Consolidated Financial Statements of

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

(Expressed in Canadian Dollars)

Years ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S 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, 2022 and 2021;
- consolidated statements of income and comprehensive income for the years then ended;
- consolidated statements of changes in unitholders' equity for the years then ended;
- consolidated statements of cash flows for the years then ended; 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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended 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 ***Auditor's Responsibilities for the Audit of the Financial Statements*** section of our auditor's 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of the fair value of investment properties

Description of the matter

We draw attention to Note 3(b), Note 3(n) and Note 4 of the financial statements. The Entity uses the fair value method to account for investment properties, which includes properties held to earn rental income. The Entity has recorded investment properties for an amount of $126,803,030 at December 31, 2022. The investment properties are measured at fair value using valuations prepared by either the Entity's internal valuations team or external appraisers. The valuations are based on the direct capitalization approach and significant assumptions, including capitalization rates and estimated 12-month stabilized net operating income.

Why the matter is a key audit matter

We identified the evaluation of the fair value of investment properties as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of investment properties and the high degree of estimation uncertainty in determining the fair value of investment properties. Additionally, significant auditor judgment and involvement of those with specialized skills and knowledge were required in evaluating the results of our audit procedures due to the sensitivity of the fair value of investment properties to minor changes in the significant assumptions above.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of investment properties, we assessed the Entity's ability to accurately forecast by comparing the estimated 12-month stabilized net operating income used in the prior year's estimate of the fair value of investment properties to actual results.

For a selection of investment properties, we compared the estimated 12-month stabilized net operating income to the actual historical net operating income. We assessed the estimated 12-month stabilized net operating income by:

- Taking into account the changes in conditions and events affecting the investment properties;
- Considering the adjustments, or lack of adjustments, made by the Entity in arriving at the estimated 12-month stabilized net operating income.

We involved valuations professionals with specialized skills and knowledge who assisted in evaluating the capitalization rates of the overall portfolio of investment properties. These rates were evaluated by comparing them to published reports of real estate industry commentators and considering the various characteristics of the portfolio.

We evaluated the competence, capabilities and objectivity of the external appraisers by:

- Inspecting evidence that the appraisers are in good standing with the Appraisal Institute;
- Considering whether the appraisers have appropriate knowledge in relation to the specific type of investment properties;
- Reading the reports of the external appraisers which refers to their independence.

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 auditor's 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 auditor's 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor’s report is Austin Abas.

Winnipeg, Canada

March 23, 2023

MARWEST APARTMENT REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

December 31, 2022 and 2021

	Note	December 31, 2022	December 31, 2021
Assets			
Non-current assets:			
Investment properties	4	$ 126,803,030	$ 85,495,008
Prepaid expenses and other assets	6	3,369,168	1,587,229
		130,172,198	87,082,237
Current assets:			
Prepaid expenses and other assets	6	186,775	108,094
Accounts and other receivables		26,387	11,927
Cash		1,424,511	4,217,618
		1,637,673	4,337,639
		$ 131,809,871	$ 91,419,876
Liabilities and Unitholders' Equity			
Non-current liabilities:			
Mortgages payable	9	$ 100,731,612	$ 63,990,468
Security deposits and prepaid rent		34,831	15,283
Unit based compensation liability	13	93,531	45,020
		100,859,974	64,050,771
Current liabilities:			
Accounts payable and accrued liabilities	10,11	727,951	395,718
Warrant liability	8	–	21,359
Security deposits and prepaid rent		605,992	396,198
Exchangeable Units	7	9,215,083	9,106,671
Current portion of mortgages payable	9	1,386,848	1,555,985
		11,935,874	11,475,931
Total liabilities		112,795,848	75,526,702
Unitholders' equity	12	19,014,023	15,893,174
		$ 131,809,871	$ 91,419,876

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 and Comprehensive Income
(Expressed in Canadian Dollars)

