trust Units	11	–	4,271,891	–	5,271,891
CMHC premiums paid		(824,203)	–	(824,203)	–
Unit issuance costs	11	–	(612,304)	–	(799,007)
Proceeds from issuance of warrants		–	427,189	–	427,189
Trust Units acquired and cancelled	11	–	–	(149,889)	–
Distributions paid on Trust Units		(32,709)	–	(98,382)	–
Financing fees		(561,106)	–	(561,106)	(55,706)
Debt advanced	8	16,311,873	–	16,311,873	–
Debt principal payments	8	(12,847,479)	(235,283)	(13,517,503)	(391,297)
		2,046,376	3,851,493	1,160,790	4,453,070
Increase in cash		1,857,705	4,024,724	1,431,205	4,806,828
Cash, beginning of period		3,791,118	1,254,079	4,217,618	471,975
Cash, end of period		\$ 5,648,823	\$ 5,278,803	\$ 5,648,823	\$ 5,278,803

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 and nine months ended September 30, 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 September 30, 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 LP. (the "Partnership"), through Marwest Apartments I LP. ("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 November 16, 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 and nine months ended September 30, 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 and nine months ended September 30, 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 macroeconomic events, 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* (the 2020 amendments), to clarify the classification of liabilities as current or non-current. The 2020 amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

For the purposes of non-current classification, the 2020 amendments removed the requirement for a right to defer settlement or roll over a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period. The 2020 amendments also clarify how a company classifies a liability that includes a counterparty conversion option. The amendments stated that: a settlement of a liability includes transferring a company's own equity instruments to the counterparty; and, when classifying liabilities as current or non-current a company can ignore those conversion options that are recognized as equity.

The 2020 amendments are subject to future developments. Certain application issues resulting from the 2020 amendments have been raised with the IFRS Interpretations Committee, which referred them to the IASB. In November 2021, the IASB published the exposure draft *Non-current Liabilities with Covenants* (proposed amendments to IAS 1). The exposure draft aims to improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with conditions, in addition to addressing concerns about the classification of such a liability as current or non-current. The IASB proposed to defer the effective date of the 2020 amendments to no earlier than January 1, 2024. The REIT is assessing the impact of the amendments.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

4. Investment properties:

The following table presents the change in investment properties for the three and nine months ended September 30, 2022 and 2021:

Note	Three months ended September 30, 2022	September 30, 2021	Nine months ended September 30, 2022	September 30, 2021
Balance beginning of period	\$ 89,550,000	\$ 54,200,000	\$ 85,495,008	\$ –
Additions:				
Acquisition of investment properties	5	–	–	53,898,795
Capital expenditures	30,222	52,911	102,143	81,192
Direct leasing costs	12,285	3,779	31,815	18,923
Fair value gain	677,493	2,943,310	4,641,034	3,201,090
Closing balance	\$ 90,270,000	\$ 57,200,000	\$ 90,270,000	\$ 57,200,000

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 September 30, 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 September 30, 2022.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

4. Investment properties (continued):

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 September 30, 2022 was 5 percent (December 31, 2021 - 5 percent).

At September 30, 2022, a 25-basis point expansion in the capitalization rate would decrease the estimated fair value of investment properties by approximately \$4,298,500 (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 \$4,751,050 (December 31, 2021 - \$4,589,473).

At September 30, 2022, and December 31, 2021, the investment properties were pledged as security under mortgage 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) which includes land, buildings, existing tenant leases and all working capital balances of these limited partnerships and assumption of the mortgages payable.

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 Marwest Apartments 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.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

5. Acquisition of investment properties (continued):

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

	Kenwood Court	Brio Brownstones	Total
Cash	\$ 178,510	\$ 397,043	\$ 575,553
Investment properties	19,936,064	33,495,586	53,431,650
Working capital	65,952	387,870	453,822
Debt	(11,988,379)	(30,900,911)	(42,889,290)
Total consideration	\$ 8,192,147	\$ 3,379,588	\$ 11,571,735

The REIT incurred transaction costs related to the acquisitions of \$467,145 which are included in investment properties resulting in a total of \$53,898,795 recognized on acquisition.