Years ended December 31, 2022 and 2021

	Note	Year ended December 31, 2022	Year ended December 31, 2021
Revenue from investment properties	14	$ 7,170,916	$ 3,339,846
Expenses:			
Property operating expenses	10	2,144,127	949,549
Realty taxes		721,977	367,321
Total operating expenses		2,866,104	1,316,870
Net property operating income		4,304,812	2,022,976
Other expenses (income):			
General and administrative		715,467	438,461
Finance costs	15	2,193,845	774,067
Fair value gain on investment properties	4	(2,079,396)	(6,095,866)
Fair value gain on unit-based compensation	13	(13,575)	(13,935)
Fair value gain on warrants	8	(21,359)	(405,830)
Fair value loss (gain) on Exchangeable Units	7	108,412	(1,888,985)
		903,394	(7,192,088)
Net income and comprehensive income		$ 3,401,418	$ 9,215,064

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)

Years ended December 31, 2022 and 2021

	Note	Trust Units	Unitholders' capital	Accumulated surplus (deficit)	Total
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
Units cancelled in normal course issuer bid	12	(164,000)	(126,114)	(23,775)	(149,889)
Distributions		–	–	(130,680)	(130,680)
Net income and comprehensive income		–	–	3,401,418	3,401,418
Unitholders' equity - December 31, 2022		8,667,564	$ 6,665,236	$ 12,348,787	$ 19,014,023

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)

Years ended December 31, 2022 and 2021

	Note	Year ended December 31, 2022	Year ended December 31, 2021
Cash provided by (used in):			
Operating activities:			
Net income and comprehensive income		$ 3,401,418	$ 9,215,064
Adjustments for:			
Unit-based compensation expense	13	62,086	58,955
Fair value gain on investment properties	4	(2,079,396)	(6,095,866)
Fair value gain on unit-based compensation	13	(13,575)	(13,935)
Fair value gain on warrants	8	(21,359)	(405,830)
Fair value loss (gain) on Exchangeable Units	7	108,412	(1,888,985)
Finance costs	15	2,193,845	774,067
Interest paid		(1,956,117)	(835,374)
Interest received		48,304	8,674
Distributions paid on Exchangeable Units	7	(162,679)	–
Change in non-cash working capital	16	407,790	(126,278)
		1,988,729	690,492
Investing activities:			
Acquisition of investment properties, inclusive of transaction costs and excluding cash acquired	5	(9,206,436)	203,005
Capital expenditures	4	(167,845)	(96,466)
Direct leasing costs	4	(32,183)	(23,334)
		(9,406,464)	83,205
Financing activities:			
Proceeds from issuance of Trust Units	12	–	5,271,891
CMHC premiums paid		(824,203)	–
Unit issuance costs	12	–	(799,007)
Proceeds from issuance of warrants	8	–	427,189
Trust Units acquired and cancelled	12	(149,889)	–
Distributions paid on Trust Units		(130,885)	–
Financing fees	9,15	(686,416)	(68,333)
Debt advanced	9	20,311,873	–
Debt principal payments	9	(13,895,852)	(1,859,794)
		4,624,628	2,971,946
Increase (decrease) in cash		(2,793,107)	3,745,643
Cash, beginning of year		4,217,618	471,975
Cash, end of year		$ 1,424,511	$ 4,217,618

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

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, 2022, the REIT's portfolio consisted of four multi-family investment properties, all of which are held by its subsidiary, MAR REIT L.P. (the "Partnership"). Three of the investment properties are held 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. Prairie View Pointe, purchased on October 31, 2022, is owned directly 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 23, 2023.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties, Exchangeable Limited Partnership Units (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

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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:

The REIT uses the fair value method to account for investment properties with any changes therein recognized in profit and loss for the year. Investment properties includes properties held to earn rental income.

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 12-month 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 appraisers. 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.

3. Significant accounting policies (continued):

(b) Investment properties (continued):

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

(c) Financial instruments:

Financial instruments are generally measured at fair value on initial recognition. Classification and subsequent measurement consists of the following categories: (i) measured at amortized cost, (ii) fair value through profit and loss ("FVTPL"), and (iii) fair value through other comprehensive income ("FVTOCI"). Financial assets classified at amortized cost are measured using the effective interest method. Financial assets classified as FVTPL are measured at fair value with gains and losses recognized in the statements of net income and comprehensive income.