6. Prepaid expenses and other assets:

	Note	September 30, 2022	December 31, 2021
Prepaid expenses		\$ 88,662	\$ 47,088
Prepaid CMHC premiums		2,422,932	1,633,235
Deposits and other prepayments		15,000	15,000
Deposit on acquisition	20	650,000	–
		\$ 3,176,594	\$ 1,695,323
Current		\$ 820,274	\$ 108,094
Non-current		2,356,320	1,587,229
		\$ 3,176,594	\$ 1,695,323

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

7. 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 and comprehensive income.

The following table reconciles the change in Exchangeable Units for the three months ended September 30, 2022 and 2021:

	Note	Three months ended September 30, 2022		Three months ended September 30, 2021	
		Units	Amount	Units	Amount
Balance beginning of period		10,841,274	\$ 8,673,021	9,812,063	\$ 10,793,269
Fair value change		–	(108,414)	–	(1,864,292)
Balance, end of period		10,841,274	\$ 8,564,607	9,812,063	\$ 8,928,977

The following table reconciles the change in Exchangeable Units for the nine months ended September 30, 2022 and 2021:

	Note	Nine months ended September 30, 2022		Nine months ended September 30, 2021	
		Units	Amount	Units	Amount
Balance beginning of period		10,841,274	\$ 9,106,671	–	\$ –
Exchangeable Units issued	5	–	–	9,812,063	9,812,063
Fair value change		–	(542,064)	–	(883,086)
Balance, end of period		10,841,274	\$ 8,564,607	9,812,063	\$ 8,928,977

For the three and nine months ended September 30, 2022, distributions of \$40,670 and \$122,010 (September 30, 2021- nil and nil) were declared on the Exchangeable Units and are included in finance costs (Note 14).

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

8. Mortgages payable:

	September 30, 2022	December 31, 2021
Mortgages	\$ 67,992,075	\$ 65,197,705
Unamortized mark-to-market adjustment	40,859	402,176
Unamortized deferred financing costs	(381,718)	(53,428)
Total mortgages	\$ 67,651,216	\$ 65,546,453
Current	1,262,265	1,555,985
Non-current	66,388,951	63,990,468
	\$ 67,651,216	\$ 65,546,453

At September 30, 2022, Mortgages are secured by investment properties, bear interest at a weighted average contractual interest rate of 2.87 percent (December 31, 2021 - 2.82 percent) and mature at various dates from 2024 - 2032 (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 September 30, 2022, the fair value of mortgages was \$62,242,705 (December 31, 2021 - \$66,543,191).

The mortgages payable balances at September 30, 2022, excluding unamortized mark-to-market adjustments and unamortized deferred financing costs, are due as follows:

2022 (remainder of year)	\$ 174,374
2023	1,260,245
2024	7,213,242
2025	1,184,855
2026	1,214,570
2027 and thereafter	56,944,789
	\$ 67,992,075

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

8. Mortgages payable (continued):

The following tables reconcile the changes in cash flows for the mortgages payable for the nine months ended September 30, 2022 and 2021:

	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	(13,517,503)	–	–	(13,517,503)
Issuance	16,311,873	–	(363,622)	15,948,251
Deferred financing costs amortization	–	–	35,333	35,333
Amortization of mark-to-market adjustment	–	(361,318)	–	(361,318)
Balance, September 30, 2022	\$ 67,992,075	\$ 40,858	\$ (381,717)	\$ 67,651,216

	Mortgages	Unamortized mark-to-market adjustments	Unamortized deferred financing costs	2021 Total
Balance, December 30, 2020	\$ –	\$ –	\$ –	\$ –
Assumed on acquisition (note 5)	42,452,752	436,538	–	42,889,290
Deferred financing costs	–	–	(55,706)	(55,706)
Repayments	(391,297)	–	–	(391,297)
Deferred financing amortization	–	–	9,066	9,066
Amortization of mark-to-market adjustment	–	(77,541)	–	(77,541)
Balance, September 30, 2021	\$ 42,061,455	\$ 358,997	\$ (46,640)	\$ 42,373,812

During the three and nine month period ending September 30, 2022, the REIT entered into a new CMHC insured mortgage on the Brio Brownstones property which matures in September 2032. The REIT utilized the proceeds from this mortgage to repay the original mortgage assumed on April 30, 2021 (note 5) which was not CMHC insured. \$197,484 (note 14) in costs were incurred to repay this mortgage prior to its maturity in October 2023 as well as removing personal guarantees on certain other mortgages.

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

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

9. Related party transactions (continued):

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.