The classification and measurement of financial liabilities consists of the following categories: (i) measured at amortized cost and (ii) FVTPL. Financial liabilities classified at amortized cost are measured using the effective interest method. Financial liabilities classified as FVTPL are measured at fair value with changes in fair value attributable to changes in the credit risk of the liability recognized in other comprehensive loss, and the remaining amount of change in fair value recognized in the statements of net income and comprehensive income.

The following summarizes the Trust's classification and measurement of financial assets and liabilities:

Financial instrument	Measurement
Cash	Amortized cost
Accounts and other receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Security deposits	Amortized cost
Unit based compensation liability	FVTPL
Warrant liability	FVTPL
Mortgages payable	Amortized cost
Exchangeable units	FVTPL

The REIT derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

The REIT derecognizes a financial liability when, and only when, the REIT's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the consolidated statements of net income and comprehensive income.

Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method. These costs include fees and commissions paid to agents, brokers and advisers.

(d) 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.

(e) Exchangeable 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.

3. Significant accounting policies (continued):

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.

(f) 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.

(g) Expenses:

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

(h) 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.

3. Significant accounting policies (continued):

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 years ended December 31, 2022 and 2021.

(i) 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.

(j) 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.

3. Significant accounting policies (continued):

(k) 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 qualifies as a real estate investment trust and mutual fund trust and has made distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

(l) 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.

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.

3. Significant accounting policies (continued):

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.

(m) Finance costs:

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

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.

3. Significant accounting policies (continued):

(n) 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 significant assumptions such as capitalization rates and estimated 12-month stabilized net operating income applicable to the investment properties. These estimates are based on local market conditions existing at the reporting date.

- Valuation of assumed mortgage on acquisition:

  The fair value of the mortgage payable assumed on the acquisition of Prairie View Pointe (note 5) is determined by management by discounting the estimated future cash flows based on the current market interest rate at the time of acquisition plus a risk adjusted spread.

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.

3. Significant accounting policies (continued):

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

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.

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., Marwest (Element) Apartments L.P., and Prairie View Pointe 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.

(o) Future changes in accounting standards:

(i) On January 23, 2020, the International Accounting Standards Board ("IASB") issued amendments to IAS 1, *Presentation of Financial Statements* (the 2020 amendments), to clarify the classification of liabilities as current or non-current. On October 31, 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1) (the 2022 amendments), to improve the information a company provides about long-term debt with covenants. The 2020 amendments and the 2022 amendments (collectively "the Amendments") are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted. An entity that applies the 2020 amendments early is required to also apply the 2022 amendments.

3. Significant accounting policies (continued):

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 lease twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period and have substance.

The amendments reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which a company must comply after the reporting date do not affect a liability's classification at that date.

The amendments also clarify how a company classifies a liability that includes a counterparty conversion option. The Amendments state that 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 only those conversion options that are recognized as equity. The REIT is assessing the impact of the Amendments.

(ii) On February 12, 2021, the IASB issued *Definition of Accounting Estimates (Amendments to IAS 8)*. The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The REIT is assessing the impact of these amendments.

(iii) On February 12, 2021, the IASB issued *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements)*. The amendments are effective for annual periods beginning on or after January 1, 2023.

The amendments help companies provide useful accounting policy disclosures. The key amendments include requiring companies to disclose their material accounting policies rather than their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements. The REIT is assessing the impact of these amendments.

(Expressed in Canadian Dollars)

4. Investment properties:

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

	December 31, 2022	December 31, 2021
Balance, beginning of year	$ 85,495,008	$ –
Additions:		
Acquisitions of investment property (note 5)	39,028,598	79,279,342
Capital expenditures	167,845	96,466
Direct leasing costs	32,183	23,334
Fair value gain	2,079,396	6,095,866
Balance, end of year	$ 126,803,030	$ 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.

An external valuation was obtained for one of the investment properties at December 31, 2022 (December 31, 2021 - two properties) and internal valuations were performed on the balance of the portfolio. Internal valuations are prepared by management. 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.