The Agreement provides for the following fees:

Type	Basis
Base asset management ¹	0.25% of gross book value
Property management	4% 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 the carrying value of cash and cash equivalents, the carrying value of mortgages receivable and the historical cost of other assets and investments used in operations.

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

³ Construction management fees are 5% on the first \$1 million of all hard construction costs incurred on each capital project and 4% 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 until January 1, 2022 and waived 50 percent of the fee for the three and nine months ended September 30, 2022.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

9. Related party transactions (continued):

In addition to the related party transactions disclosed elsewhere in these unaudited condensed consolidated interim financial statements, related party transactions for the three and nine months ended September 30, 2022 and 2021 include:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Property management fees	\$ 70,599	\$ 47,869	\$ 206,844	\$ 81,592
Salary reimbursement	18,025	33,696	86,602	63,865
Base asset management fees	28,053	–	84,159	–
	\$ 116,677	\$ 81,565	\$ 377,605	\$ 145,457

At September 30, 2022, included in accounts payable and accrued liabilities are amounts owing to the manager of \$76,310 (December 31, 2021 - \$32,228) related to property management fees, asset management fees and other reimbursements.

The Board of Trustees were issued \$15,675 and \$46,360 (September 30, 2021 - \$34,508 and \$34,508) 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 and nine months ended September 30, 2022 at a price of \$1.10 per unit (note 12). The Trustees were also remunerated \$1,500 per board meeting (2021 - \$1,000) and the balance of their compensation for the three and nine months ended September 30, 2022 of \$20,732 and \$64,625 (September 30, 2021 - \$24,319 and \$40,535) was paid in cash.

On April 30, 2021, in conjunction with the acquisitions described in note 5, the REIT issued 4,006,308 Exchangeable Units and 168,965 Trust Units to related parties of the Manager.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

10. Accounts payable and accrued liabilities:

	September 30, 2022	December 31, 2021
Accounts payable	\$ 119,848	\$ 64,754
Accrued liabilities	321,424	330,964
	<u>\$ 441,272</u>	<u>\$ 395,718</u>
Current	441,272	395,718
Non-current	–	–
	<u>\$ 441,272</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 September 30, 2022, there were 8,667,564 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 and nine months ended September 30, 2022, distributions to Unitholders of \$32,709 and \$98,382 (2021 - nil and nil) were paid. This represents monthly distributions of \$0.00125 per Unit for the months of January to September 2022 (January to September 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 and September 30, 2022. During the three months ended June 30, 2022 the REIT repurchased and cancelled 164,000 Trust Units at an average price of \$0.91 under the NCIB.

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.

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

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11. Unitholders' equity (continued):

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 was 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 was attributable to the warrant and \$4,271,891 was attributable to the units.

The REIT incurred unit issue costs of \$612,304 for the three months ended and \$799,007 for the nine months ended September 30, 2021, which are included in Unitholders' equity.

12. Unit-based compensation:

As at and for the nine months ended September 30, 2022 and 2021, no Restricted Units have been granted under the Plan.

The following table reconciles the change in the unit-based compensation liability for the three months ended September 30, 2022 and 2021:

	Three months ended September 30, 2022		Three months ended September 30, 2021	
	Units	Amount	Units	Amount
Balance, beginning of period	81,491	\$ 65,193	–	\$ –
Issued	14,249	15,675	30,371	34,508
Fair value change	–	(5,233)	–	(5,960)
Balance, end of period	95,740	\$ 75,635	30,371	\$ 28,548

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
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For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

12. Unit-based compensation (continued):

The following table reconciles the change in the unit-based compensation liability for the nine months ended September 30, 2022 and 2021:

	Nine months ended September 30, 2022		Nine months ended September 30, 2021	
	Units	Amount	Units	Amount
Balance, beginning of period	53,595	\$ 45,020	–	\$ –
Issued	42,145	46,360	30,371	34,508
Fair value change	–	(15,745)	–	(5,960)
Balance, end of period	95,740	\$ 75,635	30,371	\$ 28,548

13. Revenue from investment properties:

The components of revenue from investment properties for the three and nine months ended September 30, 2022 and 2021 are as follows:

	Three months ended September 30, 2022		Nine months ended September 30, 2022		September 30, 2021	
Basic rent	\$ 1,317,528	\$ 918,854	\$ 3,786,085	\$ 1,543,106		
Property operating expense recoveries	362,239	234,391	1,131,727	389,094		
	\$ 1,679,767	\$ 1,153,245	\$ 4,917,812	\$ 1,932,200		