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, 2022 and 2021. Management determined the fair value of investment properties based on the direct capitalization approach using estimated 12-month stabilized net operating income and capitalization rates that reflect the characteristics, location and market of the investment properties. The capitalization rates were estimated using market surveys, available appraisals and market comparables.

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, 2022 was 5.25 percent (December 31, 2021 - 5.00 percent).

(Expressed in Canadian Dollars)

4. Investment properties (continued):

At December 31, 2022, a 25-basis point increase in the weighted-average capitalization rate would decrease the estimated fair value of investment properties by approximately $5,791,884 (December 31, 2021 - $4,152,000). A 25-basis point decrease in the weighted-average capitalization rate would increase the estimated fair value of investment properties by approximately $6,400,856 (December 31, 2021 - $4,589,000).

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

5. Acquisition of investment properties:

The REIT acquired the Prairie View Pointe Property on October 31, 2022, for an acquisition price of $42,000,151 which was satisfied by the assumption of a mortgage payable of $32,882,657 and cash consideration of $9,117,494. The mortgage was marked to market on acquisition resulting in a offsetting adjustment to the mortgage payable of ($1,999,858). The table below summarizes the purchase price allocation to the components based on total consideration paid excluding transaction costs.

	Total
Investment property	$ 38,939,656
CMHC premiums	1,060,495
Assumed debt	(30,882,657)
Total cash consideration	$ 9,117,494

During 2022, the REIT incurred transaction costs related to the acquisition of Prairie View Pointe of $88,942 which is included in investment properties resulting in a total of $39,028,598 recognized on acquisition.

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.

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.

(Expressed in Canadian Dollars)

5. Acquisition of investment properties (continued):

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
Assumed debt	(11,988,379)	(30,900,911)	(24,700,056)	(67,589,346)
Total cash consideration	$ 8,192,147	$ 3,379,588	$ 2,367,194	$ 13,938,929

During 2021, 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.

(Expressed in Canadian Dollars)

6. Prepaid expenses and other assets:

	December 31, 2022	December 31, 2021
Prepaid expenses	$ 93,596	$ 47,088
Prepaid CMHC premiums	3,462,347	1,633,235
Deposits and other prepayments	–	15,000
	$ 3,555,943	$ 1,695,323
Current	$ 186,775	$ 108,094
Non-current	3,369,168	1,587,229
	$ 3,555,943	$ 1,695,323

7. Exchangeable Units:

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 (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)
Balance, December 31, 2021	10,841,274	$ 9,106,671
Fair value change	–	108,412
Balance, December 31, 2022	10,841,274	$ 9,215,083

For the year ended December 31, 2022, distributions of $162,617 (2021 - $13,557) were declared on the Exchangeable Units and are included in finance costs.

(Expressed in Canadian Dollars)

8. Warrants:

	Warrants		Amount
Balance, December 31, 2020	–	$	–
Issued - August 10, 2021 (note 12)	4,271,891		427,189
Fair value change	–		(405,830)
Balance, December 31, 2021	4,271,891	$	21,359
Fair value change	–		(21,359)
Expiry – August 10, 2022	(4,271,891)		–
Balance, December 31, 2022	–	$	–

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, risk free rate of 0.26 percent, expected term of 1 year and volatility of 31 percent. The key inputs at December 31, 2021 were as follows: unit price of $0.84, risk free rate of 0.75 percent, expected term of 0.608 year and volatility of 27 percent.

The warrants expired on August 10, 2022 unexercised.

(Expressed in Canadian Dollars)

9. Mortgages payable:

	December 31, 2022	December 31, 2021
Mortgages	$ 104,496,241	$ 65,197,705
Unamortized mark-to-market adjustment	(1,901,920)	402,176
Unamortized deferred financing costs	(475,861)	(53,428)
Total mortgages	$ 102,118,460	$ 65,546,453

	December 31, 2022	December 31, 2021
Current	$ 1,386,848	$ 1,555,985
Non-current	100,731,612	63,990,468
	$ 102,118,460	$ 65,546,453

Mortgages are secured by investment properties, bear interest at a weighted average contractual interest rate of 3.01 percent and mature at various dates from 2024-2032. 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 and corporate non-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, 2022, the fair value of mortgages was $94,014,750 (December 31, 2021 - $66,543,191).

(Expressed in Canadian Dollars)

9. Mortgages payable (continued):

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

2023	$ 1,790,697
2024	7,708,473
2025	1,735,852
2026	1,784,554
2027	35,899,314
2028 and thereafter	55,577,351
	$ 104,496,241

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	2022 Total
Balance, December 31, 2020	$ –	$ –	$ –	$ –	$ –
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, December 31, 2021	$ –	$ 65,197,705	$ 402,176	$ (53,428)	$ 65,546,453
Assumed on acquisition (note 5)	–	32,882,515	(1,999,858)	–	30,882,657
Deferred financing costs	–	–	–	(471,014)	(471,014)
Repayments	–	(13,895,852)	–	–	(13,895,852)
Issuance	–	20,311,873	–	–	20,311,873
Deferred financing amortization	–	–	–	48,581	48,581
Amortization of mark-to market adjustment	–	–	(304,238)	–	(304,238)
Balance, December 31, 2022	$ –	$ 104,496,241	$ (1,901,920)	$ (475,861)	$ 102,118,460

During the year ended December 31, 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. Cost of $126,764 (note 15) were incurred to repay this mortgage prior to its maturity in October 2023. These costs are included in finance costs in statement of net income.

(Expressed in Canadian Dollars)

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.

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.

These transactions are incurred in the normal course of operations and measured at the exchange amount agreed upon.

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 statements 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]). In 2022 the Manager waived 50 percent of the asset management fees (2021 - 100 percent).

(Expressed in Canadian Dollars)

10. Related party transactions (continued):

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.

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

	Year ended, December 31, 2022	Year ended, December 31, 2021
Property management fees	$ 302,403	$ 141,386
Salary reimbursement	116,179	91,588
Base asset management fees	124,885	–
	$ 543,467	$ 232,974

At December 31, 2022, included in accounts payable and accrued liabilities are amounts owing to the Manager of $93,458 (December 31, 2021 - $32,228) related to property management fees, asset management fees and salary reimbursements.

The board of trustees were issued $62,086 in deferred units, representing 50 percent of their annual compensation rounded down to the nearest unit and distributions on outstanding units during the year ended December 31, 2022 at a price of $1.10 per unit (note 13), (December 31, 2021 - 100 percent of annual compensation of $58,955). The Trustees were also remunerated $1,500 (2021 - $1,000) per board meeting for the year ended December 31, 2022, for a total of $86,838 (December 31, 2021 - $10,047).

Loan financing fees of $163,198 were paid to a Company of which a member of the Board of Trustees provides services to.

(Expressed in Canadian Dollars)

10. Related party transactions (continued):

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.

11. Accounts payable and accrued liabilities:

	December 31, 2022	December 31, 2021
Accounts payable	$ 132,270	$ 64,754
Accrued liabilities	595,681	330,964
	$ 727,951	$ 395,718
Current	$ 727,951	$ 395,718
Non-current	–	–
	$ 727,951	$ 395,718

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.

(Expressed in Canadian Dollars)

12. Unitholders' equity (continued):

(ii) Issued:

Trust units

	Number of units		Amount
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
Units cancelled in normal course issuer bid	(164,000)		(126,114)
Issued and outstanding units, at December 31, 2022	8,667,564	$	6,665,236

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	$	–
Issued on January 15, 2022	59		–
Issued on February 15, 2022	59		–
Issued and outstanding units, at December 31, 2022	10,894,987	$	–

12. Unitholders' equity (continued):

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. During the year ended December 31, 2022, the REIT repurchased and cancelled 164,000 Trust Units at an average price of $0.91 under the NCIB. The cost of the units was $126,114 with $23,775 charged to retained earnings representing the excess of the purchase price over cost.

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.