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

14. Finance costs:

Finance costs for the three and nine months ended September 30, 2022 and 2021 are comprised of the following:

	Note	Three months ended September 30,		Three months ended September 30,	
		2022	2021	2022	2021
Interest expense of mortgages		\$ 436,612	\$ 290,751	\$ 1,359,923	\$ 488,686
Loan and financing charges	8	197,484	–	197,484	–
Amortization of financing charges		23,332	4,543	35,333	9,066
Amortization of CMHC fees		11,502	7,453	34,505	12,424
Amortization of mark-to-market adjustments		(245,842)	(46,525)	(361,318)	(77,541)
Distribution on Exchangeable Units		40,670	–	122,010	–
Interest income		(18,869)	(3,198)	(30,661)	(4,398)
		\$ 444,889	\$ 253,024	\$ 1,357,276	\$ 428,237

15. Changes in non-cash working capital:

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

		Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Accounts receivable	\$	10,579	\$ (2,291)	\$ 701	\$ 29,440
Prepaid expenses and other assets		32,233	20,903	(41,574)	(61,771)
Accounts payable and accrued liabilities		62,031	8,706	89,525	(215,472)
Security deposits and prepaid rent		(7,333)	(37,589)	53,011	11,989
	\$	97,510	\$ (10,271)	\$ 101,663	\$ (235,814)

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
(Unaudited)

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 liability, 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.

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

	September 30, 2022	December 31, 2021
Exchangeable Units	\$ 8,564,607	\$ 9,106,671
Warrants liability	–	21,359
Unit based compensation liability	75,635	45,020
Mortgages payable	67,651,216	65,546,453
Unitholders' equity	21,909,421	15,893,174
	<hr/>	<hr/>
	\$ 98,200,879	\$ 90,612,677

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

For the three months and nine months ended September 30, 2022 and 2021
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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 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:

September 30, 2022	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Assets:					
Investment properties	4	\$ 90,270,000	\$ –	\$ –	\$ 90,270,000
Liabilities:					
Exchangeable Units	7	8,564,607	8,564,607	–	–
Units-based compensation liability	12	75,635	75,635	–	–
Mortgages payable	8	67,651,216	–	62,242,705	–
Total liabilities		\$ 76,291,458	\$ 8,640,242	\$ 62,242,705	\$ –

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

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

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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. At September 30, 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.

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 September 30, 2022 would have a \$85,646 (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 December 31, 2021 would have a nominal impact on the fair value of the warrants. The warrants expired on August 10, 2022.

(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.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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18. Financial risk management (continued):

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 statements of net income and comprehensive income within investment properties operating expenses.

(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 September 30, 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	\$ 1,262,265	\$ 7,396,290	\$ 994,348	\$ 1,210,719	\$ 57,128,453	\$ 67,992,075
Interest obligation	1,869,090	2,458,326	1,033,889	1,622,062	8,247,565	15,230,932
Accounts payable and accrued liabilities	441,272	—	—	—	—	441,272
Security deposits and prepaid rent	432,477	32,015	—	—	—	464,492
	\$ 4,005,104	\$ 9,886,631	\$ 2,028,237	\$ 2,832,781	\$ 65,376,018	\$ 84,128,771

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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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 and nine months ended September 30, 2022 and 2021 and accordingly is not subject to current income taxes. Accordingly, no provision for current income taxes payable is required.

20. Subsequent events:

The following events occurred subsequent to September 30, 2022:

- (i) On October 3, 2022, Marwest Apartments I L.P. obtained a second mortgage on the Kenwood Court Property in the amount of \$4,000,000 with an interest rate of 5.59% and a five year term.
- (ii) On October 17, 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.
- (iii) On October 31, 2022, the REIT, through its wholly-owned subsidiary, MAR REIT L.P. acquired a 153 unit property in Winnipeg, Manitoba. The property was acquired for \$42,000,000 less the assumed mortgage of \$32,962,825, resulting in \$9,037,175 of cash paid on closing less adjustments.
- (iv) On November 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.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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20. Subsequent events (continued):

- (v) On November 15, 2022, the REIT declared a distribution of \$0.00125 per Trust Unit, payable on December 15, 2022 to Unitholders of record as of the close of business on November 30, 2022. Holders of the Exchangeable Units will also be paid a distribution of \$0.00125 per Unit.