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

(Expressed in Canadian Dollars)

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, 2022, no Restricted Units or unit options have been granted under the Plan. During the year ended December 31, 2022, 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	56,441		62,086
Fair value change	–		(13,575)
Balance, December 31, 2022	110,036	$	93,531

(Expressed in Canadian Dollars)

14. Revenue from investment properties:

The components of revenue from investment properties are as follows:

	Year ended, December 31, 2022	Year ended, December 31, 2021
Basic rent	$ 5,594,888	$ 2,636,806
Property operating expense recoveries	1,576,028	703,040
	$ 7,170,916	$ 3,339,846

Future minimum rents receivable under non-cancellable operating leases as at December 31, 2022 are as follows:

Within 1 year	$ 5,214,517
Year 2	141,940
	$ 5,356,457

15. Finance costs:

Finance costs are comprised of the following:

		Year ended, December 31, 2022	Year ended, December 31, 2021
Interest expense on mortgages		$ 2,064,201	$ 862,002
Loan and financing charges	5	215,402	–
Amortization of financing charges		48,581	14,905
Amortization of CMHC fees		55,586	21,948
Amortization of mark-to-market adjustments		(304,238)	(129,671)
Distribution on Exchangeable Units		162,617	13,557
Interest income		(48,304)	(8,674)
Finance costs		$ 2,193,845	$ 774,067

(Expressed in Canadian Dollars)

16. Changes in non-cash working capital:

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

	Year ended December 31, 2022	Year ended December 31, 2021
Accounts receivable	$ (14,460)	$ 41,093
Prepaid expenses and other assets	(31,508)	12,571
Accounts payable and accrued liabilities	224,416	(163,997)
Security deposits and prepaid rent	229,342	(15,945)
	$ 407,790	$ (126,278)

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 statements 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.

(Expressed in Canadian Dollars)

17. Capital management (continued):

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

	December 31, 2022	December 31, 2021
Exchangeable Units	$ 9,215,083	$ 9,106,671
Warrants liability	–	21,359
Unit based compensation liability	93,531	45,020
Mortgages payable	102,118,460	65,546,453
Unitholders' equity	19,014,023	15,893,174
	$ 130,441,097	$ 90,612,677

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.

(Expressed in Canadian Dollars)

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, 2022	Note	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3
Assets:					
Investment properties	4	$ 122,823,030	$ –	$ –	$ 126,803,030
Liabilities:					
Exchangeable Units	7	9,215,083	9,215,083	–	–
Unit-based compensation liability	13	93,531	93,531	–	–
Mortgages payable	9	102,118,460	–	94,014,750	–
Total liabilities		$ 111,427,074	$ 9,308,614	$ 94,014,750	$ –

December 31, 2021	Note	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value 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	$ –

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.

19. Financial risk management (continued):

(i) Market risk (continued):

Interest rate risk is the risk that changes in market interest rates will affect the REIT's financial instruments. As of December 31, 2022, 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, unit based compensation liability and warrants. A one percent change in the prevailing market price of the Trust Units as at December 31, 2022 would have a $92,150 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, 2022 would have a nominal impact on the fair value of the unit based compensation liability.

(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.

(Expressed in Canadian Dollars)

19. Financial risk management (continued):

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 statements of 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 December 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	$ 1,790,697	$ 7,708,473	$ 1,735,852	$ 1,784,554	$ 91,476,665	$ 104,496,241
Interest obligation	3,108,599	2,868,132	2,803,457	2,754,755	8,129,647	19,664,590
Accounts payable and accrued liabilities	727,951	–	–	–	–	727,951
Security deposits	605,992	34,831	–	–	–	640,823
	$ 6,233,239	$ 10,611,436	$ 4,539,309	$ 4,539,309	$ 99,606,312	$ 125,529,605

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.

20. Income taxes (continued):

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 years ended December 31, 2022 and 2021, and accordingly is not subject to current income taxes in Canada. Accordingly, no provision for current income taxes payable is required.

21. Subsequent events:

The following events occurred subsequent to December 31, 2022:

i. On each of January 16, 2023, February 15, 2023 and March 15, 2023, 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 March 15, 2023, the REIT declared a distribution of $0.00125 per Trust Unit, payable on April 17, 2023 to Unitholders of record as of the close of business on March 31, 2023. Holders of the Exchangeable Units will also be paid a distribution of $0.00125 per Unit.